



# Investment Policy Statement

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### Tracking Table

Date of approval:	January 16th, 2024
Date of publication:	March 4th, 2024

## I. INTRODUCTION

Profonanpe is a private, non-profit public interest entity. It specializes in efficiently raising and managing financial resources for the implementation of programs and projects that contribute to biodiversity conservation, mitigation and adaptation to climate change.

Profonanpe's initial capital endowment established the foundations of the institution and provided funds for conservation activities in natural protected areas. With more than 30 years of successful institutional work, Profonanpe has established itself as the most important environmental fund in Peru. Since its creation, it has been characterized as an institution specialized in designing, developing and implementing innovative processes in fund management, participatory management and collaboration with other organizations.

Profonanpe continues to work throughout Peru through alliances with public and private institutions, as well as with international, bilateral and multilateral organizations and foundations, joining forces for the shared good of conserving nature.

## II. PURPOSE OF THE INVESTMENT POLICY

The purpose of the Investment Policy is to provide a clear understanding of the Portfolio's investment objectives, risk tolerance and investment management guidelines. This Investment Policy describes the responsibilities of the parties involved, the investment time horizon, the need for liquidity and income, and provides guidelines for monitoring the Portfolio's performance.

The Investment Policy applies to different financial mechanisms:

- Endowment funds : They seek to maintain the value of the initial investment over the long term by distributing only returns.
- Sinking funds: Distribute both returns and capital until resources are fully exhausted.
- Portfolios with a mixed structure ("Mixed").

## III. ROLES AND RESPONSIBILITIES

### 1. Roles and responsibilities of the Board of Directors:

The members of the Board of Directors (the "Board") are fiduciaries and are responsible for directing and monitoring the investment management of Profonanpe's assets. The Board is authorized to delegate authority as well as certain responsibilities in accordance with Profonanpe's bylaws. The Board delegates authority over Profonanpe's investments to a duly formed and constituted Investment Committee.

## 2. Roles and responsibilities of the Investment Committee

The members of Profonanpe's Investment Committee are :

- The Chief Executive Officer
- The Chief Financial Officer
- The Investment Portfolio Manager
- An independent investment advisor

In addition, the following participants may attend the Investment Committee meetings as guests:

- Investment Portfolio Management Team
- Representatives of the assetmanager
- Representatives of donors whose funds are managed by Profonanpe

The Investment Committee has the following functions:

- a) Evaluate the financial needs of Profonanpe and their beneficiaries.
- b) Establish risk tolerance and investment horizon.
- c) Establish reasonable and consistent investment objectives, policy guidelines and allocations that will direct the investment of assets.
- d) Formally approve and periodically review the Investment Policy.
- e) Appointing the members of the Investment Committee.
- f) Prudently and diligently select one or more asset managers and custodians, through requests for proposals involving competitive bidding processes and based on transparent criteria.
- g) Prudently and diligently select an independent investment advisor, if necessary.
- h) Periodically evaluate the performance of asset managers to ensure compliance with regulatory guidelines and monitor progress toward investment objectives.
- i) Develop and enact appropriate control procedures, e.g., replace asset managers due to a fundamental change in the investment management process, or for non-compliance with guidelines.

## 3. Roles and responsibilities of the Asset Manager

Each Asset Manager shall have full discretion to make all investment decisions regarding the assets placed under its responsibility and management, while operating within the policies, guidelines, restrictions and philosophies described in this Investment Policy Statement. The specific responsibilities of the Asset Managers are as follows:

- a) To manage investments, including decisions to buy and sell individual securities or investment vehicles, at its discretion, and to alter the allocation within the guidelines set forth in this Investment Policy.
- b) Report, in a timely manner, monthly investment performance results.
- c) Be available by phone, email or in person to respond to specific inquiries from the Board of Directors, Investment Committee or independent Investment Advisor.
- d) Inform the Investment Committee of any significant changes in portfolio management personnel, shareholder structure, investment philosophy, etc.
- e) Be voting representatives, if requested by the Board of Directors, or the Investment Committee if authority is delegated, on behalf of Profonanpe.
- f) Manage investments at the previously agreed cost, avoiding any compromise in quality.

The asset managers shall be responsible for achieving the objectives set forth herein.

#### 4. Additional roles and responsibilities

- Role and responsibility of the Investment Portfolio Management Team:
  - Manage all the material corresponding to the Committee meetings, in order to support the Committee's decisions.
  - Propose any improvement that involves an efficient management of the Investment Portfolios.
  - Monitor compliance with the Investment Policy.
- Role and responsibility of the independent Investment Advisor:
  - The consultant will be part of the Committee of Investment Committee, whose responsibilities are mentioned in item 2.
  - Support the Investment Portfolio Management Team team with suggestions for efficient portfolio management.

