



## **International Fund for Animal Welfare**

### **Statement of Investment Objectives, Goals and Policy**

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## *Statement of Investment Objectives, Goals and Policy Guidelines*

### **I. Introduction & Philosophy**

The International Fund for Animal Welfare (IFAW) is a global group of charitable organizations, which promote animal welfare and conservation. The mission of IFAW is:

**To improve the welfare of wild and domestic animals throughout the world by reducing commercial exploitation of animals, protecting wildlife habitats, and assisting animals in distress.**

**IFAW seeks to motivate the public to prevent cruelty to animals and to promote animal welfare and conservation policies that advance the well being of both animals and people.**

As part of its financial management strategy, IFAW holds certain cash and investment assets, which it seeks to use to support its programs and operations and provide for long-term capital growth to offset the impact of inflation.

The Board of Directors (the Board), in recognition of their fiduciary responsibility, have caused this statement to be prepared as a policy framework for a disciplined process that seeks to add value and minimize risk in the management of IFAW's investment assets.

The investment assets of IFAW are made up of working capital, endowment funds, various types of planned giving trust and annuity funds, and staff retirement funds.

#### Working Capital

Cash and other assets, which can be used in the short to medium term to provide funds for supporting the ongoing operating needs of the organization. Consists of cash in bank accounts and highly liquid and secure money market instruments such as commercial paper, certificates of deposit, time deposits, banker's acceptances, repurchase agreements, and short-term fixed income securities. Mainly managed by IFAW's Finance Department staff.

#### Endowment Funds

Funds with a long-term investment horizon, invested to provide both current income and long-term capital growth. Assets allocated as defined in the board approved endowment asset allocation policy. The management of these funds is undertaken by IFAW staff in conjunction with external investment advisers and managers.

#### Planned Giving Trust and Annuity Funds

Donor funds provided through a variety of planned giving instruments to provide donors with tax advantaged giving vehicles. Funds managed by external manager/adviser recommended by staff and approved by the Board.

#### Staff Retirement Funds

Funds contributed by IFAW as part of its defined benefit pension plan.

The investment and management of IFAW's investment funds will be undertaken solely in the interests of IFAW. The portfolio will be invested with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims. All investments made using IFAW funds will be invested according to the ethical investing guidelines set out in this policy, which aim to avoid IFAW funds being invested in companies whose activities are contrary to the animal welfare mission of the organization.

## **II. Delegation of Authority**

The Board of Directors of IFAW has ultimate fiduciary responsibility for directing and monitoring the management of IFAW's investment assets. As such the Board may delegate certain responsibilities to IFAW's management staff and various external professional experts as deemed necessary and prudent. These include, but are not limited to:

1. **Investment Advisers.** The advisers assist the Board and management in establishing investment policy, objectives and guidelines; identifying and selecting appropriate investment managers; measuring and monitoring investment performance against agreed benchmarks; and providing other research and advice useful to IFAW in managing its investment portfolio.
2. **Investment Managers.** A number of Investment managers will be retained to manage portions of the portfolio to provide for appropriate diversification in asset classes and investment styles. The number of managers will be dependent on a number of factors including, but not limited to, the total size of the portfolio, minimum asset amounts required by managers, and the level of diversification required. Investment managers have the discretion to purchase, sell, or hold specific securities within the guidelines set out in IFAW's investment policy.
3. **Custodian.** The custodian will physically maintain possession of securities owned by the portfolio, collect dividend and interest payments, redeem maturing securities, effect receipt and delivery following purchases and sales, and oversee and manage securities lending in accordance with this investment policy, if appropriate. The custodian will perform regular accounting of all assets owned, purchased, sold, or moved into or out of the portfolio accounts, and submit such reports to the Investment Adviser in a format and form approved by the Investment Adviser.

### **III. Investment Objectives**

The primary objective of IFAW's investment program is to ensure that sufficient funds are available to support the organization's ongoing operational needs and to build capital in the form of endowment to provide long-term financial stability and sustainability. In the case of planned giving assets the objective is to provide funds to meet commitments to donors and maximize the long-term benefit to IFAW.

Careful management of these assets is designed to ensure a total return (income plus capital change) necessary to preserve and enhance (in real dollar terms) the principal of the funds and at the same time, provide a dependable source of support for current operations and programs.

It is expected that the returns achieved will be accompanied by capital market risk, but that the returns, adjusted for this risk, will compare favorably to the returns of the applicable markets and similar endowments. Over complete market cycles IFAW's assets should generate a return, net of fees, greater than appropriate benchmark indexes selected by IFAW and its investment advisers.

