

# CONSERVATION TRUST FUND INVESTMENT SURVEY



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## FOR CALENDAR YEAR 2011

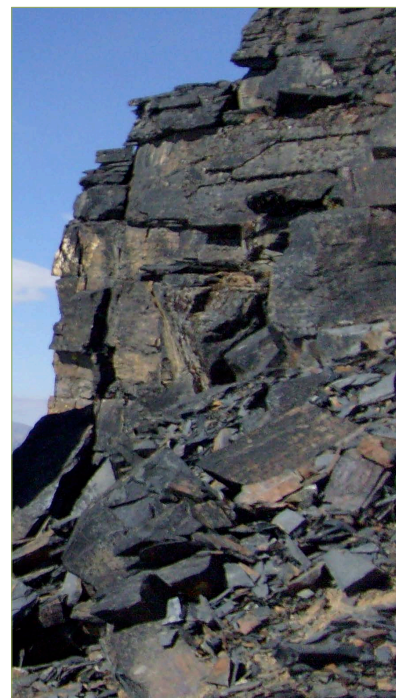


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# INVESTMENT SURVEY

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Prepared in collaboration with the Conservation Finance Alliance and  
the Latin American and Caribbean Network of Environmental Funds

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## ACKNOWLEDGEMENTS

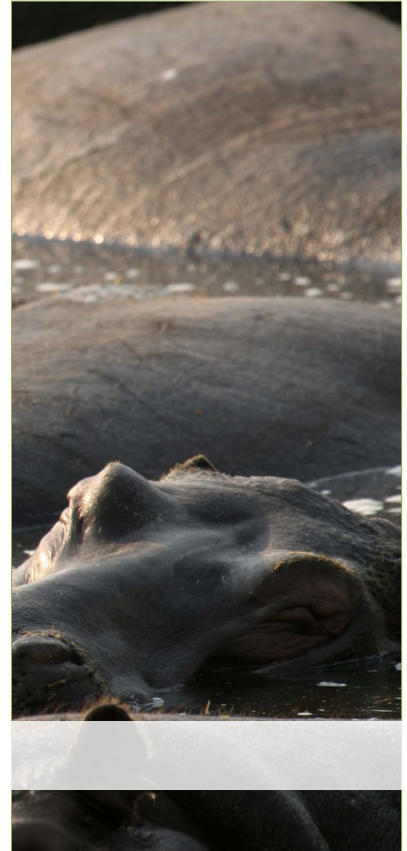


Photo contributed by Carl Breussow, Mount Mulanje Conservation Trust, Malawi

This project is coordinated under the Conservation Finance Alliance (CFA), a collaborative network of governments, multilateral agencies, NGOs, private companies, academic institutions, and independent experts, connecting to address sustainable finance for conservation.

Primary funding for the project has been provided by Acacia Partners, with additional support for translation and dissemination provided by the French Global Environment Facility. This report is based on the responses of participating Conservation Trust Funds (CTFs) and we would like to thank all those who took the time from their many responsibilities to complete the survey, provide comments and suggestions, and contribute photos for this project.

This report would not have been possible without the assistance of a number of individuals from the Conservation Finance Alliance (CFA), RedLAC, Fondo Mexicano para la Conservación de la Naturaleza (FMCN) and Acacia Partners who took the time to review and comment upon the survey and working drafts. We would particularly like to thank the following individuals for their assistance in drafting the survey and this report: Scott O’Connell of Acacia Partners, Ann Marie Steffa of RedLAC, Lorenzo Rosenzweig and his staff from FMCN, John Adams and Patrick Drum of the Arbor Group, and members of the Environmental Fund Working Group of the CFA.



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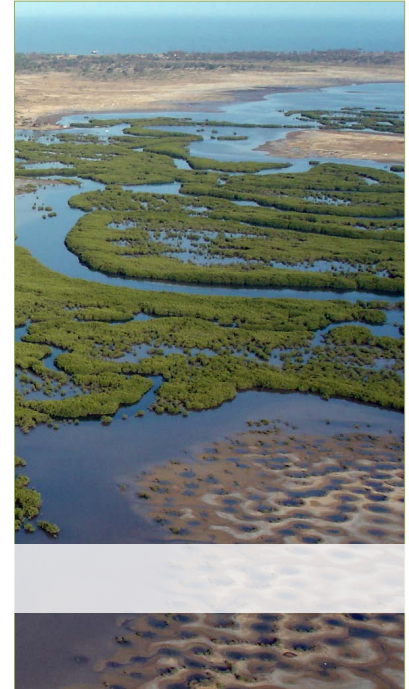


Photo contributed by African World Heritage Fund.  
Saloum Delta, Senegal

Dear Fund Manager,

We are proud to play a part in publishing this fifth edition of the Conservation Trust Investment Survey.

We have heard from a number of individuals responsible for managing conservation trust endowments that they find the survey of great value, providing much food for thought as they follow the management practices of other trusts. One important question we have heard though is how can the CTIS help me make decisions when it comes to my endowment? The answer comes not from reading the CTIS survey in isolation by putting the survey results in context of the historic returns from different assets as well as recent results in the financial markets.

## HISTORIC RETURNS

In the short term market returns can be arbitrary and seemingly disconnected from economic fundamentals. As the father of value investing Benjamin Graham put it, “In the short run, the market is a voting machine. In the long term, it’s a weighing machine.” Investment returns for stocks and bonds revolve around long term averages, averages grounded in asset valuations. Over long periods of time, returns from equities will be higher than from bonds and cash. Cash and Treasury bills usually carry the least risk, followed by medium or longer term Treasury obligations, corporate bonds, and then stocks. Since stocks are riskier, investors generally demand a higher risk premium, or a higher return. But that doesn’t mean that stocks offer good returns all the time, as investors sometimes get carried away, and bid up the prices of risk assets to levels that actually guarantee poor future returns.

Below are the returns over the years 1926-2010 according to Ibbotson, a leading provider of financial data.

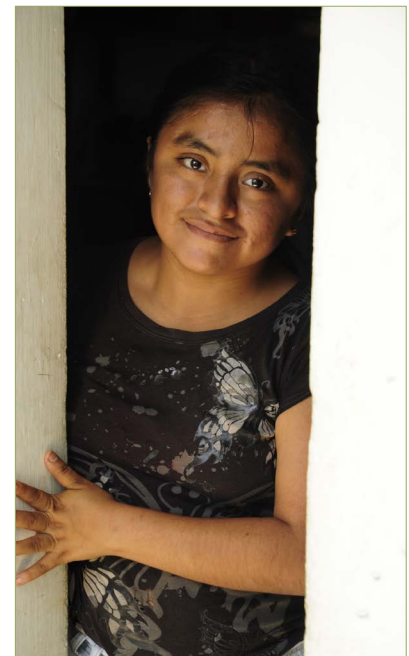


Photo contributed by Lorenzo Rosenzweig Pasquel,  
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<b>Asset</b>	<b>Annualized return</b>
Treasury Bills	3.6%
Government Bonds	5.5%
Large stocks	9.9%
Small stocks	12.1%

When financial returns diverge too far from their long term averages, mean reversion eventually exerts its pull. For example, the years 1996 through 1999 saw the S&P 500 increase by 23%, 33.3%, 28.6%, and 21% respectively, or 26.5% annually. As one economist famously stated, “Something that can’t continue forever, won’t.” Stocks became untethered from their long term average returns of 10%.

Poor stock returns over the last decade – the S&P 500 is still below its record peak reached 12 years ago - is in large part correcting the outsized returns of the 1990’s. When assets outstrip historical norms, future returns suffer. This applies to all types of financial assets.

## VALUATION

The price you pay for a financial asset is a major determinant of its subsequent return. Thus, after four years of the high 1996-1999 equity returns referenced above, in 2000 stocks had a cyclically adjusted price earnings ratio of 44 times earnings, compared with a long term average of 16 times earnings. This means that it cost investors \$44 to buy every \$1 of earnings, compared to a better price normally of only \$16 for \$1 of earnings. Paying two and half times the average historical price for any investment is a nearly impossible handicap to overcome. As market strategist Ben Inker puts it, “Bad things happen to expensive assets.”

Conversely, stocks traded at unusually low valuations of 7 times earnings in 1982, laying the foundation for years of historic outperformance.

History holds many examples of the importance of price. The prestiti was an annuity used to finance the Venetian Republic’s wars and carried a rate of 5%. William Bernstein in his *Four Pillars of Investing* plotted the prices of prestiti during the fourteenth century.

<b>Year</b>	<b>Price</b>
1375	92 ½
1381	24
1389	44 ½

William Bernstein writes: “The Venetian investor who bought prestiti in 1375, when the Republic seemed secure, would have been badly damaged. Contrariwise, the investor brave enough to purchase at 1381’s depressed price, when all seemed lost, would have earned high returns. High returns are obtained by buying low and selling high; low returns are obtained by buying high and selling low. If you buy a stock or bond with the intention of selling it in, say, twenty years, you cannot predict what price it will fetch at that future date. But you can state with mathematical certainty that as long as the issuing company does not go bankrupt, the lower the price you pay for it now, the higher your future returns will be; and the higher the price you pay, the lower your returns will be....This point cannot be made forcefully enough or often enough: high previous returns usually presage low future returns, and low past returns usually mean high future returns.”

How can you know if current valuations offer worthwhile future returns without becoming a full time financial analyst? Fortunately, Grantham, Mayo & Van Otterloo (GMO)—a highly respected money management firm with which we are not affiliated—publishes projections of seven-year returns for major asset classes. GMO uses its forecasts to make asset allocations for the \$99 billion in client assets it manages.

In 1999, at the height of the stock market mania, GMO forecast annual returns for the S&P 500 of -1.9%. The actual result: -3.5%. When most investors were counting on 12% or 15% annual gains into the future, GMO, grounded in historical data, correctly projected negative returns over the following decade.

GMO claims no insight into short term market movements, which is why it only projects returns over a seven year period. It has an outstanding record of spotting asset bubbles and asset classes to avoid. Even if its projections are only directionally correct, the forecasts are a valuable, independent check when considering your asset allocation. Using the data-driven GMO estimates also helps mitigate the human emotions of fear and greed which often lead investors to buy high and sell low.

Below are the latest GMO projections which are updated quarterly and are free on its website.

Expected Annual Real Return over 7 years (after inflation)

#### **STOCKS**

Emerging market	6.2%
International Large	5.0%
US High Quality	4.5%
US Large cap	0.2%
US Small Cap	-0.3%

#### **BONDS**

Cash	0.1%
Inflation linked	-2.4%
Emerging Debt	1.4%
International	-1.8%
US Bonds	-1.7%

Currently GMO projects bonds will achieve a negative real return over the next seven years. This brings us back to this year's CTIS survey results.

A common mistake made by investors is to believe recent market trends will continue indefinitely. The lesson from the financial crisis, and recent investment results, could be to own lots of bonds and be wary of stocks. The GMO projections are a red flag that this is the wrong approach today.

Since 2006, the first investment year which the CTIS covered, the average CTF has outperformed the S&P 500. A dollar invested by the average CTF at the beginning of 2006 turned into \$1.46, while \$1 invested in the S&P came to \$1.14. Once again in 2011, CTFs' returns topped the S&P 500 earning 3% vs. the S&P's 2%.

One might conclude the CTFs are doing just fine when it comes to managing and growing their endowments; however there are several reasons for concern.

First, the outperformance of the CTFs derives from a conservative asset allocation during a time of poor returns for stocks. In 2008 when the S&P declined by 37%, the funds started the year with over 70% of their assets in cash and bonds. If 2008's returns are excluded, the CTFs have actually underperformed the S&P 500 by 15% over the other five years covered by the survey. That the CTFs were conservatively invested during the financial crisis was very beneficial, but this should not be assumed to be the correct allocation for the future.