### IV. INVESTMENT OBJECTIVE

In the case of endowment funds, the Portfolio will be invested with the objective of capital appreciation, that is, a diversified investment strategy will be chosen with the primary objective of generating long-term capital growth. The objective is to generate returns that exceed the inflation rate; therefore the expected average return will be 4.1% per annum, net of inflation<sup>1</sup>.

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<sup>1</sup>The U.S. historical average annual inflation rate of 2.5% will be used.

In the case of sinking funds, the Portfolio will be invested with the objective of capital preservation, i.e., with the primary objective of preserving capital and covering the fund's annual budget. For sinking funds with USD currency, the objective is to generate returns that assimilate the U.S. historical average annual inflation rate of 2.5%. For sinking funds with Peruvian Soles (PEN) currency, the objective is to generate returns that assimilate the BCRP reference rate<sup>2</sup>.

## V. TIME HORIZON

In the case of endowment funds, from 10 years or more.

In the case of sinking funds, from 1 to 10 years.

## VI. DISTRIBUTION POLICY

In the case of endowment funds, Profonanpe will finance distributions with the net return on investments<sup>3</sup>, using one of the following distribution methodologies:

- a) **Moving averages (most commonly used):** Base the current period distribution on the average of market values over the last 3 years, multiplied by a fixed rate predefined with the project team.
- b) **Simple:** Base the current period distribution on a fixed amount that is repeated each year.
- c) **Limited Withdrawal:** Base the distribution on the average rate of return of the portfolio for the last 3 years and withdraw up to a maximum of 5% of the portfolio each year. If the market value of the portfolio is below the net asset value, no withdrawal is executed.

The Investment Committee may prepare a simulation in conjunction with the Asset Manager to evaluate which methodology is most efficient for the fund, with the objective of maintaining the asset value and meeting the needs of the project.

In exceptional cases, the Investment Committee has the right to: a) Maintain cash or not withdraw in case no distribution of funds is required in the current period and b) Re-evaluate the redemption rate in case the project requires more resources than expected.

In the case of sinking funds, Profonanpe will finance the distributions based on the return (See Section III) and the estimated needs of the project throughout its development.

## VII. ASSET ALLOCATION

In the case of endowment funds, the asset allocation must comply with the following parameters:

<sup>2</sup> Central Reserve Bank of Peru (BCRP)

<sup>3</sup> Net of administrative costs and historical average annual U.S. inflation.

	Distribution	Min.	Max.
<b>Cash and Short-term fixed income</b>	2.5%	0%	100%
<b>Fixed Income (FI)</b>	47.5%	0%	100%
<b>Equities (EQ)</b>	40.0%	25%	55%
<b>Alternative Investments</b>	10.0%	0%	25%

- Risk tolerance:
  - 10% in the long term
- Investment objective:
  - Expected average return of 4.1% per annum, net of inflation and costs associated with the investment process. net of inflation and investment-related costs
- Currency:
  - U.S. Dollars (USD)
- Benchmark:
  - 50% Bloomberg Global Aggregate Hedged USD/ 40% MSCI All Countries World After Tax/ 10% HFRI FoF Diversified. For Fixed Income assets, the Bloomberg Global Aggregate Hedged USD performance will be used. For Equity assets the performance of the MSCI All Countries World After Tax will be used and for Alternative assets the performance of the HFRI FoF Diversified will be used.
- Cash policy:
  - At least 75% of the portfolio's assets must be liquid.
- Diversification:
  - Maximum exposure to equity or debt securities of any one issuer: 3%.
  - Maximum exposure to the total position of securities of any one issuer: 5%.
  - Maximum exposure per industry<sup>4</sup>: 30%.
- Currency hedging:
  - Foreign currency hedging in cash, FI and alternative: Minimum 95%.
  - Foreign currency hedging in equity: Minimum 50%.
  - USD exposure of all portfolios: Minimum 80%.

In the case of sinking funds, the term and risk structure is defined according to the needs of each project.

	Distribution	Min.	Max.
<b>Cash and short-term fixed income</b>	50%	0%	100%
<b>Fixed Income (FI)</b>	50%	0%	100%

<sup>4</sup> According to the *Global Industry Classification Standard (GICS)*.

For sinking funds in U.S. Dollars (USD):

- **Investment objective:**
  - The average expected return is 2.5% per year.
- **Benchmark:**
  - 50% FED rate, 50% Bloomberg Global Aggregate Hedged USD. For Cash and Fixed Income assets of CP, the FED rate is established as Benchmark. For Fixed Income assets, the Bloomberg Global Aggregate Hedged USD yield will be used.