### **IV. Diversification of Investments**

In recognition of the prudence required of fiduciaries, reasonable diversification will be sought where possible. Experience has shown financial markets and inflation rates are cyclical and therefore, control of volatility will be achieved through diversification of asset classes and selection of managers of diverse investment styles.

### **V. Asset Allocation**

Asset allocation will be considered separately for the different classes of assets which make up IFAW's total portfolio. Since the selection and weighting of asset classes is the primary determinant of investment return and volatility, asset choice will be carefully considered by IFAW management and the Board in accordance with a systematic allocation process derived from consultation with their advisors. Approved asset classes and policy target ranges are shown in Appendix I.

### **Endowment Fund**

The fund is to be structured for long term growth with a broadly diversified mix of asset classes and styles. The international core, and global fixed income segments are intended to reduce volatility and the fund's reliance on domestic financial markets.

The target for the actual asset mix will be reviewed by IFAW's finance staff and the Board annually, or more frequently as necessary. As part of this process, a re-balancing procedure within the policy framework of the adopted asset allocation model has been established. More specifically, the quarterly review guideline will be:

1. Changes in the allocation to the asset class segments or sub-segments will be made at any time the quarterly weighting is outside the established weight range as defined on the asset allocation model.
2. Changes in the allocations may be considered any time a segment weighting varies by five percentage points from the current recommended segment weighting.

The Board will review the segment asset allocations at their regularly scheduled meetings and any changes in the allocations will be made after the meeting. In the case of major market movements resulting in variations as provided under (1) or (2) above, re-balancing of the segment allocations may be made prior to the quarterly review upon approval of the Board Chairperson, Chief Executive Officer and Chief Financial Officer, after consultation with IFAW's investment advisers.

## **VI. Endowment Investment Spending Guideline**

### **Spending and Spending Limitations**

Until the total assets of the endowment fund reach \$20 million withdrawals are expected to be zero. Once the asset target is reached, withdrawals from the fund to support operations will be defined by a spend rate or distribution approved annually by the Board.

The amount of endowment return available for current spending (distribution) during a fiscal year is to be calculated as part of the annual budget process. The amount available will be based on the approved spend rate and the total average market value of the portfolio at the end of the preceding three fiscal years.

### **Additional Allowances**

Additional distributions may be made for new contributions received after completion of the budget for a fiscal year. New endowment principal contributed during or after the budget process but prior to the beginning of the fiscal year will be entitled to a distribution equivalent to half the approved spend rate applied to the additional endowment principal. New endowment principal contributed after the start of a fiscal year will not be subject to any distribution during the fiscal year in which it was received.

## **VII. Investment Management**

Investment managers will be appointed following a systematic search for those with demonstrated quality in the style desired. To optimize access to such managers, while minimizing management fees and transaction costs, no-load mutual funds and pooled funds may be considered together with separate account management. Managers are given discretion to manage funds entrusted in accordance with the style for which they are employed provided they

comply with the restrictions and limitations as set out in this policy and as may be amended from time to time by the Board.

### **VIII. Evaluation of Managers**

The following criteria will be used to evaluate manager performance.

#### **Performance Objectives for Active Management**

1. Equity managers/fund(s) will be expected to achieve an annualized total rate of return over a three- to five-year period which exceeds an appropriate market index rate of return by 1.0 percentage points compounded annually, net of costs and fees. Total return is defined as dividend or interest income plus realized and unrealized capital appreciation or depreciation at fair market value. Fixed income managers will be expected to exceed appropriate market indices by 0.50 percentage points, net of costs and fees. Balanced managers will be expected to attain a blended objective reflective of their asset mix.
2. The managers/fund(s) will also be expected consistently to achieve a total rate of return which is equal to or above the median return in a universe of peers with comparable investment styles or portfolio objectives.
3. Manager/fund relative performance will be analyzed within the context of the ethical policies/restrictions set forth in Section XI.

#### **Investment Style**

The managers/fund(s) will maintain a portfolio characterized by their respective traditional management styles and, if a change in such style is contemplated, the manager is required to make advance written notification to IFAW and its investment adviser.

#### **Change in Objectives or Asset Allocation**

A change in objectives or asset allocation strategy may require that funds be transferred between asset classes, to new asset classes, or among styles within asset classes. These changes may result in increases, decreases or elimination of funds under management by a specific manager.

