

**Critical Ecosystem Partnership Fund  
Twenty-Fifth Meeting of the Donor Council  
Washington, D.C.  
24 June 2014  
8 a.m. – 11:00 a.m. EDT**

**Approval for investment of CEPF cash reserves**

**Recommended Action Item:**

The Donor Council is asked to approve the recommendation of the Secretariat to invest a portion of CEPF’s funds in a broader pool of high-quality, low-risk, interest bearing instruments consistent with CI’s Board-approved Operating Cash Investment Policy.

**Background:**

Since the start of CEPF Phase II in 2008, CEPF has maintained a healthy cash balance. The table below shows the cash balances at the end of June from 2007 to (March) 2014, the interest earned and the average yield on the year-end cash balances. Fluctuations in cash receipts particularly between 2008 and 2009 are due to certain donor partners (MacArthur Foundation, AFD and CI) paying on agreed regular schedule while the funds administered by the World Bank (GEF, Government of Japan and the EU) advance cash to CEPF each quarter.

<b>To June</b>	<b>Cash receipts from donors \$000</b>	<b>Reported expenses * \$000</b>	<b>Year end cash balance \$000</b>	<b>Interest earned \$000</b>	<b>Implied yield on avg bal</b>
2008	19,664	12,172	14,710	331	2.07%
2009	25,737	15,742	36,599	86	0.34%
2010	16,441	14,679	40,292	54	0.14%
2011	10,027	11,834	35,832	151	0.40%
2012	20,627	15,472	41,781	122	0.31%
2013	18,912	16,543	46,860	125	0.28%
Mar-14	16,378	10,598	50,126	98	0.27%

Note: \* Reported expenses based on grants awarded during the year and not grants paid.

All the funds are currently invested in a money market account, maintaining the most conservative approach for investment to minimize risk. CEPF earns approximately 30 bps (0.3%) on its cash. The interest earned on the cash is used by CEPF to pay for the annual audit, fund raising initiatives and events, and special expenses and investments such as the upgrading of the grant management system or the design of the Phase III strategy. The table below shows the interest earned over the life of CEPF, the amount spent to March 31, 2014, and the balance.

<b>Summary</b>	
Interest earned to March 2014	2,506,665
Spent to date	1,273,070
Balance	1,233,595

A forecast for the next three years shows that while the cash disbursed will exceed the inflows of donor funds, CEPF should still be in a healthy cash situation. The table below summarizes the actual and forecasted cash flows from FY12 to FY17. The forecasted interest earnings at the current rate of 30 bps are also shown.

<b>Summary (\$000)</b>	<b>Actual</b>			<b>Forecast</b>			
	<b>Jun-12</b>	<b>Jun-13</b>	<b>Mar-14</b>	<b>Jun-14</b>	<b>Jun-15</b>	<b>Jun-16</b>	<b>Jun-17</b>
Opening cash balance	35,832	41,781	46,860	50,126	47,602	38,602	29,102
<b>Movements:</b>							
Cash disbursed	(14,678)	(13,833)	(13,111)	(5,500)	(20,000)	(22,000)	(22,000)
Funds received	20,627	18,912	16,378	2,976	11,000	12,500	13,000
<b>Closing balance</b>	<b>41,781</b>	<b>46,860</b>	<b>50,126</b>	<b>47,602</b>	<b>38,602</b>	<b>29,102</b>	<b>20,102</b>
Interest at 30 bps					129	102	74

The Secretariat believes in a highly conservative approach to managing CEPF's long-term cash. However, we also believe that responsible management of these funds should include broader investment options for a portion of its longer-term cash. Per CI's investment policy (included below), we propose to broaden CEPF's investment options to include A1/P1 rated instruments, specifically U.S. Government Treasury notes, insured certificates of deposit, and highly rated corporate and U.S. municipal bonds with terms ranging from six months to a maximum of three years.

The Secretariat proposes that a portion of the available funds be invested in these types of instruments subject to availability of appropriate vehicles and based on guidance from qualified and experienced investment managers. While this would introduce some market valuation fluctuation into the portfolio, the strategy will be to hold the instruments to maturity thereby negating any unrealized gains or losses. Gains or losses would accrue to the CEPF program.

In an effort to assess whether the proposed investment scenario would achieve our goal of improved returns with minimal risk, the Secretariat and CI's Finance team have had preliminary discussions with several banks including UBS, JP Morgan Chase, Goldman Sachs and Wells Fargo.

The Secretariat believes that by following a conservative investment approach with a high quality portfolio and the guidance of an appointed investment advisor, we are more effectively and responsibly stewarding CEPF resources. Therefore, the Secretariat requests the Donor Council's approval to invest CEPF funds in instruments allowed under CI's Operating Cash Investment Policy, for the Secretariat to solicit proposals from the banks mentioned above, and to appoint the selected bank as a trusted advisor to assist the Secretariat in following this investment strategy.

### **CI's Operating Cash Investment Policy**

## **Investment Guidelines for Operating Cash**

The investment guidelines presented below serve as a framework to achieve the investment objectives at an acceptable level of risk.

#### **Allowable Investments**

- Money market funds
- Repurchase agreements
- Federally insured certificates of deposit
- Commercial paper and notes rated A1/P1 or better
- International commercial paper rated A1/P1 or better
- U.S. Treasury and Agency Securities
- Corporate notes or bonds rated A1/P1 or better with maturities up to 36 months
- Municipal bonds rated A1/P1 or better with maturities up to 36 months
- Foreign currency contracts for budget management, but not for speculation

#### **Content of Investment Performance Reports**

Each individual manager will be evaluated against an appropriate benchmark. At a minimum, investment reports during the fiscal year will compare results for the year-to-date against benchmarks.