For sinking funds in Peruvian Soles (PEN):

- **Investment objective:**
  - The expected average return should be similar to the BCRP reference rate.
- **Benchmark:**
  - 100% BCRP reference rate

## VIII. PERMITTED ASSET CLASSES AND INVESTMENT RESTRICTIONS

Investments can be made in the following types of assets:

- a) Cash: Bank accounts and monetary instruments such as time deposits and money market funds.
- b) Fixed Income: All investments must be made through publicly traded securities or marketable investment vehicles. Investment grade and high yield credit ratings are acceptable.
- c) Equities: All investments must be made through publicly traded securities or negotiable investment vehicles.
- d) Alternatives: Investments may only be made through collective investment vehicles.

Unless expressly authorized by the Investment Committee and excluding investment in alternatives, it is prohibited:

- Buying non-publicly traded securities or private investments
- Buy real assets (including commodities)
- Short-selling
- Securities lending
- Margin trading
- Purchase derivatives, except for hedging purposes.

This point applies to both endowment and sinking portfolios.

## IX. SUSTAINABILITY APPROACH

To ensure that the investment funds is in line with the organization's purpose, two sustainability approaches are considered:

## 1. Values-based investing

Values-based investing standards are considered and direct investment in companies whose core business is related to the following activities is restricted:

- Alcohol (except wine and beer)
- Weapons, controversial weaponry and ammunition
- Gambling
- Production and/or commercialization of pornography
- Tobacco

## 2. Environmental, Social and Governance (ESG) Approach

Profonanpe has a dual objective of investment returns and consideration of ESG criteria. Therefore, ESG criteria are included in direct and indirect investments.

For the monitoring of these criteria, the inclusion of the asset in any index, ESG standard or that the asset has a good ranking according to an ESG *scoring* company, may be taken into account.

In the case of investments through investment vehicles (mutual funds and ETFs), it should be assessed whether the manager carries out a due diligence process for the inclusion of ESG criteria in its investment decisions.

It is recommended to opt for the financial instruments that meet the highest possible evaluation, according to the evaluation mechanism.

In terms of regulation, the Sustainable Finance Disclosure Regulation (SFDR), introduced in March 2021 by the European Commission (EC), establishes mandatory Environmental, Social and Governance (ESG) disclosure standards for the financial sector, all of which take sustainability into account in investment decisions. Under this criterion, financial tools issued and marketed in the European Union must comply with Article 8 and 9.

Finally, the Asset Manager shall provide a report to ensure that the investments comply with the ESG framework set forth in this Investment Policy.

This point applies both to endowment and sinking portfolios. In case the investment is made in Peruvian Soles (PEN), the investment is adjusted to the availability of instruments in the market.

## X. MONITORING

The Investment Committee will monitor the investment performance of the portfolio in relation to established investment objectives. On a semi-annual basis, the portfolio and investment performance will be evaluated as follows:

For endowment funds, the Portfolio's investment performance (after fees) will be judged against the following standards:

- The absolute objective of real performance.
- Compliance with the Investment Policy Statement as monitored by the Investment Portfolio Management Team.
- A benchmark index composed of unmanaged market indices, weighed according to the asset allocation stipulated by the portfolio's investment guidelines.

Benchmark	Weight (%)	
Bloomberg Global Aggregate Hedged USD	FI	50%
MSCI All Countries World After Tax	EQ	40%
HFRI FoF Diversified	Alternatives	10%

For sinking funds, the investment performance of the Portfolio will be judged against the following standards:

- The absolute short-medium term real return objective of the portfolio.
- Compliance with the Investment Policy as monitored by the Investment Portfolio Management Team.
- A benchmark index composed of unmanaged market indices, weighed according to the asset allocation stipulated by the portfolio's investment guidelines.

- o Sinking in Peruvian Soles (PEN):

Benchmark	Weight (%)
BCRP reference rate	100%

- o Sinking in U.S. Dollars (USD):

Benchmark	Weight (%)
Bloomberg Global Aggregate Hedged USD	50%
FED Rate	50%

Investment reports must be provided by the Asset Manager on a monthly basis.

## XI. PERIODIC REPORTS

### 1. Reports to the Investment Committee

Performance reports generated by the Asset Managers and the independent Investment Advisor (if applicable) shall be reported to the Investment Committee for review at least quarterly.

### 2. Reports to the Board of Directors

Performance reports prepared by the Investment Committee and the independent Investment Advisor (if applicable) shall be compiled at least semi-annually and reported to the Board of Directors for review.

The Board of Directors will review at least annually all fees associated with the portfolio management.