Conservation Trust
Investment Survey

Annual Report for Calendar Year 2017
CFA Webinar
18 December 2018
Conservation Trust Funds (CTFs)

- Private, legally independent institutions that provide sustainable funding for biodiversity conservation
- Often finance PA management costs as well as conservation and sustainable development initiatives outside PAs
- Raise and invest funds to make grants to non-governmental organizations (NGOs), community based-organizations (CBOs) and governmental agencies (such as national protected areas agencies)
- Financing institutions rather than implementers
- May manage one single fund (endowment or sinking fund) or multiple funds
- Sometimes also called “Environmental Funds”
- Globally – close to 100 CTFs (in operation or development), six continents; 60 countries; managing about $1.1B in invested assets
About the CTIS

- Gathers and shares data about the investment practices and performance of Conservation Trust Funds (CTFs) around the world
- Started in 2006 ... the 2017 report is the 11th
- Produced by the Wildlife Conservation Society and the CFA, with RedLAC and CAFÉ
- A resource for CTF directors and staff, Boards, donors, investment professionals and new/future CTFs
- Relies on CTF participation to enable depth and breadth of analysis & information
2017 was a big investment year

• High equity returns
  – S&P 500 at 21.83%
  – MSCI World (developed markets) 22.40%
  – MSCI Emerging Markets 37.28%

• Bond returns getting stronger – 3.54% BCABI

• Cash still returning close to 0
2017 Participants

Overall CTF investments, USD equivalent:
- 0-10M: 38%
- 10-20M: 28%
- 20-50M: 17%
- 50M+: 17%

Region distribution:
- Asia-Pacific: 21%
- Latin America/Caribbean: 33%
- Africa: 37%
- Europe/Eastern Europe: 9%
Methodology Notes

• An **Organization**’s returns are a weighted average of all the individual funds (endowment, sinking fund) held by a CTF, weighted by size of the fund. When we average Organizational returns, each CTF counts as one (n=29 this year)

• We also report returns by type of **fund**. Each endowment (n=46) and each sinking fund (n=13) counts as one

• “**Overall**” averages of fund returns will include endowments, sinking funds and combined funds (endowments and sinking funds invested together)
2017 Nominal Returns

- Max
- 75% Percentile
- Median
- Mean
- 25% Percentile
- Min

Organization
Endowments
Sinking Funds
External Benchmarks

Barclays Capital Aggregate Bond Index
MSCI World
S&P 500
60/40 Equity/Fl

0%
5%
10%
15%
20%
25%
Nominal Fund Returns Over Time

Changes in Five Year Compounded Returns
CTF Real Fund Returns in 2017

Comparison of Nominal and Real Fund Returns

<table>
<thead>
<tr>
<th>Category</th>
<th>Nominal</th>
<th>Real</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Average Returns (n=59)</td>
<td>9.26%</td>
<td>6.42%</td>
</tr>
<tr>
<td>Endowment Average Returns (n=45)</td>
<td>8.62%</td>
<td>6.25%</td>
</tr>
<tr>
<td>Sinking Fund Average Returns (n=13)</td>
<td>6.66%</td>
<td>3.95%</td>
</tr>
</tbody>
</table>

Overall Average Returns (n=59)  
Endowment Average Returns (n=45)  
Sinking Fund Average Returns (n=13)  

Nominal
Real
Diversification Strategies - Currency

(n=60)

<table>
<thead>
<tr>
<th>CURRENCY</th>
<th>AVG 2017 REAL RETURN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>4.5%</td>
</tr>
<tr>
<td>Domestic + others</td>
<td>-4.2%</td>
</tr>
<tr>
<td>Euro</td>
<td>5.3%</td>
</tr>
<tr>
<td>Mix</td>
<td>0.3%</td>
</tr>
<tr>
<td>USD</td>
<td>7.1%</td>
</tr>
<tr>
<td>USD + others</td>
<td>12.5%</td>
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</tbody>
</table>
Diversification Strategies – Asset Type

Average Fund Asset Allocation Over Time

- Equities
- Fixed Income
- Cash
- Alternatives
- Other

<table>
<thead>
<tr>
<th>Year</th>
<th>Equities</th>
<th>Fixed Income</th>
<th>Cash</th>
<th>Alternatives</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>(8.6%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2008</td>
<td>(-6.9%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>(14.4%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>(8.6%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>(3.5%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>(9.1%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>(5.4%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>(5.7%)</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>2015</td>
<td>(1.1%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>(5.7%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>(8.7%)</td>
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</tbody>
</table>
Diversification Strategies - Geography

