

# Investment Guidelines

## Caucasus Nature Fund (“Foundation”)

(as adopted by the Supervisory Board in March 2024)

The Foundation’s Supervisory Board (“SB”) adopts the following as its Investment Guidelines (“Guidelines”).

### 1. Investment Set-up.

The Foundation does not intend to develop in-house financial and investment expertise that is capable of managing its investment portfolio. Nor does it wish to outsource all investment services to a single bank or asset manager. Rather, in order to diversify its sources of services and assure cost effectiveness and transparency, the Foundation shall appoint an independent panel of experts to oversee the management of its investments (“Investment Committee” or “IC”) with the duties described in Section 2. For the avoidance of doubt, the Investment Committee is not a committee of the Foundation’s SB or Management Board (“MB”).

The overall investment set-up overseen by the IC is described in these Guidelines and graphically in the diagram set forth in **Annex 1**.

### 2. Investment Committee.

#### 2.1 Duties.

The IC shall provide the Foundation with independent professional advice on investing. It shall work closely with the Investment Consultant (see Section 3) to assure the investment of the Foundation’s assets in accordance with these Guidelines and any more detailed procedures and policies approved by the IC that may be required to interpret them.

To carry out its duties, the IC shall meet by telephone or video conference at least quarterly. Such meetings shall be facilitated by the Investment Consultant with the support of the Nature Trust Alliance (“NTA”) (see Sections 3 and 6). At the request of the Supervisory Board, the IC (or a subset of its members) shall also meet telephonically or by video conference annually to report on investment performance and perspectives. This meeting shall be coordinated with the other NTA member foundations to the extent practicable.

Supported by an Investment Consultant (in all cases except (i) below) and through a selection process consistent with the Foundation’s procurement policies, the IC shall, in order to implement the investment set-up, recommend to the MB for appointment (for advisory, investment management or related services as described herein) or investment:

- (i) An Investment Consultant.
- (ii) A custodian bank to hold investments necessary or appropriate to be held by a custodial institution (“Custodian”).
- (iii) One or more discretionary investment managers to manage all or a portion of the Foundation’s investments in stocks (shares) and bonds (“Discretionary Manager”).
- (iv) Collective investment vehicles (funds or similar, “Investment Funds”) of different kinds that may be held through the Custodian or directly.

The IC shall also make recommendations to the MB the retention or replacement of these service providers or investment vehicles as required or appropriate over time.

Supported by the Investment Consultant, the IC shall also:

- monitor compliance with the Strategic Asset Allocation (“SAA”—see Section 4) on an ongoing basis, agree on tactical adjustments it judges to be in the long-term interest of the Foundation, and ensure that the SAA remains consistent with a moderate level of risk.
- oversee the implementation of the Foundation’s guidelines for Socially Responsible Investment (SRI) (Section 5, either through the Investment Consultant or an independent service provider or both.
- keep the SAA and SRI, as well as the return objective and risk appetite (see Section 4) of these Guidelines under review and recommend changes from time to time. Any such changes (or other substantive changes to these Guidelines) must be approved by the SB.<sup>1</sup>
- Develop additional technical implementing guidelines in such areas as counterparty risk, portfolio liquidity, diversification, and allowable and prohibited investment instruments (subject always to the SRI Policy)

IC monitoring of SAA and SRI compliance shall also be supported by NTA as described below (see Section 6).

## 2.2 Membership and Procedural Matters.

The names of the IC members are set forth in **Annex 2**, which shall be updated from time to time to reflect changes in membership.

IC members must have appropriate expertise or experience in investment, economics and/or banking to serve. IC members shall act as unpaid volunteers unless otherwise approved by the SB.

The IC is a collegial body. Additional or replacement candidates for IC membership shall be recommended from time to time by the IC members themselves and presented by the MB to the SB for no-objection. As long as the Foundation is a member of NTA, the IC and MB shall seek to coordinate membership in the IC with the other NTA members. The IC shall consider candidates for IC membership proposed by the SB or MB, but the decision to recommend additional members shall be that of the IC.

The IC shall regularly (no less than every three years) consider renewing its membership taking into account such factors as resignations or retirements, the continuing commitment of its individual members, the availability of potential new members, and the like.