Second, GMO's projections strongly suggest large holdings of bonds are a major risk for the trusts. Today most bond yields are so low, bond-heavy portfolios are unlikely to achieve investment targets and are in fact increasingly risky. Bonds may continue to perform well for a time. Markets are not predictable in the short run, but history is flashing a warning signal.

As we wrote in last year's survey:

*"Even a modest increase in interest rates can cause a meaningful decline in bonds. In much of the world, interest rates are at 40-year lows. For example, today the 10-year US Treasury bill yields 2%. We are not forecasters, but ask yourself if the next 2% move in interest rates is more likely to be down or up? Furthermore, governments around the world are implementing policies that lead to the most common cause of higher interest rates: inflation.*

*Inflation is a bond killer. First, inflation causes interest rates to rise hitting bond values. Second, the income from a bond is fixed over its lifetime while the cost of living increases with inflation. Finally, your principal is repaid in a currency that has been devalued by inflation."*

Since a bond's payments are fixed, the value of existing bonds decline during inflationary periods. Stocks can also be hurt by inflation. However, a company can raise the price it charges for the goods and services it produces, increasing both its nominal earnings and the company's value. Bonds do not generate long term wealth, especially during times of inflation.

## EQUITIES

Short term safety must not be the driving consideration for an endowment which is going to exist for generations. Having two, three, or even four years of operating expenses in cash is appropriate. The vast majority of the remaining assets must generate sufficient wealth to fund the trusts' work decades into the future. This means having a bias towards equities.

The average CTF has 58% in bonds at a time of record low interest rates. This after bonds have enjoyed an epic 30-year bull market. Aren't we supposed to buy low and sell high?

History has demonstrated stocks are the highest returning asset class, yet the average trust is only 21% in equities. University of Pennsylvania Professor Jeremy Siegel points out that since 1802 stocks have outperformed bonds in 80% of ten-year periods and in 100% of 30-year periods.

21% in equities might be an appropriate allocation for an 80 year old widow. For a trust hoping to accomplish important conservation work over the next 25, 50 or 100 years it borders on irresponsible.

Yes, stocks can suffer gut-wrenching declines and GMO itself believes they might be overvalued by as much as 25%. Yet providing funding for current operations and building resources for the future requires investing for higher returns. So, during future market declines, it might make sense to allocate 50% or more of your trust to stocks even if it takes several years to reach this allocation. If future GMO projections anticipate higher returns from equities, increase your allocations to stocks further.

However, please bear in mind that one of the major risks with stocks is choosing a money manager who does not choose stocks well, or who does not have a good sense of timing. To achieve excellent results, conservation trusts must find outstanding managers in each asset class.

Money managers who can outperform the market over long periods of time are rarely found at stock brokerages, mutual funds, or at huge investment banks with hundreds of billions under management. The best managers can operate with more freedom and make more money and they often own their own firms. The world is awash in mediocre money managers. Take the time to find the excellent ones; it will pay enormous dividends in the ability of your trust to accomplish its conservation goals.

As you study the survey's 2011 investment results, keep in mind the historical returns on stocks and bonds. History, along with the recent record of outperformance of bonds, and GMO's worrisome projections, suggests the average CTF portfolio needs to change.



We remain as convinced as ever in what we wrote in the Foreword to last year's survey:

*"A share of stock represents a partial ownership in a real business. Shareholders benefit from the talent of management and workers, the products and services the company offers, and the future profits and dividends of the company. Bonds never change; companies can adapt to different economic times, work to improve profits, and strive to increase dividends to shareholders. Stocks, much more than bonds, build wealth and offer protection from inflation."*

As the world's greatest investor Warren Buffett wrote in his 2011 annual shareholder letter, *"Money market funds, bonds, mortgages, bank deposits...are thought of as "safe." In truth they are among the most dangerous of assets... their risk is huge. Over the past century these instruments have destroyed the purchasing power of investors in many countries, even as the holders continue to receive timely payments of interest and principal....Even in the US, where the wish for a stable currency is strong, the dollar has fallen a staggering 86% in value since 1965.... Current rates do not come close to offsetting the purchasing-power risk that investors assume. Right now bonds should come with a warning label."*

Buffet continues by telling his shareholders he much prefers investing in equities: "I believe over any extended period of time this category of investing will prove to be the runaway winner among the three we've examined. More important, it will be by far the safest."

With continued best wishes for your crucial conservation work,

Gregory Alexander,  
Acacia Partners



## EXECUTIVE SUMMARY

Conservation Trust Funds (CTFs) are a mechanism to provide stable, long-term sources of funds for the protection and sustainable management of natural resources in areas of high biodiversity. Most commonly taking the shape of endowments or sinking funds, conservation trust funds are able to use income from investments to provide a reliable source of support for management of protected areas, conservation projects and support of indigenous communities. With a stable source of operational funding from investment returns, these trusts are also effective in managing and disbursing funds from a variety of sources to support conservation and sustainable income projects.

Since 2006, the Conservation Trust Fund Investment Survey (CTIS) has been tracking the financial performance and investment strategies of trust funds throughout Africa, Asia, Latin America and the Caribbean. The conservation trust funds described in this study manage endowment funds, sinking funds, or both. The information reported in this study is based on a variety of investments denominated both in the local currency of the funds home country, and in international currencies, including US dollars and Euros. The investments range from those held in local banks or fixed deposit receipts, to more complex investment portfolios managed by international investment firms.

The 2011 calendar year was yet another volatile year across the global economy. With stock markets in Europe and the U.S. changing wildly in response to the European debt crisis, swings in oil prices, the earthquake in Japan, a downgrade in the U.S. credit rating and other challenges, the year was a difficult one for investors. U.S. treasury yields fell significantly, finishing the year at 1.9%, down 1.4 percentage points<sup>1</sup>. Investors found 2011 to be a challenging financial year, with uncertainty in fluctuating markets putting downward pressures on returns.

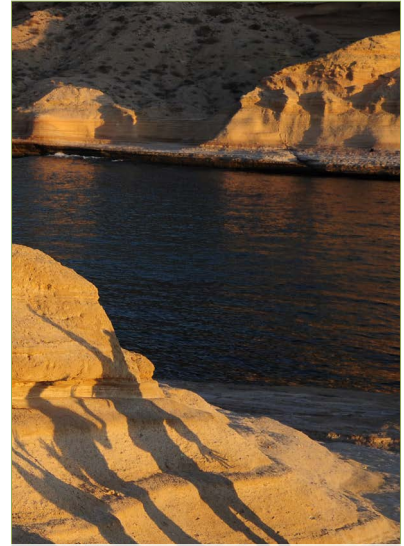


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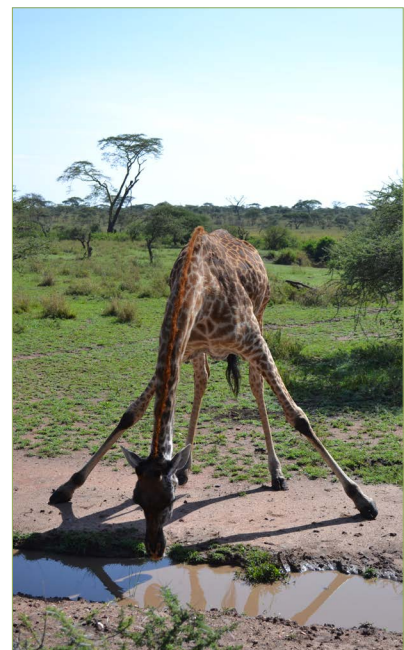
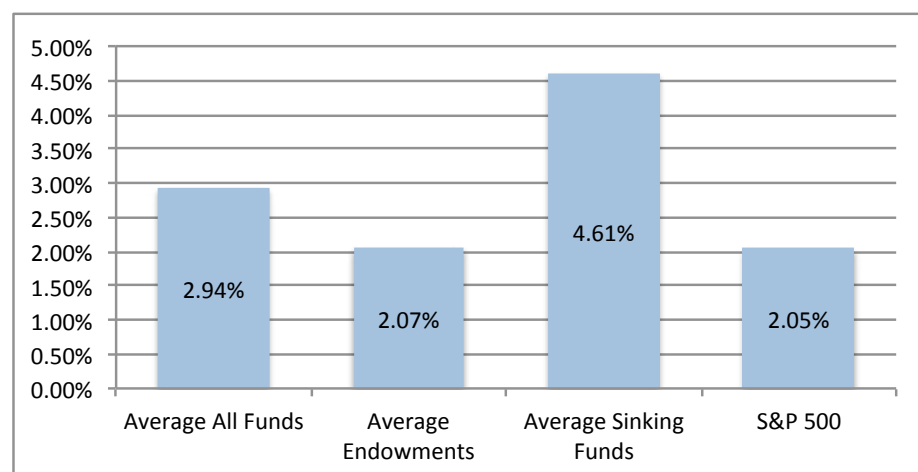


Photo contributed by Fernanda Barbosa, FUNBIO, Brazil

<sup>1</sup> <http://online.wsj.com/article/SB10001424052970204720204577127580697226356.html>

The challenges faced by the Conservation Trust Funds participating in this survey and invested in global markets reflect this market uncertainty. While the average overall return for CTFs was 2.94% in 2011, just better than the S&P 500, average reported returns (not adjusted for inflation) ranged from -5.8% to 11.6%. The funds that had all or portions of their portfolios invested in U.S. and European markets tended to earn lower returns than those invested in their local markets or in diversified international portfolios. However, the CTFs continue to show healthy 3- and 5-year returns, with 3-year returns between 7% and 10%, and 5-year returns averaging between 4.6% and 7%. These returns over time allow the funds to meet their spending objectives, providing long-term stable sources of funding for biodiversity.

### Summary of Endowment and Sinking Fund Returns, 2011 Calendar Year



Approximately one-third of the funds participating in this report have distinct portfolios, invested both internationally and in their own domestic markets. The funds continue to keep the majority of their allocations in fixed income investments, though many have investments in equities ranging from 20% to 40% of their portfolios. This approach has led to positive 3- and 5-year returns. The following table provides a snapshot of the average investment performance and asset allocation over time as reported by the participating funds since the inception of this survey. Of the five years reported, two of the years with highest average returns (2007 and 2009) were also years where funds allocated higher proportions to equities. However in 2010, when returns almost reached 9%, funds had moved away from equities and were heavily biased toward fixed incomes securities.

### Asset Allocations and Average Returns 2011

Year	2007	2008	2009	2010	2011
<b>Average Investment Return</b>	8.6%	-6.9%	14.4%	8.6%	3.5%
<b>Asset Allocation</b>					
<b>Equities</b>	30.0%	24.3%	30.0%	18.3%	21.2%
<b>Fixed Income</b>	40.0%	43.7%	49.3%	70.6%	57.5%
<b>Cash</b>	27.0%	30.3%	15.7%	11.1%	13.0%
<b>Alternatives</b>	3.0%	1.7%	5.0%	0.0%	8.5%
	100%	100%	100%	100%	100%



This report on the investment results for Conservation Trust Funds in 2011 includes data on the performance of 31 Conservation Trust Funds. The funds have performed responsibly in the stewardship of the resources entrusted to them, with balanced portfolios positioned to weather fluctuations in global markets. Investment performance of the funds over the past five years has been positive, with an average return of 5.8%.

In response to suggestions from fund directors to create more specific and applicable analysis of the data collected through the CTIS survey, we have provided several new types of analyses, including data on the top performers in 2011, and analyses of the funds invested either domestically or internationally to compare funds that invest domestically primarily and those that are completely invested overseas. In addition, we have created case studies on three funds, two in Latin America and one in Africa, that were willing to share detailed information on their investment strategies. Over time we hope to expand the study results, providing more specific and useful data to participating funds who are willing to share their information.



