



CONSERVATION
FINANCE ALLIANCE

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CTF Investments Past Performance, Future --- Opportunities

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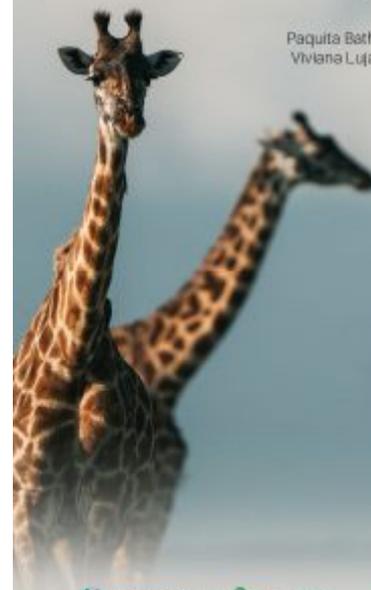
Conservation Trust Funds 2020: Global Vision, Local Action

A comprehensive analysis of CTFs,
including findings and trends from the past
decade, with a look ahead to the future.

Available on the CFA website:
conservationfinancealliance.org/10-year-review

CONSERVATION TRUST FUNDS 2020 GLOBAL VISION LOCAL ACTION

Paquita Bath, Amícar Guzmán-Valladares,
Viviana Luján-Gallegos and Katy Mathias



Two key takeaways

- CTF investment performance over the past 13 years has not been great
- We (collectively) can do better going forward

Disclaimers

- This is not investment advice
- The study looks over 13 years
 - Investment cycles tend to be longer than that
 - Past performance may or may not predict future performance

Investments play a critical role for CTFs

- In the last 10 years
 - Over 60% received donations to endowments (both in start-up phase and in later phases)
 - About 40% received donations to sinking funds
- Total investable assets (endowments + sinking funds) estimated at \$1.9B at the beginning of 2020
- Increasing investment performance by 1% = an additional \$19M per year for conservation

Types of funds managed by CTFs

2020 Global CTF Survey

	Endowment Funds (USD millions)		Sinking Funds (USD millions)	
	Start-up assets in Year 1	Current assets	Original assets	Current Assets
Number of CTFs	37	45	26	35
Average	\$15.3	\$27.6	\$11.45	\$17.06
Minimum	\$ 0.005	\$ 0.06	\$ 0.161	\$ 0.062
Maximum	\$82.1	\$153.8	\$67	\$170

Source: *Conservation Trust Funds 2020: Global Vision, Local Action*. Conservation Finance Alliance.

CTFs by investable asset size

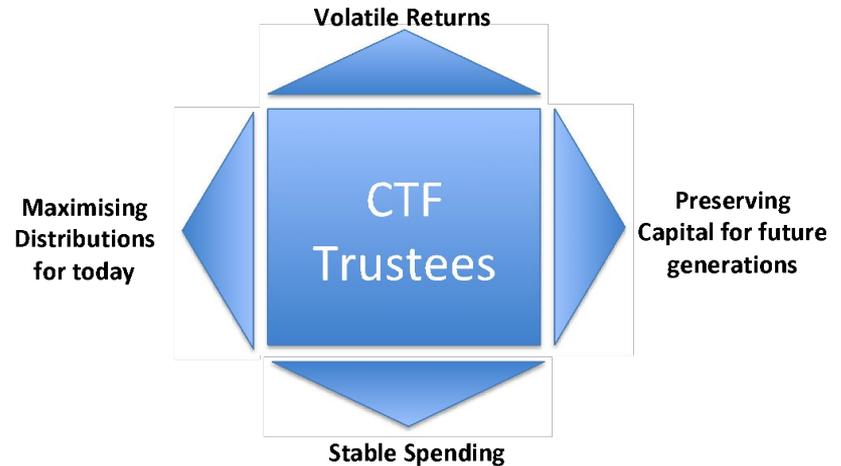


(2020 Global CTF Survey and data obtained from CTF networks; n=57 CTFs)

Source: *Conservation Trust Funds 2020: Global Vision, Local Action*. Conservation Finance Alliance.

Typical principles of endowment investing

- Invested in perpetuity
- Preserve capital / spend returns
- Maintain value in real terms (grow at the rate of inflation)



Investing is a balance of risk and return

- Investors are compensated for taking risks – higher risks can yield higher returns, but also higher volatility and possibility of loss
- CTF trustees have a responsibility to make prudent investment decisions
- There are multiple kinds of risk – asset, country, political, monetary, bias.
- Overly conservative investments have a different type of risk – the risk of shortchanging conservation funding

Strategies for managing risk

- Asset diversification
- Use of qualified professional advisors
- Long-term perspective
- Building internal capacity in investment expertise
- Regular performance reviews