The IC shall elect from among its members a secretary who shall have a coordination role and work with the Investment Consultant and NTA in between meetings to deal with routine questions and set the next meeting and agenda (“IC Secretary”).

IC members may be named as insureds under the Foundation’s directors and officers liability insurance policy or separate insurance may be taken out on their behalf as appropriate. As volunteers, IC members are entitled to customary indemnity arrangements from the Foundation.

## 3. Investment Consultant.

The duties of the Investment Consultant are described in **Annex 3**.

## 4. Strategic Asset Allocation, Return Objective and Risk Appetite.

As a fundamental principle, the Foundation’s investments shall be oriented at a minimum towards capital preservation over the medium to long term. Capital preservation is defined as maintaining the purchasing power of the foundation’s investment portfolio on an inflation adjusted basis. For these purposes, the inflation measure is the EU harmonized consumer price index. The reporting to the Investment Committee

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<sup>1</sup> Under the Separate Agreement with KfW, KfW’s “no-objection is also required. These investment guidelines shall constitute the Investment Policy for purposes of the Separate Agreement.

shall include a measure of capital preservation that compares the development in the Foundation's investment returns since inception to a five-year rolling average of the CPI.

For the purposes of this statement, "investment horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The immediate investment horizon for the Foundation's assets is 10 years, with a long-term horizon of perpetuity.

Consistent with capital preservation and a risk appetite judged to be moderate (see below), the Foundation shall seek average annual investment returns over the investment horizon based on a formula that combines two components that each count for 50% of the target: (i) an absolute return target of 5.0% per annum; and (ii) a variable target that is a percentage calculated on the basis of the rolling twelve month average of the German government bond yield with a four-year duration plus a margin of 2.0%. The formula is designed to allow the return target to adjust appropriately so that the Foundation can adjust its investment portfolio in a disciplined and gradual manner to respond to changing economic conditions, including changes in inflation and interest rates. The target return was 4.76% at January 23, 2024 (when these Guidelines were approved by the Management Board for submission to the Supervisory Board).<sup>2</sup>

In order to achieve the target return objective, the Foundation adopts the Strategic Asset Allocation (SAA) set forth in **Annex 4**.

The above return objective must, however, remain consistent with a SAA reflecting a level of risk judged to be "moderate". If the overall return objective no longer is judged to be compatible with a moderate risk level given market circumstances, the return sought over a near term period may be temporarily reduced. The MB shall advise the SB if that occurs.

In applying the preceding paragraph, among other indicators, risk will be considered in excess of moderate if the asset allocation:

- (i) is judged unlikely over a ten-year period to produce an average investment return at least in line with the expected Eurozone inflation.
- (ii) results in an excessive drawdown, with either a >7.5% down or >20% up change in the value of the Foundation's assets over a one-year time horizon being an indicator of such.

If either such indicator is triggered, the event shall be reported to the MB. At a minimum the MB will report the event to the SB and review the investment strategy with the Investment Consultant or IC or both.

It is the responsibility of the Investment Consultant and Investment Committee to monitor the SAA on an ongoing basis and to ensure that it remains consistent with a moderate level of risk, including value at risk. Any widening of the bandwidth authority of the Management Board reflected in the SAA shall be deemed a material change to these Guidelines and requires approval of the SB.<sup>3</sup>

## 5. Socially Responsible Investing Guidelines

The Socially Responsible Investing Guidelines (SRI) set forth in **Annex 5** is adopted as the Foundation's SRI. For good order's sake, it is noted that allowable investments shall in no event include investments in the

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<sup>2</sup> Calculated as follows:  $(5.0\% + 4.51\%) \times 0.5$ , where 4.51% was calculated by adding 2.0% to the 12-month average of the 4-year German Bund Yield (2.51%). For reporting purposes this return target is translated into a total return index (which includes the price effects of yield movements). To do so it uses the eb.rexx Government Germany 2.5-5.5<sup>2</sup> Index (Total Return in EUR) with a portfolio duration of approximately 4 years to approximate the 5-year German Bund. The Index can be tracked with this ETF: DE0006289481. The IC maintains a separate paper explaining the background to and functioning of the formula.