Photo contributed by Fernanda Barbosa, FUNBIO, Brazil



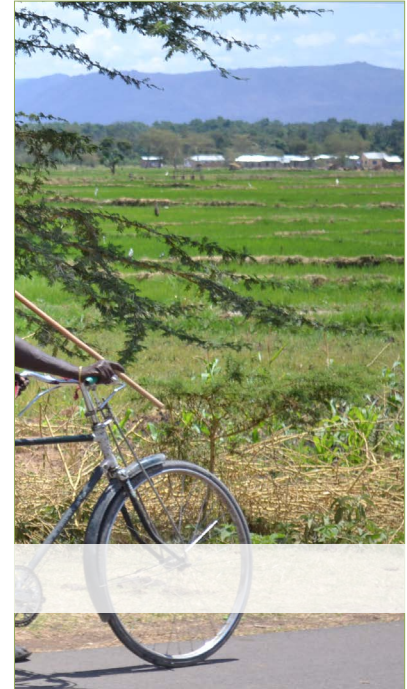


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## INTRODUCTION

### BACKGROUND

Conservation Trust Funds provide long term financing for management of protected areas, conservation projects and sustainable development. The significant majority of the CTFs participating in this study are managed as private organizations, independent of government. They are generally capitalized by grants from donor agencies, governments, foundations, non-profit organizations, and corporations.

Since the establishment of the first CTF in the early 1990's, Conservation Trust Funds have proven to be highly successful in providing stable funding sources by effectively managing income from investments and leveraging those monies to secure grants and other funds for conservation projects. Over 50 Conservation Trust Funds have now been established in Africa, Latin America and the Caribbean, Asia and Eastern Europe<sup>2</sup>, building on the structure and functional example that the early funds provided.

Conservation Trust Funds have been able to use the income from endowment and sinking fund investments to fund their administrative and operational needs, and provide project financing aimed at meeting their mission and objectives. Moreover, the CTFs have been able to leverage their finance and administrative capability to raise additional funds for projects. While most CTFs were originally established to provide a source of funding for managing protected areas, many have become effective mechanisms to:

- Manage and disburse funds to support a variety of conservation activities;
- Provide stable management of protected areas through periods of economic or political volatility;
- Provide funding for indigenous communities and sustainable income development projects;

<sup>2</sup> Permanent Conservation Trusts, A Study of the Long-Term Benefits of Conservation Endowments, February 2011, Adams and Victorine.

- Initiate partnerships with the private sector to support sustainable business practices and to create innovative funding sources for conservation projects; and
- Manage funds from Payments for Ecosystem Service (PES) schemes and other similar sources.

This CTIS study is designed to provide information that can assist established CTFs in analyzing their investment strategies and to create a foundation upon which new CTFs can learn from the experience of others. Over the years we have heard feedback from the participating funds and their donors. We have modified the survey as well as the report format to respond to suggestions, with the goal of making the data more useful and applicable to the various audiences. We have chosen to balance the anonymity of the participating funds with the need to share more specific information by providing three case studies of funds willing to share their financial strategies and performance. A greater number of funds have expressed interest in having information published openly rather than anonymously in order to enhance learning opportunities. In future versions of the CTIS it is hoped that the vast majority of CTFs will agree to report their information as part of an open forum.

The information in this study is intended to provide not only the trust fund managers, but also donor agencies and others involved in advising the trusts with examples of how successful trusts are managing their portfolios and leveraging their investment returns to grow the capacity of the funds. We will continue to expand the study over the next several years, creating more opportunities for the funds to share their strategies and learn from the experiences of their peers.

## OBJECTIVES

The main objective of this study is to report on the performance and present the investment strategies and structures implemented by participating Conservation Trust Funds. A secondary objective is to discuss best management practices for management of the trust funds.

This report will focus on the following financial information gathered through surveys of each participating Fund:

- Fund type and location;
- Investment returns;
- Asset and currency allocation; and
- Investment policies and management.

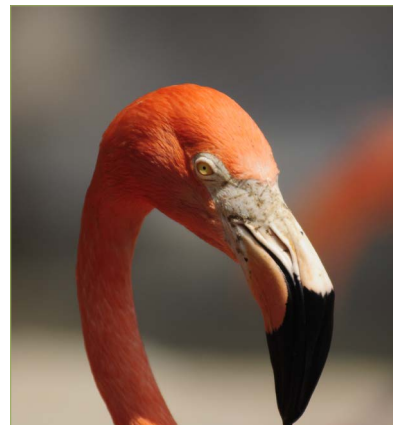


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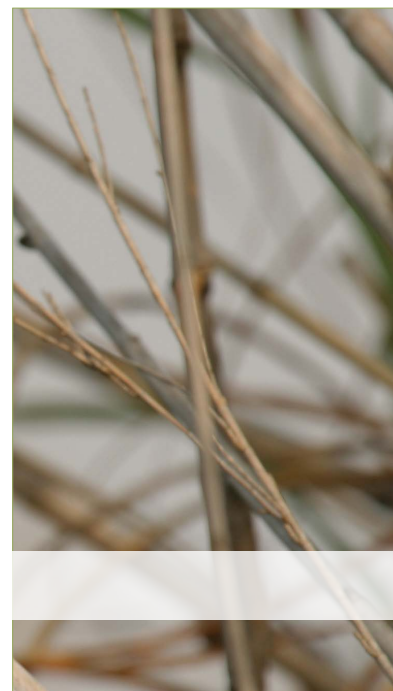


Photo contributed by Carl Breussow, Mount Mulanje Conservation Trust, Malawi

## **SURVEY FORMAT, ORIGATION**

This report is designed to gather financial information from privately directed Conservation Trust Funds that manage endowments, sinking funds or revolving funds with the mandate to provide long-term financing for conservation and sustainable development. Creation of the CTIS survey drew on the experience of the Commonfund-National Association of College and University Business Officers (NACUBO), which publishes an annual survey of the performance of U.S. College and University endowments.

## **DATA COLLECTION**

The survey for the calendar year ending December 31, 2011 was administered in a Word-based format and was emailed to all participating Funds. The survey was available in English, Spanish and French to ensure ease of accessibility and to garner greater participation. An initial introductory cover letter and a hard copy of the survey, as well as a copy of the 2010 CTIS report were mailed to all potential participants in early 2012. The RedLAC Executive Committee distributed the survey to its member Funds and provided follow-up to ensure full participation of its membership. RedLAC was instrumental in collecting survey information from all of its members. During the process repeat emails reminders were sent to Funds and in some cases phone calls were made to elicit responses to the survey questions.

The survey was issued as a two-part document this year. In response to recommendations from the funds and other users of this report, we have requested that funds employing a financial consultant or investment advisor request that the second part of the survey, with detailed financial information, be filled out by that consultant or advisor. The first part of the survey included information about the structure and operations of the funds and was completed by the executive directors of each fund.

## CONFIDENTIALITY

The CTIS project is committed to maintaining the confidentiality of each of the CTF's individual data submissions. Contact information for each of the participating CTFs is provided in the report; however, all financial data is reported anonymously to ensure that the funds are not placed at disadvantage by disclosure of information. The objective of the report is to share information and support the development of effective investment strategies. Each fund is therefore able to compare its performance to the average returns of Funds within similar size categories and with the average returns of all funds. Where individual returns are listed, each CTF is assigned a random identification number.

## FISCAL YEAR

All data and reporting are based on the calendar year 2011 ending December 31st unless noted. All performance data are reported net of investment management fees and expenses.

## STATISTICAL VARIANTS

Survey participants were encouraged to answer as many of the questions as possible; however some of the CTFs were unable to fill in data for all of the categories. Therefore, the data tables in this report do not necessarily reflect all participants. Each data table indicates the number of funds represented in the analysis either within the table itself or in a footnote below the table.

## AVERAGE RETURNS

Following procedures used in the NACUBO and Commonfund studies, average return values provided in this report are calculated as equal-weighted averages, meaning that each reporting trust fund has an equal influence on the outcome of the average calculation regardless of the size of the endowment. This allows each individual fund to compare its returns to other funds participating in this study. For informational purposes dollar-weighted averages (e.g. weighted in terms of the size of the endowment) have been calculated and are reported in some of the tables, as noted, for 2011 returns. Three- and five-year averages are calculated as compound returns.

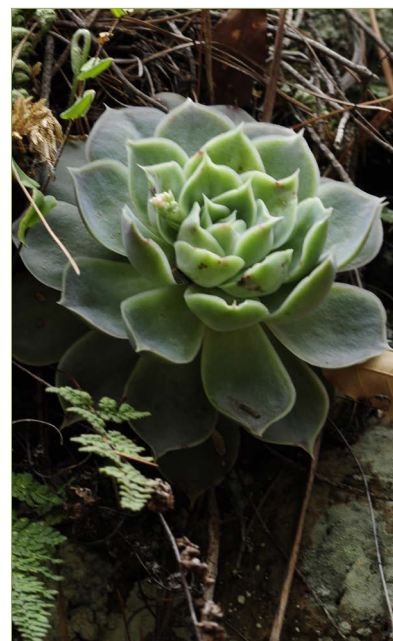


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Photo contributed by Fondo de Conservación de Bosques Tropicales

Conservation Trust Funds participating in this study manage both endowments and sinking funds. Most all of the funds are established as private foundations or trusts; many are established as Non-Governmental Organizations (NGOs) or have been incorporated as not-for-profit Limited Liability Corporations (LLC) governed by charity and trust law. The funds are generally established in the country where they operate and are managed by a board of directors with members from both the private and public sectors. In some cases, funds have been established in third-party countries due to legal constraints or administrative necessity.

The first CTIS report, published in 2008, reported on Fund performance in 2006 and provided comparative benchmark data against which Funds could evaluate their returns; gauge their financial performance; and compare their investment practices and returns. Twenty-three funds participated that first year, with 17 funds providing investment return data. Over time, different CTFs have participated, with the number of funds able to provide investment data varying each year.

- 2006 Financial Year: 23 Funds, 17 with investment data
- 2007-2008 Financial Year: 34 Funds, 33 with investment data
- 2009 Financial Year: 39 Funds, 32 with investment data
- 2010 Financial Year: 31 funds, 28 with investment data
- 2011 Financial Year: 37 Funds, 31 with investment data

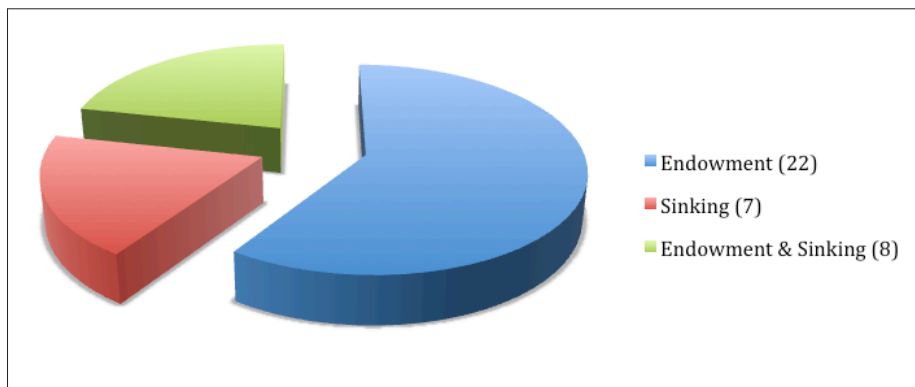
Thirty-seven funds participated in the study this year, providing organizational and financial information for the 2011 calendar year. Six of these are new funds, in the process of establishing endowments or sinking funds. These six funds submitted organizational information; however, investment returns are not yet available and have not been included here. The participating funds manage over \$570 Million in U.S. equivalent dollars. The funds manage endowments and sinking funds ranging from \$400,000 U.S. equivalent to \$105.8 Million.



## ENDOWMENT AND SINKING FUNDS

The trust funds analyzed in this report manage either endowment funds or sinking funds, with some managing both types of investment funds. This year, the CTIS participants included 22 funds holding endowments, 7 holding sinking funds, and 8 with both types of funds.

**Figure 1. Types of Participating Funds**



### Endowments.

The trust funds that manage endowments generally spend only the income from their investments, maintaining invested capital as a permanent asset. This allows for longer term funding for projects such as the management of protected areas.