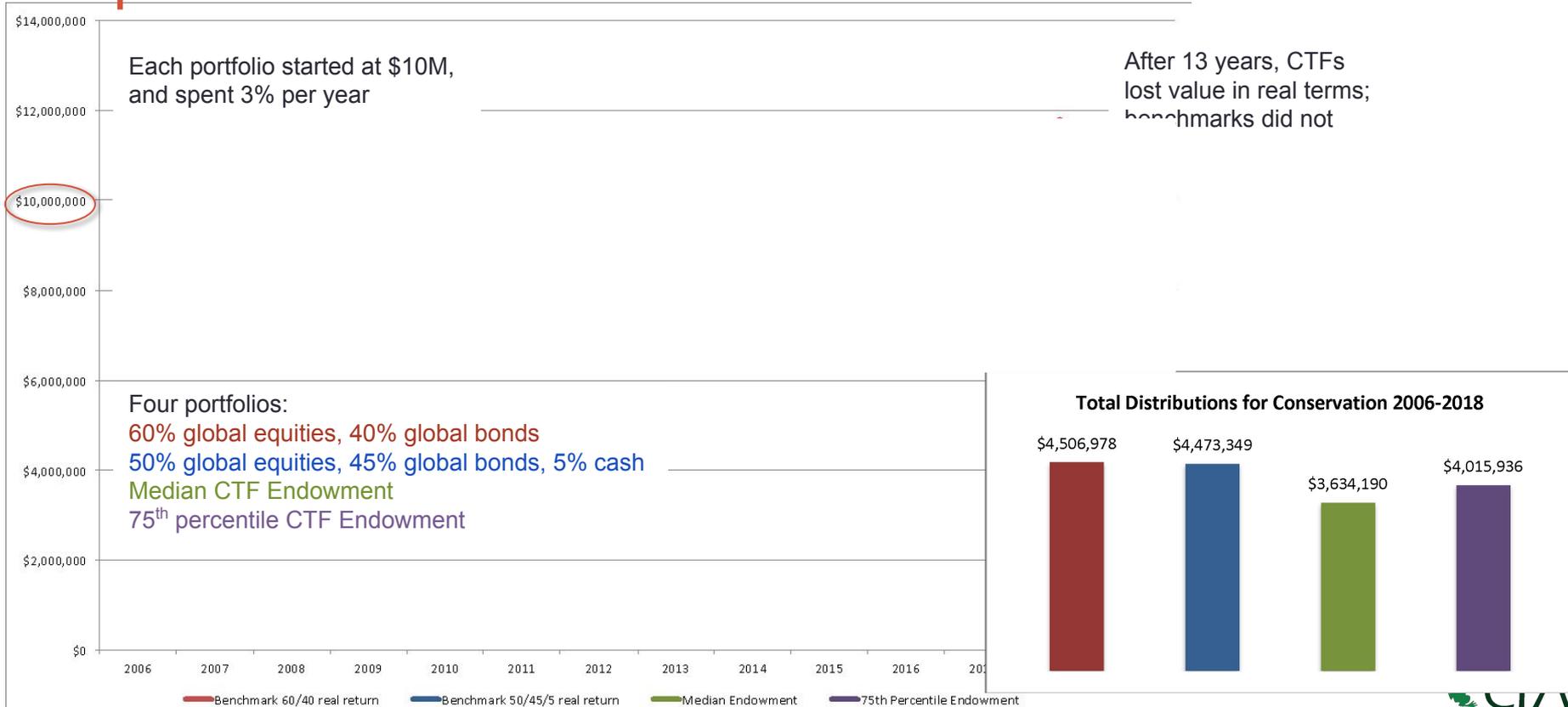
Results from the multi-year CTIS study

- Focused on Endowments
 - Invested in perpetuity – usually fairly consistent goals
 - Sinking fund strategies vary widely – very hard to compare
 - Remaining years in the sinking fund affects investment approach
- Used 13 years of CTIS data (2006-2018)
 - 61 different CTFs
 - 67 separate endowments
- Focused on endowments' real returns
 - Endowments are expected to grow at the rate of inflation

Comparative analysis

- **Expectations** – generally CTF endowments are (were) expected to spend about 4% per year. For this analysis we used inflation + 3%
- **External Benchmarks** – published indices for specific asset classes (stocks, bonds, cash).
- **Each Other** – are there consistent top performers? And if so, what are they doing?

For many CTFs, returns are not meeting expectations



Breakdown of results

- **Expectations:** 14 of 67 endowments (21%) achieved a real return CAGR above 3.1% - could spend 3% per year and maintain endowment value in real terms – most CTF endowments either lost value in real terms, spent less than 3% per year on conservation, or some combination.
- **External Benchmarks:** 15 endowments met or exceeded the 50% global equities / 45% global bonds / 5% cash benchmark at least 60% of the time (4 did so at least 70% of the time) – 77% were below the benchmark most of the time
- **Each Other:** 3 endowments were in the top 2 quartiles of CTF returns every year

Characteristics of top performers

- Asset allocation:
 - 50-60% equities, some alternatives, minimal cash, 20-30% fixed income
 - Funds with consistently lowest performance had, on average, 67% of portfolio in fixed income and cash
 - Disclaimer – the right asset allocation depends on (1) investment goals and (2) market forecasts
- Investments held in hard currencies
- External professional investment advisors
- Globally diversified portfolios

Turning the tide ...

- Pooling models provide opportunities for smaller CTFs to lower costs and gain access to better investment products
- Performance reviews can highlight opportunities for improvement in strategies, managers, governance
- Capacity building!