<sup>3</sup> The MB has been advised by the Investment Consultant in connection with the adoption of these guidelines that, given the Foundation's investment horizon and a "moderate" risk appetite, this return objective is realistic.

securities issued by countries or entities subject to international sanctions, such as those promulgated by the EU, UN or OFAC/USA).

#### 6. Role of NTA.

The MB shall ensure that NTA is in a position to support the IC and the MB in their duties under these Guidelines. NTA's duties shall include support in the following areas:

- organization of meetings and record keeping of minute meetings taken by the Investment Consultant
- review of monthly performance reporting and communication of the reporting as agreed with the Foundation
- working with the MB to assure timely and correct input to the "donor view" reporting (not part of the IC's purview)
- review of regular compliance reporting by the Investment Consultant, communication of same to the MB, and review of any anomalies with the MB, the IC Secretary and IC as necessary
- review/control of the invoices of the Investment Consultant and other service providers in light of the agreed fee arrangements
- execute bank transfer in connection with new subscriptions and capital calls, and ensure that incoming and outgoing payments are processed through the correct bank accounts
- completion of subscription agreements for new investments
- regular updating of AML/other regulatory information required in connection with investment activity

#### 7. Role of MB and SB

The MB is responsible for:

(i) reviewing these Investment Guidelines with the Investment Committee or Investment Consultant regularly (and no less than tri-annually) to assure that they remain fit for purpose. The MB may also commission a review of the Guidelines to that end by a third party. It will seek to coordinate any such review with the other NTA member foundations.

(ii) reviewing the qualifications of new members proposed by the Investment Committee to assure that qualified members are being carefully selected by it; and recommending such members to the SB for its no-objection;

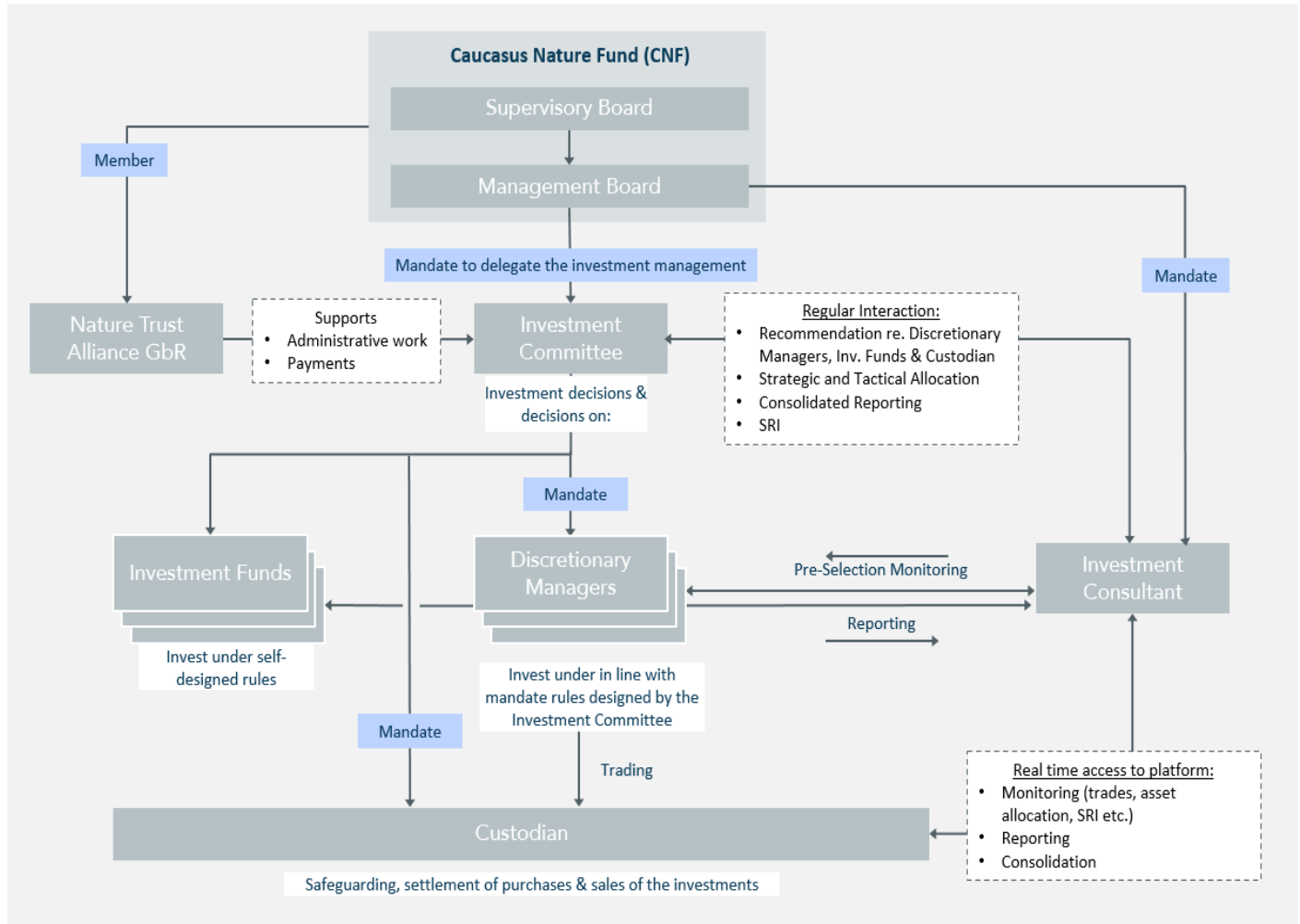
(iii) monitoring the selection process so as to assure careful selection by the Foundation of the Investment Consultant;