### Sinking Funds.

Sinking funds spend the income from investment as well as a portion of their capital each year until the fund is expired. This type of structure allows sinking funds to finance larger, medium-term projects or provide a series of small grants.

Both types of funds result in stable funding sources with long-term benefits, though endowments, as a more permanent funding source can create additional benefits, including the ability to support ongoing projects over a longer period of time, to enhance community buy-in, to create payment systems that provide longer-term incentives for conservation results, and to form government and private partnerships.

## AREA AND AGE OF PARTICIPATING FUNDS

This report has compiled information from 37 Conservation Trust Funds in Latin America and the Caribbean, Africa and Asia. A number of the CTFs have participated in the study since 2006, providing the opportunity to analyze investment data from these funds over the last decade. Each year, additional funds participate in the study, many of them newly established funds that have just begun investing.

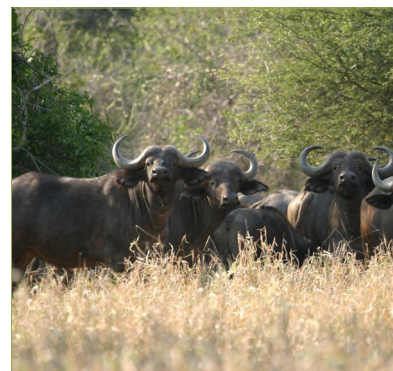
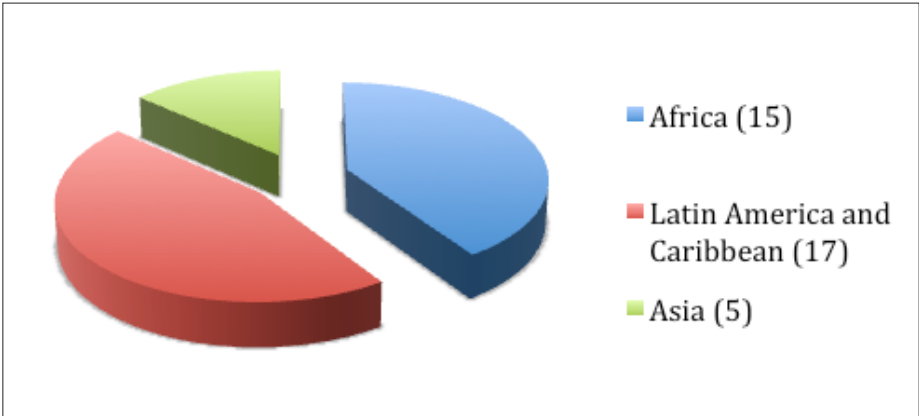


Photo contributed by Carl Breussow, Mount Mulanje Conservation Trust, Malawi

**Figure 2. Number of Participating Funds by Region**



***Africa***

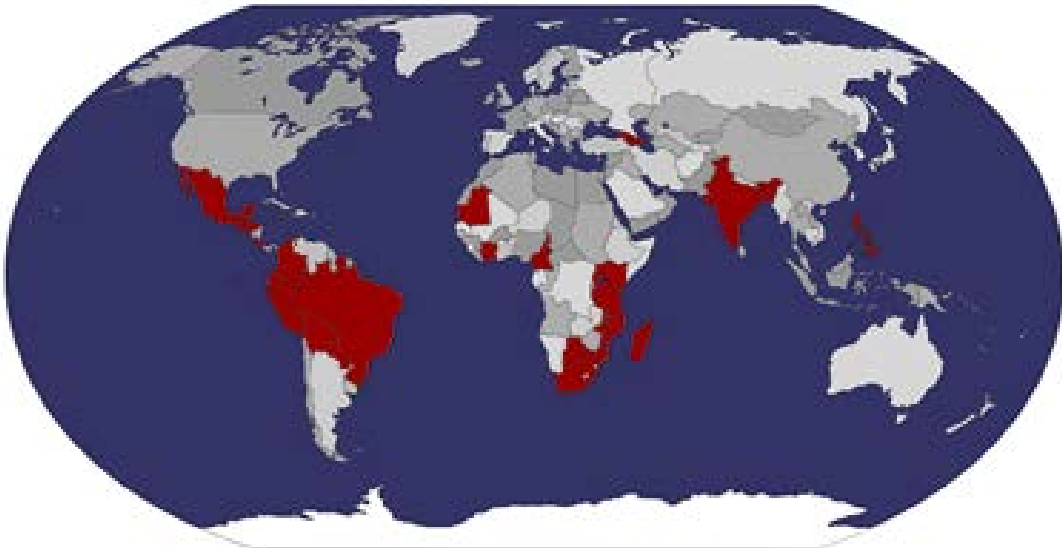
A total of 15 Funds in Africa filled out surveys this year. Four of these funds, including the Botswana Forest Conservation Fund, the Kenya Wildlife Service Fund, the Banc d’Arguin Coastal Marine and Biodiversity Trust Fund and the Foundation for the Conservation of Biodiversity in Mozambique are very new funds, just beginning to invest and did not submit investment returns. A report on the first meeting of the Consortium of African Environmental Funds (CAEF) organized by the Conservation Finance Alliance (CFA, September 2011), indicates that more than thirteen funds are operational in Africa.

***Latin America and Caribbean***

Seventeen trust funds in the Latin America and the Caribbean region participated in this study, providing information for the 2011 calendar year. These funds are actively involved in the RedLAC network, sharing information and resources to strengthen their capacity as fund managers. One new fund in the region, Costa Rica por Siempre, has submitted information to the survey this year.

***Asia***

Five trust funds in Asia also reported financial information this year. A number of funds are under development in this region also, including funds in Laos, Vietnam and Micronesia, however these funds are not yet investing and have not participated in the investment survey.





## RESULTS AND ANALYSIS

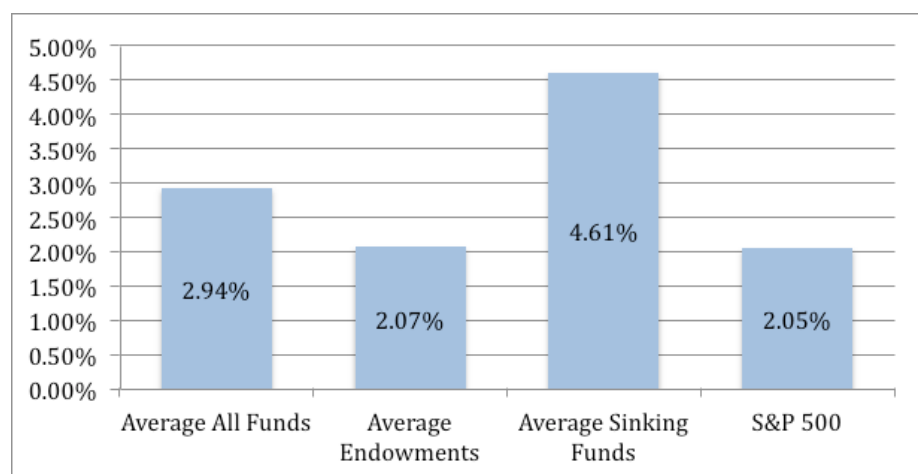


Photo contributed by Fernanda Barbosa, FUNBIO, Brazil

### OVERALL RATES OF RETURN

Conservation Trust Funds reporting investment return information for the calendar year 2011 show average US Dollar-adjusted returns of 2.94%. Endowment funds reported average returns of 2.07% (USD) and sinking funds reported 4.61% returns (USD) on average. The overall average exceeded the average returns of the S&P 500 for 2011, which finished the year at 2.05%.

**FIGURE 3. 2011 RETURNS, ALL FUNDS**



### ENDOWMENT INVESTMENT PERFORMANCE

The group of smaller CTFs (assets less than \$10 million in US dollar equivalent) reported returns of 2.25% for 2011. The mid-size CTFs (between \$10 and \$20 million US dollar equivalent) experienced gains of 2.17%. The larger endowments had lower returns in 2011, averaging 1.73%.

The 3- and 5-year returns are positive, averaging 9.32% and 5.31% respectively, as calculated in equal weighted averages across all size categories.



**Table 1. Average Endowment Returns by Fund Size, 2011**

Size Category	Total Assets (\$US)		Returns 2011	3-Year Returns	5-Year Returns
0-10M	63,553,470		2.25%	10.71%	5.23%
10-20M Avg	53,003,289		2.17%	9.19%	6.25%
>20M Avg	336,932,855		1.73%	7.81%	4.98%
<b>Equal-Weighted Average All Funds</b>			<b>2.07%</b>	<b>9.32%</b>	<b>5.31%</b>
<b>Dollar-Weighted Average All Funds</b>			<b>1.98%</b>	<b>8.65%</b>	<b>5.27%</b>

\*25 endowment funds reported investment returns

## SINKING FUND INVESTMENT PERFORMANCE

Sinking funds report investment returns in a range similar to that of the endowment funds. Sinking funds managing less than \$10 million US dollars experienced returns averaging 4.98%, while the larger funds, managing \$10-20 million reported somewhat lower returns, on average 3.13%. The category of \$20 million performed the best, averaging a 5.74% return. The 3- and 5-year returns are again positive for sinking funds, averaging 9.75% and 8.53% respectively, as calculated in equal weighted averages across all size categories.

**Table 2. Average Sinking Fund Returns by Fund Size, 2011**

Size Category	Total Assets (\$US)		Returns 2011	3-Year Returns	5-Year Returns
<10M Avg (9 funds)	29,772,809		4.98%	9.55%	12.11%
10-20M Avg (3 funds)	51,875,604		3.13%	10.14%	6.59%
>20M Avg (1 funds)	37,867,056		5.74%	no data	no data
<b>Equal-Weighted Average All Funds</b>			<b>4.61%</b>	<b>9.75%</b>	<b>8.53%</b>
<b>Dollar-Weighted Average All Funds</b>			<b>4.30%</b>	<b>9.97%</b>	<b>7.31%</b>

\*13 sinking funds reported investment returns

## TYPES OF BENCHMARKS USED

A variety of benchmarks are used by the funds to measure performance. The S&P 500 is the most commonly listed index across all of the funds, though the Morgan Stanley Capital International (MSCI) World Index, the Barclays Capital US Aggregate Bond Index and the JP Morgan Stanley Bond Index are also listed as common benchmarks against which some of the CTFs measure their portfolio performance. National indices are also used by many of the funds invested in domestic markets.

The following table shows how the average returns for the endowment funds and the sinking funds surveyed for this report compared to the three most commonly referenced indices.

**Table 3. CTF Returns Compared to Common Benchmark Indices**

2011 Average Returns Compared to Common Indices	
CTF Endowment Funds	2.07%
CTF Sinking Funds	4.61%
MSCI World*	-8.01%
S&P 500**	2.05%
Barclays Capital Aggregate Bond Index***	8.39%

\*<http://www.msci.com/resources/pressreleases/Press%20Release%20MSCI%20YTD%202011%20Performance.pdf>

\*\*[http://en.wikipedia.org/wiki/S%26P\\_500](http://en.wikipedia.org/wiki/S%26P_500)

\*\*\*<http://www.calvert.com/NRC/literature/documents/AR40826.pdf?litId=AR40826>

## CURRENCY AND INFLATION ADJUSTED RETURNS

The CTIS survey asked each fund to report separate investment returns for domestic and international investment portfolios. Many of the participating funds invest both in their own countries, as well as in U.S. and European markets. The ability to invest internationally increases diversification and is intended to reduce risk, though all investments carry some level of risk. Exposure to foreign currency, through investments in international markets carries some exchange rate risk owing to currency fluctuations. This can have an impact on the purchasing power of dollars or Euros in the country where the Fund operates. High domestic levels of inflation can significantly reduce the net returns of domestic investments as discussed below. However, currency appreciation and depreciation can also affect the real returns. The tables below show the local currency returns after inflation for each of the funds, as well as the same returns in US Dollar and Euro equivalents.