### **IX. Performance Measurement**

Measuring manager progress against policy objectives and for consistency in measuring performance against the total return objectives, performance will be reflected net of management fees and transaction costs. When calculating returns for the quarterly reports utilized for management purposes, returns will be stated after fees. Manager's performance will be measured and reported by the investment adviser on a quarterly basis. Over a reasonable period (3-5 years) managers are expected to achieve returns which meet the appropriate benchmark. The

investment adviser will review manager performance with IFAW management and the Board on at least an annual basis. Managers who fail to achieve the benchmark performance returns over a reasonable period of time may have their management agreement terminated and the funds allocated to one or more alternative managers.

## **X. Investment Adviser**

IFAW will retain the services of an independent investment adviser for the purpose of assisting the management and the Board in developing and then attaining IFAW's investment objectives. The adviser will assist in establishing objectives offering alternative models of asset allocation, identifying appropriate managers or funds, producing timely quarterly reports that monitor performance of individual managers against similar managers as well as performance of the entire Fund against its objectives and against other appropriate indices. The adviser will also provide consultation on revisions and modifications as appropriate.

## **XI. Ethical Mandate**

IFAW is deeply conscious of the need to support its core values related to animal welfare through its investment policy. It is the intent of IFAW to avoid investing in companies or entities which are engaged in activities or business practices that are in conflict with IFAW's animal welfare mission. This ethical approach does not require any changes in the investment management process per se but rather delimits the universe of securities which can be held. IFAW staff, investment advisers and investment managers are all responsible for using their best efforts to support and uphold the ethical investing mandate. The mandate may not be changed or altered without an appropriate resolution of IFAW's Board.

This policy specifically excludes investment in the following types of companies:

- Any companies involved in animal testing
- Companies involved in animal husbandry
- Meat packing or processing
- The production or sale of fur or leather
- Companies that use animals in laboratory research
- Any companies that have been found to violate animal welfare laws
- Companies involved in the manufacture or supply of equipment used in the hunting or trapping of animals

This policy encourages investment in companies that **are** following best practices in the conservation and animal welfare arenas.

In addition Appendix II lists US equity industry sectors and groups and shows those that may not be included in IFAW's investment portfolio. Even if a sector or group is shown as investable, individual companies may not be included if they do not meet the overall standards of this policy or are engaged in activities or categories excluded elsewhere in the ethical mandate.

Appendix III lists specific companies whose securities (equity or debt) may not be purchased.

Implementation of the ethical mandate will be through a three tier process:

1. Communication of ethical mandate

The ethical mandate, including its specific exclusions, must be communicated to all staff, investment advisers and investment managers who are involved in making decisions about IFAW investments. Investment managers must acknowledge, in writing, before IFAW funds are transferred to their management that they have reviewed the ethical mandate and agree to use their best efforts to comply.

2. Monthly and Quarterly Review of Portfolio

The securities held in the portfolio through selected investment managers will be reviewed by the investment adviser and CFO on a monthly basis to look for compliance with the ethical mandate. The CFO, after appropriate review and consultations, may instruct an investment adviser to disinvest from a particular security at his or her sole discretion.

3. Annual Screening of Portfolio

On an annual basis the services of a screening analyst will be retained to review the portfolio for compliance with the ethical investing mandate. The written report will be presented to the Board for review.

## **XII. Other Limitations and Restrictions**

### **Limits on Holdings**

Not more than 10% of the portfolio may be invested in the securities of any one issuer, with the exception of the U.S. Government or its agencies.

### **Restricted Types of Investment Asset**

The following categories of investments are **not** permitted for investment without **prior** written approval of the Board: (i) Unregistered or restricted stock; (ii) Commodities - including gold, precious gems or currency futures; (iii) Private placement debt - except as may be positioned in a commingled fund which does not specifically emphasize private placements; (iv) Conditional sales contracts; (v) Uncovered options; (vi) Short sales or margin purchases; (vii) Transferable certificates of participation in business trusts and limited partnerships; (viii) Securities of the investment managers or their respective parents, subsidiaries or affiliates; (ix) Investments in companies doing business not in accordance with the policy statements of IFAW; (x) Securities in violation of Federal or State law; and (xi) derivatives, which include options, futures, swaps and similar derivatives of securities; options, futures, swaps, and similar derivatives of indexes of securities; options, futures, swaps, and similar derivatives of indexes of currencies.