<table>
<thead>
<tr>
<th>REGION</th>
<th>AVG REAL RETURNS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>6.7%</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>10.7%</td>
</tr>
<tr>
<td>LAC</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

The chart illustrates the distribution of conservation trust fund locations across different regions and countries.
CTF Overall Diversification

- 58% are well-diversified
  - Diversified by asset class
  - Currency diversification; includes a hard currency
  - Global mix
- 32% are partially diversified
  - Single asset class but diversified within it; global products, or
  - Domestic currency with global mix of different asset classes
- 10% are not diversified
  - Single asset class
  - Domestic investment products
  - Domestic currency
Endowment Investment Goals

• While each institution has unique investment goals, most CTF endowments share some key elements:
  – Preserve purchasing power for future generations by hitting the relevant inflation measure AND
  – Generate returns to
    • Pay for current biodiversity conservation AND/OR
    • Grow the capital base for future conservation spending

• Investment strategies vary depending on location, currency, emphasis on domestic markets, risk tolerance, and general investment knowledge
On average, CTF endowments have been generating positive real returns

<table>
<thead>
<tr>
<th>Year</th>
<th>Nominal Returns</th>
<th>Real Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>5.32%</td>
<td>2.93%</td>
</tr>
<tr>
<td>2015</td>
<td>-0.8%</td>
<td>-3.72%</td>
</tr>
<tr>
<td>2014</td>
<td>6.22%</td>
<td>4.08%</td>
</tr>
<tr>
<td>2013</td>
<td>5.44%</td>
<td>2.82%</td>
</tr>
<tr>
<td>2012</td>
<td>9.35%</td>
<td>5.90%</td>
</tr>
</tbody>
</table>

Note – the real returns take into account the rate of inflation in the country where the investments are held (US, Euro region, or domestic)
What does this mean practically?

• If we assume a CTF with 10 million euros at the start of 2012,
• A spending rate of 2.5% per year
• We take into account the average returns reported in the previous slide and;
• We assume reinvestment of the inflation rate into the capital to cover inflation

• The “average” CTF would have a balance of **11,273,949 Euros** at the end of 2016, after spending over **1.35M** on biodiversity conservation
While average CTF performance is good, there are some challenges

- **Fear of the Market/Misplaced Risk Aversion:** Relatively high allocation of cash and fixed income reduces returns, limits available funding and will not allow for capital growth over time.

- **Desire for Local Investment/Nationalism:** Significant number of CTFs have invested in higher-risk, higher-volatility domestic markets rather than diversifying globally and have had large gains but also large losses from year to year.
Asset allocation of top performers

• The CTIS project is undertaking a multi-year analysis of top-performing CTF portfolios

• A preliminary look at the data considers five top performing CTFs during 2014, 2015 and 2016

• These five CTFs had top real returns in 2 or 3 of those years

• The average asset allocation was:
  – 51% equities
  – 9.3% alternatives
  – 13% cash
  – 24.5% fixed income
  – 2% other
Top Performer
Real Returns

Real Returns

2016
2015
2014

A
B
C
D
E
Avg CTF Endowment
Top performers asset allocation

2016

2015

2014

Equities + Alt
Cash + FI

Equities + Alt
Cash + FI

Equities + Alt
Cash + FI

WCS
CFA
General Observations & Conclusions

• In his annual Foreword to the Conservation Trust Investment Survey report, global investor Greg Alexander regularly exhorts CTFs to consider the importance of equities to a long-term investment strategy, in order to generate sufficient returns to pay for biodiversity conservation now and in the future.

• On average, however, many CTFs have portfolios heavily weighted to fixed income and cash, which will not generate adequate growth to cover inflation and support biodiversity spending needs over time.
Observations & Conclusions, cont

• On average, CTF endowments have been generating just under 2.5% real returns over the last 5 years; this contrasts with reported 3-3.5% spending rates which suggests CTF endowments have not been, on average, recapitalizing to cover inflation
  – Strategic decision to prioritize current spending? Or failure to consider inflation?

• Top CTF performers generally allocate about 60% of their portfolios to equities and alternatives, consistent with Alexander’s advice and well-poised for long-term growth
Thank you!

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