(iv) implementing the recommendations and decisions of the IC that require MB action, such as signature of subscription and related documentation, contracts with advisors and the like;

(v) supervising the investment activity of the Foundation carried out under these Guidelines through regular (at least two times annually) consultation with the Investment Committee or Investment Consultant as to performance, recent activity, and compliance with the Guidelines and any implementing procedures and policies adopted by the IC; and

(v) assuring reporting to the SB as contemplated herein.

The SB is responsible for the approval of these guidelines and any material changes thereto (MB by-laws § 8 and § 9(a)). The SB shall receive reports from the MB on investment activity (MB by-laws § 5 (2)(c)) and may request a direct report from the Investment Consultant (Annex 3, Section 13) or Investment Committee. The SB shall have the right to require changes to these Guidelines.



## Investment Committee Composition (January 2024)

### **Members**

Alasdair Breach  
Johan Holgersson  
Ronald Kent  
Hanna Loikkanen  
Alexandre Manghi  
David Morrison

### The Investment Consultant

The Investment Consultant's role is that of an advisor to the Foundation through the MB and the IC. The Investment Consultant shall provide investment advice concerning the investment management of the Foundation's funds consistent with the investment objectives, policies, guidelines and constraints as established in the Investment Guidelines and further policies and procedures established pursuant thereto.. Responsibility for appointment and dismissal of the Investment Consultant shall rest with the MB on the recommendation of the IC. The SB shall be kept informed of developments relating to the Investment Consultant's appointment and dismissal, including procurement processes.

Specific responsibilities of the Investment Consultant include:

1. Assisting in the periodic review and development of the Investment Guidelines and related policies and procedures, including advice relating to continuing improvement of the Foundation's guidelines for Socially Responsible Investment (SRI) in light of evolving practices and regulatory requirements (**Annex 5**).
2. Assisting with the efficient structuring of custodial arrangements.
3. Conducting searches for Discretionary Managers and public and private Investment Funds when requested by the IC, including:
  - assistance and advice with the engagement of Discretionary Managers and investments in Investment Funds;
  - organizing the respective procurement process (limited competitive bid /"beauty contest"), due diligence and documenting decisions to engage Discretionary Managers or invest in the Investment Funds;
  - drafting appointment letters and negotiating the relevant contractual arrangements;
  - proposing investment guidelines a for Discretionary Managers; and
  - Recommendation (based on due inquiry) of DMs, custodian banks and funds only if such entities have established a robust process to prevent investments in countries and companies that are included on relevant sanctions lists (such as the EU, UN or OFAC/USA).
4. Advising the IC on allocations to Discretionary Managers and Investment Funds.
5. In accordance with the IC's asset allocation and Discretionary Manager/Investment Fund investment decisions:
  - instructing the Custodian on behalf of the MB or special representative to make investments and dis-investments;
  - implementing (through instructions to the Custodian, Discretionary Managers or otherwise) any regular re-balancing of the Foundation's assets; and
  - checking the correctness of all trades/transactions (including costs and settled price).
6. Implementation of the sustainability criteria of these Guidelines drawing on recognized rating services such as MSCI, Morningstar and ISS ESG), including:
  - coordinating the services of any sustainability advisor, to assure Discretionary Manager compliance with the negative filter criteria of Annex 4 to these Guidelines and
  - conduct of ESG suitability assessment of Investment Funds for compliance with SRI policy.
7. Regular monitoring the performance of the Discretionary Manager(s), Investment Funds and any self-managed investments to provide the Foundation with the ability to determine the progress