## REAL RETURNS.

Returns are affected by the domestic rate of inflation, which can have a substantial impact on the purchasing power of money available for project financing. The real returns shown in the table below reflect the investment returns, after management fees and adjusted for inflation in each country. Adjusting for inflation indicates the actual value of the investment return available to support conservation projects in each country. For ease of comparison the charts present the returns in Dollar, Euro and local currency equivalents; they also show the real return in local currency and in the currency in which the investment is reported. The currency used for reporting is shown in bold type.



Photo contributed by Ana Cecilia Perez V., Fondo de las Americas, Peru

**Table 4. Endowment Funds Invested in One Currency**

Fund ID No	Reporting Currency	Dollar Return	Local Currency Return	Real Return, Local Currency	Euro Return	Inflation
<b>Endowment Funds Invested in One Currency</b>						
2	Domestic	-10.20%	<b>8.50%</b>	1.70%	-7.04%	6.80%
3	Domestic	7.18%	<b>9.00%</b>	5.90%	10.34%	3.10%
8	US\$	<b>-5.86%</b>	1.54%	-5.96%	-2.70%	7.50%
9	US\$	<b>-4.33%</b>	3.05%	-10.65%	-1.17%	13.70%
11	US\$	<b>-4.78%</b>	1.80%	-9.30%	-1.62%	11.10%
17	US\$	<b>3.51%</b>	3.51%	-1.89%	6.67%	5.40%
20	US\$	<b>-4.88%</b>	15.34%	-4.16%	-1.72%	19.50%
28	US\$	<b>-2.83%</b>	-1.22%	-4.92%	0.33%	3.70%
40	Euros	-1.33%	<b>-28.51%</b>	-33.71%	<b>-1.76%</b>	5.20%
19	US\$	<b>-0.39%</b>	-4.31%	-7.71%	2.77%	3.40%
26	US\$	<b>1.08%</b>	-2.84%	-6.24%	4.24%	3.40%
41	Domestic	-13.15%	<b>8.89%</b>	3.89%	-9.99%	5.00%
10	Euro	26.84%	<b>0.30%</b>	-5.50%	<b>0.30%</b>	5.80%
21	US\$	<b>-3.40%</b>	1.63%	-9.27%	-0.24%	10.90%
18	Domestic	-1.17%	<b>11.20%</b>	4.70%	1.99%	6.50%
6	Domestic	5.39%	<b>7.00%</b>	3.30%	8.55%	3.70%
38	Euros	-3.37%	0.14%	-3.26%	<b>-3.80%</b>	3.40%
22	Domestic	-13.74%	<b>8.30%</b>	3.30%	-10.58%	5.00%
<b>Averages</b>		<b>-1.41%</b>	<b>2.41%</b>	<b>-4.43%</b>	<b>-0.30%</b>	<b>6.84%</b>

**Table 5. Endowment Funds Invested in Two Currencies**

Fund ID No	Reporting Currency	Dollar Return	Local Currency Return	Real Return, Local Currency	Euro Return	Inflation
<b>Endowment Funds Invested in Two or More Currencies</b>						
7	Domestic (84%)	4.65%	<b>6.00%</b>	-1.70%	7.81%	7.70%
7	US (16%)	<b>4.00%</b>	5.35%	-2.35%	7.16%	7.70%
		<b>4.55%</b>	<b>5.90%</b>	<b>-1.80%</b>	<b>7.71%</b>	
29	Domestic (12%)	-11.70%	<b>7.00%</b>	0.20%	-8.54%	6.80%
29	US (88%)	<b>-1.70%</b>	17.00%	10.20%	1.46%	6.80%
		<b>-2.90%</b>	<b>15.80%</b>	<b>9.00%</b>	<b>0.26%</b>	
18	Domestic (9%)	-1.07%	<b>11.30%</b>	4.80%	2.09%	6.50%
18	US (91%)	<b>1.00%</b>	13.37%	6.87%	4.16%	6.50%
		<b>0.81%</b>	<b>13.18%</b>	<b>6.68%</b>	<b>3.97%</b>	
30	Domestic (23.59)	-3.60%	<b>9.33%</b>	5.83%	-0.44%	3.50%
30	US (76.41%)	<b>2.74%</b>	15.67%	12.17%	5.90%	3.50%
		<b>1.24%</b>	<b>14.17%</b>	<b>10.67%</b>	<b>4.40%</b>	
24	Domestic ( 54%)	3.77%	<b>8.80%</b>	-2.10%	6.93%	10.90%
24	US (46%)	<b>2.20%</b>	7.23%	-3.67%	5.36%	10.90%
		<b>3.05%</b>	<b>8.08%</b>	<b>-2.82%</b>	<b>6.21%</b>	
15	ZAR (73%)	-14.74%	<b>7.30%</b>	2.30%	-11.58%	5.00%
15	US (27%)	23.40%	<b>45.44%</b>	40.44%	26.56%	5.00%
Weighted Average Fund 16		<b>-4.44%</b>	<b>17.60%</b>	<b>12.60%</b>	<b>-1.28%</b>	
5	ZAR (83%)	<b>-13.44%</b>	<b>8.60%</b>	3.60%	-10.28%	5.00%
5	US (17%)	<b>10.50%</b>	<b>32.54%</b>	27.54%	13.66%	5.00%
Weighted Average Fund 5		<b>-9.37%</b>	<b>12.67%</b>	<b>7.67%</b>	<b>-6.21%</b>	

The endowment funds that were invested in domestic markets or fixed bank deposits in their own countries averaged 7.6% in 2011, as measured in local currency returns (adjusted for exchange rate differences) and 4.64% as measured in real returns (adjusted for domestic inflation). The endowment funds that were invested in the U.S. markets averaged 1.85% in local currency returns and -5.76% in real returns. The funds invested in Euro-based markets averaged -9.36% in local currency and -14.16% in real returns. Overall, the endowment funds that had mixed international portfolios, invested generally both in their domestic markets and U.S. markets did significantly better, averaging 12.49% as measured in local currency returns and 6.0% in real returns.



Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

**Table 6. Sinking Funds Invested in One Currency**

Fund ID No	Reporting Currency	Dollar Return	Local Currency Return	Real Return, Local Currency	Euro Return	Inflation
<b>Sinking Funds Invested in One Currency</b>						
1	US\$	<b>5.84%</b>	5.84%	0.74%	9.00%	5.10%
2	Domestic	-10.20%	<b>8.50%</b>	1.70%	-7.04%	6.80%
12	Domestic	-6.67%	<b>9.44%</b>	-1.26%	-3.51%	10.70%
14	US\$	<b>2.10%</b>	1.67%	-5.23%	5.26%	6.90%
13	Domestic	8.21%	<b>9.56%</b>	1.86%	11.37%	7.70%
10	Euro	-1.56%	<b>1.60%</b>	-4.20%	1.60%	5.80%
17	US\$	<b>0.35%</b>	0.35%	-5.05%	3.51%	5.40%
25	Domestic	5.65%	<b>5.74%</b>	0.44%	8.81%	5.30%
7	Domestic	4.65%	<b>6.00%</b>	-1.70%	7.81%	7.70%
19	US	<b>1.33%</b>	-2.59%	-5.99%	4.49%	3.40%
28	Domestic	3.67%	<b>5.28%</b>	1.58%	6.83%	3.70%
26	US	<b>2.23%</b>	-1.69%	-5.09%	5.39%	3.40%



**Table 7. Sinking Funds Invested in Two Currencies**

Fund ID No	Reporting Currency	Dollar Return	Local Currency Return	Real Return, Local Currency	Euro Return	Inflation
<b>Sinking Funds Invested in Two or More Currencies</b>						
4	Domestic (53%)	7.8%	3.3%	-5.60%	11.0%	8.90%
4	US\$ (47%)	1.0%	-3.5%	-12.42%	4.2%	8.90%
		4.62%	0.09%	-8.81%	7.78%	

The sinking funds invested domestically, either in their local markets or in fixed bank deposits, averaged 6.59% return as measured in local currency return or 0.44% in real returns (adjusted for inflation). The sinking funds invested in U.S. markets or managed by U.S.-based asset managers averaged 0.72% returns, adjusted for local currency and -4.12% adjusted for inflation. The sinking fund that held a Euro-based portfolio showed a 1.60% local currency return or -4.20% adjusted for inflation. The one fund that had a mixed portfolio, invested domestically and in the U.S. showed an average local currency return of 0.09% which fell to -8.81% when adjusted for inflation.

## INVESTMENT LOCATION

Conservation trust funds are generally established under one of the following management structures:

- Domestic trust with domestic asset management
- Domestic trust with off-shore asset management
- Off-shore trust with off-shore asset management
- Trust with assets managed by a multilateral agency

A number of the funds are invested domestically, either in fixed bank deposits or in local equity markets. Many of these funds are managed either by members of a financial committee of the board or qualified staff, though several employ asset managers and financial consultants in the country where they are invested. At least 18 of the funds invest a portion or all of their money in U.S. markets. Many of these funds are managed by U.S.-based financial managers or advisors. Two of the funds in Africa and one in Asia use investment managers based in Europe. For more information on the rationale behind each of these structures, please refer to the document, “Issues and Options in the Design of GEF Supported Trust Funds for Biodiversity Conservation” referenced in this report.

### *Investment Location and Impact on Real Returns*

The funds that held only local investments in their domestic banks or markets averaged 4.64% (Endowments) and 0.44% (Sinking Funds) as measured in real returns in 2011. Funds with Euro or U.S.-based portfolios tended to fare less well in 2011, with exposure to the volatility of these two markets. The endowments with portfolios managed separately in both the U.S. and in their local markets tended to report the most stable real returns, with the weighted average real return of their combined portfolios at 6% in 2011.



Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

**Table 8. Portfolio Location and Average Real Returns**

	Endowment	Sinking Fund
Domestic Portfolios	4.64%	0.44%
Euro-based Portfolios	-14.16%	-4.20%
U.S.-based Portfolios	-5.76%	-4.12%
Both U.S. and Local Portfolios	6.00%	-8.81%

It is important to note that the other factor that the funds with both U.S. and local portfolios have in common is that they are all managed by professional financial advisors and asset managers. A reasonable conclusion would therefore indicate that professionally managed, diversified international portfolios taking advantage of global opportunities, balanced with investments in domestic markets can provide stable returns over time.



Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza



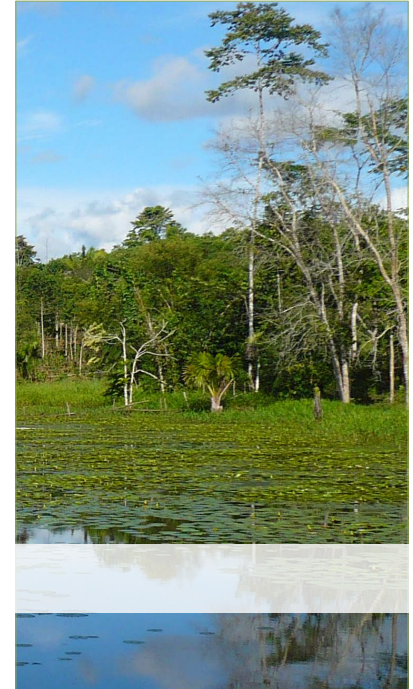


Photo contributed by Ana Cecilia Perez V., Fondo de las Americas, Peru

## INVESTMENT STRATEGY

Conservation Trust Funds have been an evolving concept since the early 1990's, becoming ever more knowledgeable in their management of investments. As their experience grows and strengthening of networks contributes to shared information, the data collected by the CTIS survey shows that the investment strategies of the participating funds have become more sophisticated. Newly developed funds are able to build on the experience of established funds, working carefully to select investment consultants and asset managers and to create investment strategies that meet their long-term objectives.