## **XIII. Communication and Reporting**

Where funds are separately managed, the manager is responsible for free and open communication with the Board through the Chief Financial Officer in all significant matters

pertaining to investment policies and management of Fund assets, including, but not limited to: (i) Major changes in the investment manager's investment outlook, investment strategy and portfolio structure; (ii) Any significant changes in the ownership, organizational structure, financial condition or senior personnel staffing of the investment manager's organization; and (iii) Quarterly transactions, evaluation and performance reports.

Quarterly evaluations of assets under management shall be supplied by the investment managers, in the form as may be requested by the Board, CFO or Investment Adviser and will include market valuations, industry segmentations, transaction registers, cash statements, and similar reports. The report of fixed-income and equities shall show inventories at cost, purchase date, market value and share or unit values at cost and market values.

At reasonable times and as requested by IFAW, meetings shall be held with the manager(s) to discuss performance results, economic outlook, organizational changes and other pertinent matters. All documents, exhibits and other written material to be used during such conferences shall be submitted by the investment manager(s) at least five business days in advance of the conferences.

All materials required of the manager(s) and custodian shall also be provided to the advisers. In addition, the manager(s) and the custodian shall provide evidence of liability and fiduciary insurance and have its employees bonded unless otherwise exempted by law or governmental regulation.

The Investment Adviser will provide IFAW with a monthly report on the endowment portfolio showing basic data which will allow IFAW to update its accounting records appropriately. On a quarterly basis the Adviser will provide IFAW with a more comprehensive report on the performance of the overall portfolio and the individual investment managers.

#### **XIV. Conflict of Interest**

It is the policy of the Board to avoid conflicts of interest in its operations and in the selection of investment managers or funds. Therefore, IFAW staff or Board members shall not have a financial relationship in any manager or fund being considered. Similarly, the independent adviser shall have no financial relationship with any manager or fund serving IFAW.

#### **XV. Implementation**

All new monies received by investment manager(s) after the adoption of this Statement of Policy shall conform to the Statement. To the extent that Fund assets are not currently managed in accordance with this Statement, the investment manager shall conform in all respects to this Statement within 60 days of its receipt hereof.

#### **XVI. Miscellaneous**

**Proxy Voting**

The proxy vote attached to a security has value and is therefore an asset of the portfolio. All proxies are to be voted solely in the interests of IFAW and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character. Proxies should be voted for issues which enhance shareholder economic value, maintain or improve shareholder rights, are not dilutive, and provide reasonable accountability for management.

**Securities Lending**

Securities held by the Trustee may be loaned to others, only if continuously secured by cash or government securities with a market value equal to the minimums prescribed by regulation or at least 102% of the market value plus accrued interest for domestic securities or 105% of the market value plus accrued interest for international securities loaned if no regulations apply. Collateral shall be invested in a diversified, non-leveraged, portfolio of cash and fixed income securities with a maximum average effective portfolio duration of 120 days. Individual securities must qualify as a Tier I security for securities with a maturity of 13 months or less, or be rated A or better for securities with a maturity in excess of 13 months and a maximum remaining effective maturity of 5 years.

**Brokerage**

It is recognized that brokerage commissions have value and are to be used to the exclusive benefit of IFAW. Commissions can be incurred for execution, clearance and settlement of securities transactions, research or to defray reasonable expenses of administering the Endowment and Capital Funds. Consistent with obtaining "best execution" transactions are to be directed to brokers who provide discounted commissions or will rebate a portion of the commission to IFAW.

Appendix I  
Asset Allocations

<b>Fund Type/Asset Class</b>	<b>Allocation %</b>	<b>Acceptable Range</b>	<b>Index/Benchmark</b>
<b>Working Capital</b>			
Cash, CD's, money market accounts, term deposits, commercial paper, short-term, repurchase agreements fixed income securities	100%		Donaghue Money Market + 0.1%
<b>Endowment</b>			
Total Equity	70%	60% - 80%	
Domestic core equity	42%	36% - 48%	S&P 500
Mid/small cap equity	14%	12% - 16%	Russell Mid/Small Cap
International core equity	14%	12% - 16%	EAFE
Total Fixed income	30%	20% - 40%	
Domestic fixed income	30%	20% - 40%	LB Government
Cash equivalents & short-term	0%	0% - 5%	90 day T-Bills
<b>Planned Giving Trust and Annuity Funds</b>			
Domestic fixed income			
Cash equivalents			
Domestic equities			
<b>Pension Fund</b>			
Total equity			
Total fixed income			

**Appendix II**  
**Industry Groups and Sectors**

## **Appendix III**

### **Individual Companies Not to Be Included in IFAW's Investment Portfolio**

Mitsubishi Corporation and subsidiaries