



FONDATION POUR LES AIRES PROTÉGÉES
ET LA BIODIVERSITÉ DE MADAGASCAR
Madagascar Protected Areas
and Biodiversity Fund

Investment Policy

(Summary)



1. GENERAL FRAMEWORK

Objectives

The **Endowment Fund** (the "Fund"), financed by contributions from donors, is at the centre of FAPBM's investment policy. The investment policy is based on the following objectives :

- I. To make the necessary annual distributions.
- II. To preserve capital in the reference currency over a rolling 10-year period.
- III. To grow the capital by the rate of inflation or a little more by generating a return in excess of the distribution rate.
- IV. Respect extra-financial constraints: use capital to have a tangible and positive impact on social and environmental issues, favouring responsible and sustainable investments.

Governance

Governance is structured in a clear hierarchy for investment decisions and complies with all international standards.

The Board of Directors ("BoD"), acting on proposals from the Investment Committee ("IC")

- I. Discusses and approves the investment policy and amends it periodically - at least every three years ;
- II. decides on the selection of financial products, asset managers and investment funds ;
- III. decides on the selection of other service providers : the Principal Financial Adviser ('PFA'), the Technical Adviser ('TA') for impact investments and custodian banks.

The Investment Committee, composed of members of the Board of Directors and independent members :

- I. Discusses and analyses with the PFA the technical parameters, in particular the strategic allocation of the fund's assets and the target performance versus the maximum risk tolerated ;
- II. Proposes to the Board, on the basis of analyses carried out by the PFA and/or the TA for impact investments, decisions to open or terminate a management mandate or to subscribe to or withdraw from an investment fund ;
- III. Proposes to the Board each year the rate of 'Spending rule', which determines the amount to be disbursed for the following year to the protected areas financed by FAPBM ; this rate is determined on the basis of a % of the average value of the portfolio as at 30 June of the previous 3 years and also takes into account a) the performance target expressed in the investment policy ; b) recent changes in the market value of the Fund's portfolio; and c) the financial needs of the protected areas as expressed by the Finance Committee.

The Executive Management : a) ensures that the Board and the IC have all the information they need to carry out their analysis and take decisions ; b) controls all financial flows.

Service Providers

The Financial Advisor, who is the point of contact for other service providers :

- I. Assists the IC and Executive Management in establishing and reviewing investment policy, selecting investments and financial service providers, evaluating investment performance and risk, and monitoring and controlling implementation ;
- II. Prepares monthly and/or quarterly reports on the status of FAPBM's portfolio and assists in the preparation of FAPBM's Annual Report (as well as any special presentation, such as that for the Annual Donors' Meeting).

The Technical Advisor assists the IC in identifying and selecting new impact investment funds, monitors the impact funds in which the endowment is invested, and prepares quarterly financial reports and an annual impact report.

The Asset Managers invest on behalf of FAPBM, either through a management mandate or as managers of an investment fund selected by FAPBM.

The Custodians Banks execute buy, sell, transfer and custody orders on behalf of the financial operations of the Endowment Fund portfolio. For reasons of efficiency, these functions are carried out by a single entity ('Global Custodian').

2. INVESTMENT STRATEGY (parameters may be updated in line with market conditions)

The investment strategy is based on 5 main parameters/principles :

- I. Reference currency: USD.
- II. Performance target: 5% per annum net of fees over 7-10 years.
- III. Risk tolerance level (or expected loss): up to -15% over one year (measured by the CVaR 95% 1 year parameter).
- IV. Asset classes : cash, listed equities and bonds, private equity and private debt (through impact investment funds).
- V. Liquidity : high tolerance for illiquid assets (up to 15% of investments in impact pooled funds).

It is then based on :

- I. Benchmarks by asset class.
- II. Regulatory and SRI (Socially Responsible Investment) constraints to be met depending on the mandate or investment fund, with : a) sectoral and normative exclusions for all securities directly held by the mandates ; and b) ESG due diligence in the selection of investment fund managers and their vehicles to ensure that their practices and investments are in line with FAPBM's principles.