Conservation Trust Funds are designed to provide long term financing to manage protected areas, dispense grant funding for biodiversity and support sustainable income projects. The investment strategy, including investment policies and spending policies are based on the objective of creating a stable source of funding over the long term and must also be balanced with the annual administrative and project funding requirements. Each of the Conservation Trust Funds has established a distinct investment strategy based on the following:

- Annual operating expenses and project funding needs;
- Long-term capital appreciation goals;
- Various donor requirements or restrictions;
- Economic conditions or potential for investment in domestic markets;
- Size of the fund and ability to access investment consultants;
- Access to international investment opportunities.

Where donor requirements allow and domestic markets are strong, many of the funds have invested both in their country's equity or bond markets, as well as in the U.S. or Europe. Fourteen of the funds participating in this study hold separate portfolios invested both domestically and internationally.



## RISK STRATEGIES

A variety of investment strategies are employed by the Conservation Trust Funds participating in this study. The range of acceptable risk is based in the objectives of the trust and is clearly defined in the investment policy. The majority of funds participating in this study indicate that maintaining the real value of the investment fund is the first priority, where income and capital gains are a secondary objective.

The following asset allocation strategies (as defined by a study by Mikitin and Osgood in 1995) are employed by the funds participating in the CTIS:

**Bond portfolio:** With a primary objective of preserving the capital of the fund, a long-term investment portfolio might look like the following:

- 80-100% fixed income
- 0-20% cash

**Conservative Mixed Portfolio:** With the goal of limiting risk and preserving the principle, but creating a higher level of income, the following portfolio mix can be employed:

- 60-80% fixed income
- 10-30% equities
- 0-20% cash

**Balanced Portfolio:** A balanced portfolio is maintained to earn a return which exceeds short term interest rates over the long term:

- 40-50% fixed income
- 40-50% equities
- 0-20% cash

**Stock Portfolio:** A stock portfolio is designed for capital growth, with a higher level of risk:

- 80-100% equities
- 0-20% cash

Endowment funds generally reported either conservative mixed or balanced portfolios in 2011, with a typical portfolio invested 27% in equities, 60% in fixed income, and the remainder in cash and other instruments. Sinking funds are invested more conservatively, generally in bond portfolios, with approximately 7% invested in equities and the remainder in cash and fixed income.

## ASSET ALLOCATION

Asset allocation information was submitted for 19 endowment funds and for 14 sinking funds. Allocations were recorded among the four categories: equities, fixed income, cash and alternative strategies, and are shown below, averaged by Fund size in Tables 9 through 12.

### *2011 Endowment Asset Allocation*

Table 9, below, shows the average asset allocation for the endowment funds in 2011. These funds tend to be invested in balanced portfolios, weighted toward fixed income, with equity holdings between 20 and 50 percent.

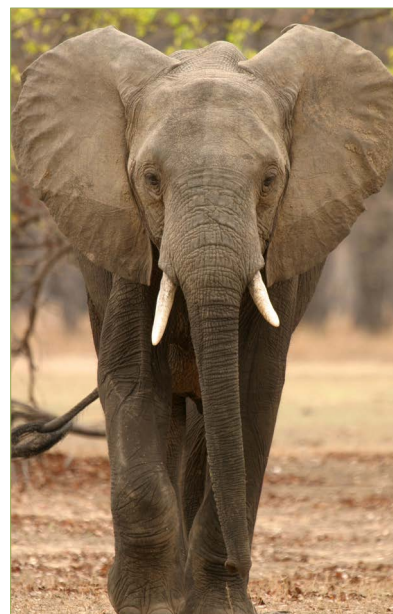


Photo contributed by Carl Breussow, Mount Mulanje Conservation Trust, Malawi



Photo contributed by Carl Breussow, Mount Mulanje Conservation Trust, Malawi

**Table 9. Endowment Funds Asset Allocation**

Endowment Asset Allocation 2011				
Size Category	Equity	Fixed Income	Cash	Other
<10 Million (9 funds)	26.4%	51.9%	14.5%	8.3%
10-20 Million (6 funds)	29.0%	54.5%	8.6%	7.9%
>20 Million (10 funds)	27.9%	47.4%	19.1%	5.5%

\*Asset allocation information is reported using a dollar-adjusted, equal weighted average

### ***2011 Sinking Fund Asset Allocation***

The asset allocations for the sinking funds participating in this study are shown below in Table 10. The majority of the sixteen sinking funds are invested substantially in domestic fixed income. However, a number of the smaller sinking funds are managing their portfolios in a manner similar to endowments, investing upwards of 20% of their assets in domestic equities.

**Table 10. Sinking Funds Asset Allocation**

Sinking Fund Asset Allocation 2011				
Size Category	Equity	Fixed Income	Cash	Other
<10 Million (10 funds)	7.1%	73.6%	5.8%	13.5%
10-20 Million (5 funds)	7.2%	58.1%	31.6%	4.6%
>20 Million (1 fund)	0.0%	98.0%	2.0%	0.0%

\*Asset allocation information is reported using a dollar-adjusted, equal weighted average

### ***Asset Allocation of Top Performers***

The top performing funds in 2011 include 12 Endowment funds and 3 Sinking funds with investment returns over 8%. The top performing endowment funds on average show less investment in equities in 2011 than the overall average for all participating endowment funds. The sinking funds with the higher returns in 2011 are invested more heavily in fixed income instruments than their peers. All of the top performing funds held the majority of their investments in domestic rather than U.S. markets in 2011.

**Table 11. Asset Allocation of Top Performing Funds**

Asset Allocation Top Performers 2011				
Fund Type	Equity	Fixed Income	Cash	Other
Endowment Funds	16.3%	60.3%	14.4%	9.0%
Sinking Funds	6.1%	90.2%	3.7%	0.0%

## INVESTMENT SERVICES/HIRING QUALIFIED INVESTMENT MANAGERS

Trust funds investing either domestically or internationally in diverse portfolios generally employ the services of a financial consultant or investment advisor. The advisor can assist the Finance Committee of the fund in defining the investment strategy, including the spending policy, the asset allocation goals of the portfolio and the target returns. The advisor will also recommend or select asset managers, monitoring their performance and making recommendations to the committee on balancing the portfolio to achieve the investment objectives of the trust.

Nineteen of the funds surveyed indicate that they use an investment consultant. Three are new funds in the process of hiring an investment consultant. Three hold their investments in a local bank, three are managed by the donor agency and seven make investment decisions either at the Finance Committee or the Board level. Fees for investment managers generally range from 0.2% to 1.5%. Some funds use a performance-based fee to incentivize asset managers, as described in the case study on Profonanpe in the following section.

## SPENDING RATES

As part of a comprehensive investment strategy, many of the Conservation Trust Funds also define a spending policy or “spending rule” designed to define a predictable income stream over the long term. Rather than adjusting annual budgets in reaction to market fluctuations each year, funds can ensure a steady level of available income by creating a spending rule associated with the moving average of the value of the fund or the expected annual investment return.

An example of a spending rule might be that 5% of the three-year moving average of the value of the investment portfolio would be available for spending on administrative costs and conservation activities each year. This balances the effects of market volatility, and provides more stable long-term budget management opportunities.

Participating funds reported their target returns as well as their target spending rates. A variety of policies are evident, and vary based on how recently the fund was established, and whether the fund manages an endowment, a sinking fund or both. A typical target for annual investment return is 7% to 7.5%. Endowment funds typically have spending rates between 60% and 80% of the annual return. Often, where funds manage both types of investments, the endowment is used to fund operational costs and a conservative spending rule is applied. The sinking fund is then used to fund project costs, and a 100% spending rule is applied.



Photo contributed by Ana Cecilia Perez V., Fondo de las Americas, Peru



Photo contributed by Mwine Mark David, Bwindi Mgahinga Conservation Trust, Uganda



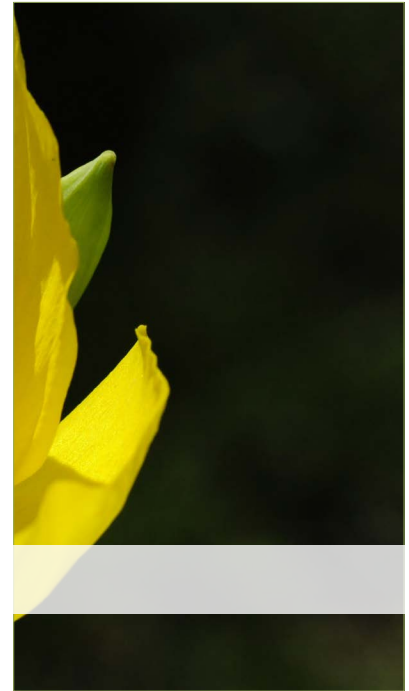


Photo contributed by Lorenzo Rosenzweig Pasquel,  
Fondo Mexicano para la Conservación de la  
Naturaleza

In response to suggestions from the trust funds participating in this report, a series of case studies will be published over the next couple of years detailing the investment strategies of successful trust funds with established operations. Each of the trust funds featured in this series has agreed to share their financial information, providing readers the opportunity to understand the unique circumstances and investment strategies of the fund, as well as successes and challenges experienced by the fund managers.

## PROFONANPE, PERU

Peru's Profonanpe, Peruvian Trust Fund for National Parks and Protected Areas provides an interesting example of a fund that has leveraged its original endowment money to create a large and stable source of funding for conservation. Profonanpe was the first private conservation fund in Peru, funded in 1995 with US \$5.2 million from the Global Environment Facility (GEF) through the World Bank. Profonanpe's mission is to fundraise, to manage financial resources (endowment and sinking funds) and to finance government and private programs for biodiversity conservation. Currently, Profonanpe is funding programs in 30 protected areas in Peru, totaling 11.4 million hectares.

The income from the endowment established with the initial GEF funding was used to pay the operating expenses of the organization. This allowed the organization to focus on growing the capital through a series of Debt for Nature Swaps which resulted in Profonanpe building its fund to its current US \$134 million. Through negotiations under the Club of Paris terms, Peru has reduced its debt with Germany, Canada, the U.S., Finland, Holland and Switzerland, and dedicated more than US \$57 million to conservation (*Paniagua, 2003*). Profonanpe has negotiated a number of these debt swaps, dedicating more than US \$46 million of these monies to sinking funds (7) and endowments (2).

The operational needs of Profonanpe's organization are provided by income from the original endowment. In addition, the fund has been effective in creating a stable long-term funding source by channeling investment returns from sinking funds into new endowment funds. The sinking funds are generally set up to receive the whole of the funds in the first year, and are invested in a portfolio that has historically yielded a 7% average return. The principal is used to finance conservation project activities and the income is separated to become an endowment fund once the project is complete.

Profonanpe has a detailed investment policy created by the Finance Committee of the Board of Directors with the guidance of an independent financial advisor. The investment policy is designed for long-term growth, with approximately 30% of the portfolio invested in equities and 70% in fixed income or alternative instruments such as hedge funds. Funds are invested both domestically and in international markets. Over the past several years, approximately 20% of the portfolio has been invested in the Peruvian stock market. In 2011, approximately 78% of the portfolio was invested in domestic fixed income investments. Economic growth in Peru over the last five years has contributed to a positive overall return on the portfolio.

Profonanpe's investment portfolio is managed by two different asset managers and overseen by the Finance Committee. The committee meets each month with the independent financial advisor to review the monthly reports from asset managers. The asset managers are paid a performance-based fee for meeting a benchmark (based for example on the Private Peruvian Pension Funds benchmark). An asset manager is paid a fee of 0.675 plus a percentage of the benefit against the benchmark. The fee can vary from 0.0% to 1.35% if the benchmark has much better results than the portfolio. This arrangement has been key to the success of the investment strategy, resulting in an average 7% net return since 1995.

With a successful track record establishing financial resources for biodiversity conservation, Profonanpe is well-positioned as an institution effective in directing funds to conservation and sustainable income projects. The focus in the near term will be on:

- Establishing Profonanpe as a private institution responsible for managing financial resources from REDD (Reduced Emissions from Deforestation and Degradation) operations ;
- Managing financial mechanisms associated with climate change such as adaptation funds.
- Working with private companies to direct compensation payments to biodiversity conservation projects. Compensation payments are now required by the Ministry of the Environment for unavoidable impacts.