toward the investment objectives.;

8. Regular (not less than semi-annual) monitoring of and report on observance of all investment parameters contained in the SAA and the implementing guidelines and ensuring that the overall risk tolerance of the Foundation's portfolio is in line with these Guidelines.
9. Regular reporting to the IC, including:
  - monthly portfolio reports on overall performance including asset allocation and performance figures for each manager and also consolidated as well as value at risk and any other agreed risk monitoring figures;
  - meet telephonically at least quarterly with the Investment Committee to discuss as appropriate overall investment performance, fund and manager performance, re-balancings to be effected, new investment opportunities, and any proposed changes (tactical or otherwise) to allocation targets; and
  - minute the results of each Investment Committee meeting,
  - annual summary and overview of all fees (including funds).
10. Conducting bi-annual Discretionary Manager and Investment Fund reviews, including review of personnel, strategy, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results, and monitoring overall adherence to the SRI Policy. In the case of Discretionary Managers, this shall include evaluating compliance by the Discretionary Manager(s) with their appointment letters. a peer manager review and a review of research capabilities.
11. Regular reporting to/meetings with MB
  - semi-annual update of the MB on IC activities and investment performance on the basis of the June and December portfolio reports to the IC;
  - tri-mestrial "donor" reports including investment volume and development of major donors as requested as well as transactions during the reported period (donations and deployments); and
  - miscellaneous reports on accrued interest and transactions, dividend forecast and interest income, forecasts on fees (Investment Consultant, Discretionary Managers and Custodian), summary and overview of all fees (including funds).
12. Communicating matters of policy, manager research, and manager performance to the Investment Committee.
13. Attending in person (unless otherwise agreed by the Foundation) a meeting of the IC and/or the Foundation MB or SB at least once per year to review past year progress and discuss issues relevant to the investments of the Foundation. The Investment Consultant will not act as an investment manager of any of the Foundation's assets.

The Investment Consultant will be held responsible and accountable to make every effort to achieve the objectives herein stated, but the liability of the Investment Consultant is limited to deliberate action and gross negligence.



## Strategic Asset Allocation

### Asset Classes & Currency Requirements

The table sets forth the asset classes allowed for investment and the currency requirements for the Cash & Equivalent and Bond asset classes. The maximum and minimum percentages in the asset class portion of the table set forth (i) permissible ranges (bandwidths) which the Management Board (with the advice of the Investment Committee) may set for allocations by the Investment Committee within the different asset classes and (ii) the permissible ranges set for the Committee as of the date above.

<b>Asset Class</b>					
<i>Cash &amp; Yield Oriented Assets</i>					
Cash & Equivalents (1)	Bonds (2)	Green Infrastructure (3)	Equity (4)	Real Assets (5)	Alternative Investments (6)
<b>Bandwidth Competence Management Board</b>					
1-40%	5-70%	0-35%	5-45%	5-15%	0-20%
<i>35-90%, of which min. 10% bonds or cash</i>					
<b>Bandwidth Competence Investment Committee</b>					
1-35%	5-50%	0-35%	15-45%	5-15%	5-20%
<i>35-75%, of which min. 10% bonds or cash</i>					
<b>Foreign Currency Allocation for Cash &amp; Equivalents and Bonds</b>					
min.75% EUR					
Max. 15% non-EUR/USD					