Photo contributed by Protected Area Conservation Trust (PACT), Belize

## MOUNT MULANJE CONSERVATION TRUST, MALAWI

The Mount Mulanje Conservation Trust was also established with GEF funding, in the year 2000. The mission of the trust is to provide funding for the Mount Mulanje forest reserve, a 640,000 hectare reserve recognized as one of the few International Biosphere Reserves south of the equator.

The trust fund was originally set up as a project with endowment capital and project funds to support its initial years of operation. After meeting 3-year milestones, the capital was released in 2005 and an endowment established totaling US\$5.5 million. The original project funding was used to build capacity – setting up offices, funding administrative costs and constructing infrastructure in the park. With administrative budgets funded, the trust is able to actively seek additional funding for project operations.

MMCT's endowment portfolio is managed by UBS's Arbor Group based in the United States, which manages a variety of other CTF portfolios. The portfolio is a growth-oriented mix of assets, with almost 60% in equities, 30% in fixed income investments, and the remainder in cash and other assets. This portfolio has yielded a three-year return of 16.9% and a five-year average return of 3.5%.

Mount Mulanje has financing requirements of approximately US \$2.1 million annually, more than the endowment investment returns are able to provide. As a result the fund supplements the endowment income with project funding from donors. MMCT has been able to obtain support from USAID to fund livelihood and educational activities and from the EU to fund investment in renewable energy projects. Funding in the amount of US \$6.5 million was recently received from Norway, with the contract specifying that the entirety of the grant be used for operations to allow the endowment to remain intact. In other words, MMCT can spend the Norwegian money with no need to use income from its investments, allowing it to reinvest the capital and grow the endowment. A similar strategy was followed by the Mgahinga Bwindi Trust in the mid-nineties and allowed that fund to increase its capital significantly.

With administrative costs funded, MMCT is able to focus on operational management of the Mount Mulanje Forest Reserve and on building innovative programs that further the biodiversity conservation goals of the organization. MMCT has been developing the following Payments for Ecosystem Services programs to supplement the project and investment income:

- Development of a CDM (Clean Development Mechanism) Gold Standard Project that will generate approximately US \$200K per year of income;
- Investment in micro-hydro power projects, with 20-30% of the proceeds from the energy produced directed to MMCT;
- Cooperation with ecotourism facilities. Currently 100 lodge rooms are available to visitors to the mountain reserve. Approximately 150 more rooms are under construction and will provide another revenue source for the fund; and
- Contract with USAID to provide tea, cacao, macadamia and other fruit tree seedlings to local smallholder farmers through Rainforest Alliance and Fairtrade certified supply chains.

Looking forward, MMCT will continue to focus on forming collaborative relationships with partners such as universities, government agencies and other non-profit research organizations. With a small staff consisting of five



Photo contributed by Carl Breussow, Mount Mulanje Conservation Trust, Malawi



Photo contributed by Carl Breussow, Mount Mulanje Conservation Trust, Malawi



professionals and support staff, MMCT must look for creative means to grow its program capacity. As an effective on-the-ground partner, MMCT has found that it is able to leverage experience and local connections to further its objectives to fund biodiversity research and education and outreach by creating partnerships with other organizations.

## FONDO PARA LA ACCIÓN AMBIENTAL Y LA NIÑEZ, COLOMBIA

Fondo para la Acción Ambiental y la Niñez was established in the year 2000. At that time, the fund managed a sinking fund created through a bilateral debt-swap agreement between the Colombian government and the United States under the Initiative for the Americas program. The initial funds received totaled \$42 million U.S. dollars. Fondo Acción supports activities and programs that protect and manage natural resources in Colombia. In addition, this particular fund is unique in that its mission also includes supporting child development and survival programs operated by civil society organizations.

Fondo Acción is managed by a board of eight members, including representatives of the Government of the Republic of Colombia, USAID, as well as members of community development, environmental, and childhood development organizations, and members of academic institutions. The fund supports conservation activities ranging from the restoration and management of existing protected areas to the establishment of new protected areas and reserves. In addition, Fondo Acción provides funding for programs to train individuals involved in conservation activities, strengthening the capacity of local conservation organizations. The fund also supports early childhood development programs, addressing health and education as well as the reduction of child exploitation and poverty.

Fondo Acción manages two investment accounts, both a sinking fund (established in 1996) and an endowment established in 2006. The income from the sinking fund provides resources to support the administrative and grant making activities of the fund. The endowment fund will begin providing funds in 2014. Investment of the endowment funds is managed by the Arbor Group (UBS) in the United States while investment of the sinking fund is managed by HSBC Fiduciaria in Colombia.

The investment strategies of the fund are focused on low credit risk alternatives, with an emphasis on medium term investments. The majority of the sinking fund assets are invested in Colombia and allocated to fixed income (95%) and cash (5%). This fund has returned approximately 11% annually over the last 10 years. The endowment fund is invested as follows: approximately 40% equities, 40% fixed income and 20% alternative investments. The returns of the endowment fund have averaged 4% since 2008. The medium term and low risk strategy of the two funds have allowed Fondo Acción to adequately face the economic fluctuations and the difficulties in global markets in the last five years.

The uncertainty in global markets, especially related to the debt crisis in European markets and market indicators in the U.S. markets are seen as significant challenges. A diversified portfolio, aimed at reducing exposure to risk is intended to address these challenges. Fondo Acción is considering alternatives, including investment in emerging economies, including additional opportunities in Colombia. The fund is particularly interested in investing in sectors with potential for development that are also aligned with its mission, such as investment in ecotourism and REDD+ projects.



Photo contributed by Parque Nacional, FUNDESNA ABOLAC 2008

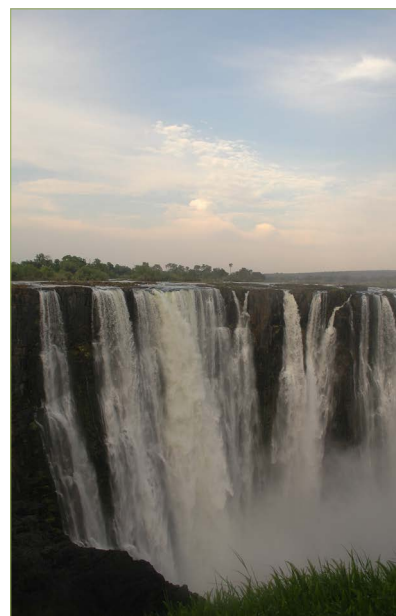


Photo contributed by African World Heritage Fund, Victoria Falls, Zambia



## LOOKING FORWARD TO 2013

This report on the investment strategies of Conservation Trust Funds is designed to create an ongoing dialog on the efficacy of endowments and sinking funds as long-term financing mechanisms for biodiversity conservation. Now in its fifth year of publication, this study continues to provide information intended to assist fund managers, directors and donors in assessing the success of various investment strategies. With a variety of investment approaches and with investments in internationally managed portfolios as well as in domestic markets, along with varying investment objectives, the challenge of this study is to pull useful conclusions from the data provided.

The Conservation Trust Funds participating in this study are based in Asia, Latin America and Africa. A number of these funds invest in the countries where they are located, while others have more diversified international portfolios. The majority of the funds use an investment consultant or asset manager to manage their portfolios, though some rely on their finance committees to make investment decisions. Regardless, the Conservation Trust Funds have managed to maintain positive three- and five-year returns across their portfolios, even against a backdrop of volatile global markets. Overall average return for all fund types over the last three years is 7.5%. The average across all funds for the five-year period from 2007-2011 is 5.8%. These figures provide support for the idea that conservation trust funds offer a useful vehicle for generating continual financing for conservation. With positive returns, these funds ensure that needed conservation investment takes place at a time when government and international donor financing for conservation is beginning to wane in response to the global economic downturn.

Investment strategies and their results will define the success of each Conservation Trust Fund and determine its ability to create long-term and stable financing for protected areas and projects that conserve global biodiversity. As new endowment funds are created throughout the world, the ability of the fund directors and finance managers to access sound investment advice will

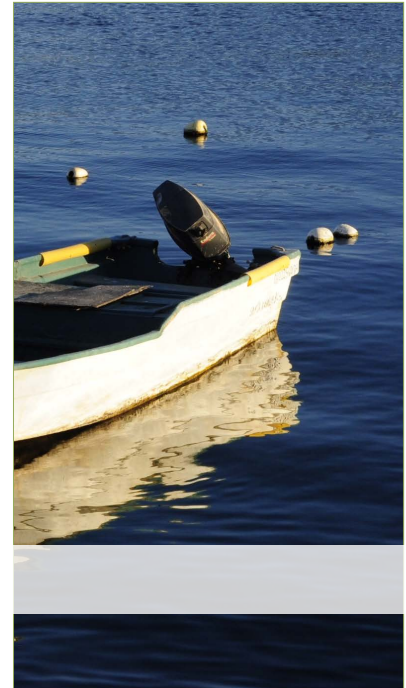


Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza

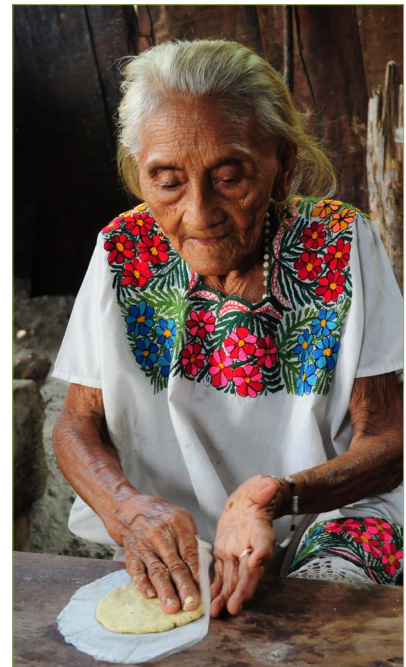


Photo contributed by Lorenzo Rosenzweig Pasquel, Fondo Mexicano para la Conservación de la Naturaleza



play a key role in the success of the conservation trust funds. In addition, the use of best management practices in defining investment objectives as well as planning spending policies will strengthen the ability of the funds to provide stable funding through market fluctuations. Building on these best practices is important for the success of the Funds. Ensuring the success of conservation trust funds is also important for gaining donor support for their continued financing and creation, as well as private sector support for CTFs as a vehicles for management of funds paid for ecosystems services or as compensation.

The investment and programmatic success of the Funds outlined in the three case studies demonstrates that capitalization of a Conservation Trust Fund represents a viable conservation funding strategy. Funds enjoy positive returns and they invest those returns in conservation. Moreover the success of CTFs goes beyond their ability to generate those positive returns. Funds act as national and regional conservation organizations with an ability to use their institutional status to attract funding from a variety of sources. Having private institutions with a strong conservation ethic adds significantly to the conservation opportunities in countries around the world.

This study was originally designed to collect data and initiate conversations among peer groups within the network of established funds. Over the years, the study has evolved to provide more variety in the analysis of the data provided by the participating funds. We continue to hear suggestions that the study use the data to provide conclusions that can be used toward practical applications of the information. We have created several examples of the types of information that could be shared amongst participating funds in the case studies, including three- and five-year returns, target returns, and spending rates.

As we continue to gather input, this study can be expanded in scope to provide more information on best management practices, as well as detailed information to funds within specific peer groups. Moreover, we hope that the case studies provide useful information that can benefit funds interested in improving their performance and developing new financing opportunities. It is hoped that in the future more specific information about the participating funds can be published and made available in an effort to increase understanding and promote dialogue about how best to ensure that CTFs optimally contribute to conservation.

## RESOURCES

Conservation Finance Alliance. 1st Assembly, Consortium of African Funds for the Environment. Dar es Salaam, September 2011.

Paniagua, Alberto V. *Bilateral Debt-for-Nature Swaps: The PROFONANPE Experience – Peru*, Vth World Parks Congress, 2003.

Mikitin, Kathleen and Osgood, Diane, Issues and Options in the Design of GEF Supported Trust Funds for Biodiversity Conservation. World Bank, April 1995.

GEF Secretariat. Evaluation of Experience with Conservation Trust Funds, World Bank Global Environment Facility, November 1998.

Norris, Ruth. The IPG Handbook on Environmental Funds, A Resource Book for the Design and Operation of Environmental Funds, May 2000.



Photo contributed by Veronica Klein, Fondo del la Iniciativa para las Americas, El Salvador



Photo contributed by African World Heritage Fund, Kenya Lake System in the Great Rift Valley



## FUNDS PARTICIPATING IN 2011 SURVEY

Country	Organization Name	Contact Name	Email	Website
<b>African Funds</b>				
Botswana	Forest Conservation Botswana (FCB)	Gagoitsiwe Moremedi, Chief Executive Officer	<a href="mailto:gmoremedi@forestconservation.co.bw">gmoremedi@forestconservation.co.bw</a>	<a href="http://www.forestconservation.co.bw">www.forestconservation.co.bw</a>
Cameroon	Sangha Tri-national Trust Fund Ltd (FTNS)	Dr. Timothee Fomete	<a href="mailto:fondationtns@yahoo.com">fondationtns@yahoo.com</a>	
Cote D'Ivoire	Fondation pour les Parcs et Réserves de Côte D'Ivoire	Dr. Fanny N'golo, Executive Director	<a href="mailto:fannyngolo@yahoo.fr">fannyngolo@yahoo.fr</a>	
Madagascar	Fondation pour les Aires Protégées et la Biodiversité de Madagascar (FPAP)	Ralava Beboarimisa, Executive Director	<a href="mailto:beboarimisa@fondation-biodiversite.mg">beboarimisa@fondation-biodiversite.mg</a>	<a href="http://www.madagascarbiodiversityfund.org">http://www.madagascarbiodiversityfund.org</a>
Madagascar	Fondation Environnementale Tany Meva	Fenosoa Andriamahenina, Executive Director	<a href="mailto:f.andriamahenina@tanymeva.org.mg">f.andriamahenina@tanymeva.org.mg</a>	<a href="http://www.tanymeva.org.mg">www.tanymeva.org.mg</a>
Malawi	Mulanje Mountain Conservation Trust (MMCT)	Mr. Carl Bruessow, Executive Director	<a href="mailto:carl@mountmulanje.org.mw">carl@mountmulanje.org.mw</a>	<a href="http://www.mountmulanje.org.mw">www.mountmulanje.org.mw</a>
South Africa	Table Mountain Fund	Ian Goodwin, WWF Chief Financial Officer	<a href="mailto:igoodwin@wwf.org.za">igoodwin@wwf.org.za</a>	<a href="http://www.wwf.org.za">www.wwf.org.za</a>
South Africa	The Green Trust	Ian Goodwin, WWF Chief Financial Officer	<a href="mailto:igoodwin@wwf.org.za">igoodwin@wwf.org.za</a>	<a href="http://www.wwf.org.za">www.wwf.org.za</a>
South Africa	Leslie Hill Succulent Karoo Trust	Ian Goodwin, WWF Chief Financial Officer	<a href="mailto:igoodwin@wwf.org.za">igoodwin@wwf.org.za</a>	<a href="http://www.wwf.org.za">www.wwf.org.za</a>
Tanzania	Eastern Arc Mountains Conservation Endowment Fund (EAMCEF)	Francis B.N. Sabuni, Executive Director	<a href="mailto:eamcef@morogoro.net">eamcef@morogoro.net</a>	<a href="http://www.easternarc.or.tz">www.easternarc.or.tz</a>
Uganda	Bwindi Mgahinga Conservation Trust (BMCT)	Mwine Mark David, Trust Administrator	<a href="mailto:mmd@bwinditrust.ug">mmd@bwinditrust.ug</a>	<a href="http://www.bwinditrust.ug">www.bwinditrust.ug</a>
<b>Eastern European and Asian Funds</b>				
Armenia, Azerbaijan, Georgia	Caucasus Protected Areas Foundation	David Morrison, Executive Director	<a href="mailto:dmorrison@caucasus-naturefund.org">dmorrison@caucasus-naturefund.org</a>	<a href="http://www.caucasus-naturefund.org">www.caucasus-naturefund.org</a>
Bangladesh	Arannayk Foundation	Farid Uddin Ahmed, Executive Director	<a href="mailto:abdul@arannayk.org">abdul@arannayk.org</a>	<a href="http://www.arannayk.org">www.arannayk.org</a>
Bhutan	Bhutan Trust Fund for Environmental Conservation (BTFCF)	Dr. Pema Choephyl, Executive Director	<a href="mailto:pema.choephyl@bhutantrustfund.bt">pema.choephyl@bhutantrustfund.bt</a>	<a href="http://www.bhutantrustfund.bt">www.bhutantrustfund.bt</a>
India	A-TREE	Dr. Gladwin Joseph, Executive Director	<a href="mailto:gopi@atree.org">gopi@atree.org</a>	<a href="http://www.atree.org">www.atree.org</a>
Philippines	Philippines Tropical Forest Conservation fund	Atty. Jose Andres Canivel	<a href="mailto:xcdelacruz@ptfcf.org">xcdelacruz@ptfcf.org</a>	<a href="http://www.ptfcf.org">www.ptfcf.org</a>

## PARTICIPATING FUNDS (CONTINUED)

Latin American and Caribbean Funds				
Belize	Protected Areas Conservation Trust (PACT)	Sharon Ramclam, Executive Director	<a href="mailto:sharon@pactbelize.org">sharon@pactbelize.org</a>	<a href="http://www.pactbelize.org">www.pactbelize.org</a>
Bolivia	Fundación para el Desarrollo del Sistema Nacional de Áreas Protegidas (FUNDESNA)	Sergio Martín Eguino Bustillos, Executive Director	<a href="mailto:seguino@fundesnap.org">seguino@fundesnap.org</a>	<a href="http://www.fundesnap.org">www.fundesnap.org</a>
Bolivia	Fundación PUMA	Juan Carlos Chávez Corrales, Executive Director	<a href="mailto:fpuma@fundacionpuma.org">fpuma@fundacionpuma.org</a>	<a href="http://www.fundacionpuma.org">www.fundacionpuma.org</a>
Brazil	Fundo Brasileiro para a Biodiversidade (FUNBIO)	Rosa Lemos de Sá, Executive Director	<a href="mailto:Camila.monteiro@funbio.org.br">Camila.monteiro@funbio.org.br</a>	<a href="http://www.funbio.org.br">www.funbio.org.br</a>
Colombia	Fondo para la Acción Ambiental y la Niñez (FPAAN)	José Luis Gómez Rodríguez, Executive Director	<a href="mailto:joselgomez@accionambiental.org">joselgomez@accionambiental.org</a>	<a href="http://www.accionambiental.org">www.accionambiental.org</a>
Colombia	Patrimonio Natural Fondo Para La Biodiversidad Y Areas Protegidas	Francisco Alberto Galán Sarmiento, Executive Director	<a href="mailto:agalan@patrimonionatural.org.co">agalan@patrimonionatural.org.co</a>	<a href="http://www.patrimonionatural.org.co">www.patrimonionatural.org.co</a>
Ecuador	Fondo Ambiental Nacional (FAN)	Econ. Diego Fernando Burneo Aguirre, Executive Director	<a href="mailto:fan1@fan.org.ec">fan1@fan.org.ec</a>	<a href="http://www.fan.org.ec">www.fan.org.ec</a>
El Salvador	Fondo de la Iniciativa para las Américas - El Salvador (FIAES)	Jorge Alberto Oviedo Machuca, Executive Director	<a href="mailto:jorge.oviedo@fiae.org.sv">jorge.oviedo@fiae.org.sv</a>	
Jamaica	Environmental Foundation of Jamaica (EFJ)	Karen McDonald Gayle, Chief Executive Officer	<a href="mailto:efj.ja@cwjamaica.com">efj.ja@cwjamaica.com</a>	<a href="http://www.efj.org.jm">www.efj.org.jm</a>
Jamaica	Jamaica Protected Areas Trust Ltd. (JPAT)	Allison Rangolan McFarlane, Executive Director	<a href="mailto:japat@flowja.com">japat@flowja.com</a>	<a href="http://www.jpat-jm.net">www.jpat-jm.net</a>
Mexico	Fondo Mexicano para la Conservación de la Naturaleza, A.C. (FMCN)	Lorenzo Rosenzweig, Executive Director	<a href="mailto:lorenzo@fmcn.org">lorenzo@fmcn.org</a>	<a href="http://www.fmcn.org">www.fmcn.org</a>
Paraguay	Fondo de Conservación de Bosques Tropicales	Edmilce Mabel Ugarte Acosta, Executive Director	<a href="mailto:info@fondodeconservaciondebosques.org.py">info@fondodeconservaciondebosques.org.py</a>	<a href="http://www.fondodeconservaciondebosques.org.py">www.fondodeconservaciondebosques.org.py</a>
Peru	Fondo de las Américas del Perú (FONDAM)	Juan Gil Ruiz, Executive Director	<a href="mailto:fondam@fondoamericas.org.pe">fondam@fondoamericas.org.pe</a>	<a href="http://www.fondoamericas.org.pe">www.fondoamericas.org.pe</a>
Peru	PROFONANPE	Alberto Paniagua, Executive Director	<a href="mailto:apaniagua@profonanpe.org.pe">apaniagua@profonanpe.org.pe</a>	<a href="http://www.profonanpe.org.pe">www.profonanpe.org.pe</a>
Suriname	Suriname Conservation Foundation	Leonard C. Johanns, Executive Director	<a href="mailto:johanns@sr.net">johanns@sr.net</a>	<a href="http://www.scf.sr.org">www.scf.sr.org</a>

## NEWLY ESTABLISHED FUNDS AND PUBLIC FUNDS

Country	Organization Name	Contact Name	E-mail	Website
<b>New Funds, Beginning Investment in 2011</b>				
Costa Rica	Asociación Costa Rica por Siempre	Zdenka Piskulich, Executive Director	<a href="mailto:G_interiano@costaricaporsiempre.org">G_interiano@costaricaporsiempre.org</a>	<a href="http://www.costaricaporsiempre.org">www.costaricaporsiempre.org</a>
Mozambique	BIOFUND Mozambique	Sean Nazerali	<a href="mailto:snazerali@wwf.org.mz">snazerali@wwf.org.mz</a>	<a href="http://www.wwf.org.mz">www.wwf.org.mz</a>
Mauritania	Banc d'Arguin, and Coastal and Marine Biodiversity Trust Fund Limited	Sid'Ahmed Ould Cheikhna	<a href="mailto:sidah_med@yahoo.fr">sidah_med@yahoo.fr</a>	<a href="http://www.bacomab.org">www.bacomab.org</a>
South Africa	African World Heritage Fund	Dr. Webber Ndoro	<a href="mailto:IngeH@awhf.net">IngeH@awhf.net</a>	<a href="http://www.awhf.net">www.awhf.net</a>
<b>Public Funds</b>				
Mexico, Guatemala, Belize, Honduras	Mesoamerican Reef Fund (MAR Fund)	María José González, Executive Director	<a href="mailto:mjgonzalez@marfund.org">mjgonzalez@marfund.org</a>	<a href="http://www.marfund.org">www.marfund.org</a> <a href="http://www.fondosam.org">www.fondosam.org</a>
Kenya	Kenya Wildlife Service Fund	Edwin W. Wanyonyi	<a href="mailto:ewanyonyi@kws.go.ke">ewanyonyi@kws.go.ke</a>	<a href="http://www.kws.go.ke">www.kws.go.ke</a>