- (1) Includes min. AA+ rated treasury bills or bonds, money market funds, commercial paper, banker's acceptances, repurchase agreements, term deposits and certificates of deposit.
- (2) Bonds, notes and similar securities of corporations, governments and supranationals
- (3) Yield-oriented sustainable investments in infrastructure
- (4) Ordinary shares, common stock, depository receipts (ADRs, EDRs, GDRs) including convertibles
- (5) Collective investment schemes (such as funds, ETFs, REITs, partnerships) in real estate, infrastructure and other real assets
- (6) Private equity/debt, low-volatility hedge funds and absolute return strategies, guaranteed investment contracts, insurance linked securities, and similar strategies chosen for their relative lack of correlation to the broader markets

With the support of the Investment Consultant, the Investment Committee will issue detailed implementing guidelines such as:

- Boundaries re counterparty risk and market risk, including VAR
- Requirements concerning liquid tradability of securities
- Minimum required diversification
- Further definition of allowable and prohibited investment instruments

## Policy on Socially Responsible Investing

### 1. General Principles.

The Foundation aims to give preference to investments that contribute real added value in terms of environmental and social issues and taking into account governance standards. This applies both in its direct investing activity and to investments in funds and similar pooled investment vehicles.

The Foundation is, however, aware that socially responsible investment (SRI) criteria are themselves difficult to define and involve substantial areas of sometimes controversial judgments. It is also aware of the difficulty in ensuring that every security in their portfolios has been issued by companies or organizations complying with all the SRI criteria. In practical terms, the Foundation policy consists of the following:

When making investment decisions the Foundation will prioritize both:

- (i) A positive expected return to maximize the impact of the foundations' missions and activities; and
- (ii) Investments in companies or other issuer organizations that:
  - are considered not to have a significant negative impact on nature (i.e. do not have a significant business focus in one of the fields referenced in the exclusion list set forth in 2.1 below), and/or
  - make a positive contribution to nature's conservation.

Furthermore, the Foundation will be attentive to social and employment responsibility and other governance considerations when choosing investments.

### 2. Negative Filter Criteria

#### 2.1 Direct investments

Direct investments in companies which have as a significant business focus the following industries are prohibited:

<ul style="list-style-type: none"> <li>- Coal and related industries (e.g. coal-fired power plants)</li> <li>- Fossil fuels and related industries</li> <li>- Nuclear energy</li> <li>- Extraction of mineral resources and related infrastructure</li> <li>- Tobacco</li> <li>- GMO or stem cell research</li> <li>- Gambling</li> </ul>	<ul style="list-style-type: none"> <li>- Hard liquor</li> <li>- Adult entertainment or violent video games</li> <li>- Defense/firearms/weapons</li> <li>- Agriculture, fishing, timber and soft commodities (unless they qualify as positive screen, sustainably themed or impact investments)</li> <li>- Fur</li> <li>- Biocides</li> </ul>
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Direct investments in companies and countries which are known or suspected to engage in objectionable business practices are also to be excluded. Objectionable business practices especially include the violation of international norms, contained for example in the UN Global Compact principles:

<ul style="list-style-type: none"> <li>- Human Rights Violations</li> <li>- Labor Rights Violations (including forced and child labor)</li> <li>- Systematic use of animal testing</li> </ul>	<ul style="list-style-type: none"> <li>- Pollution</li> <li>- Corruption, tax evasion, illicit financial flows, accounting practices</li> </ul>
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The Foundation will contract with an external service provider to create and regularly update a list of publicly traded companies and countries that comply with the above exclusion lists. Countries that are members of the G-7 or the European Union are deemed compliant.

## 2.2 Discretionary Mandates and Customized Passive Investment Schemes

In mandate arrangements with any discretionary investment managers, the Foundation will either (i) impose the above restrictions on discretionary managers, or (ii) accept an alternative sustainability policy of a discretionary manager (the decision to accept such an alternative policy will be that of the Foundation's supervisory board).

The Foundation may also commission the development of and employ customized passive investment schemes (e.g. ETF or certificate) designed to satisfy the specified negative filter criteria.

## 2.3 Investment funds and other pooled investment vehicles

Investment funds and other pooled investment vehicles by definition have their own independent investment policies, and the Foundation recognizes that it is impossible to impose the above-mentioned exclusion criteria when making investments in pooled investment vehicles. However, many such vehicles have their own SRI policies including negative filter and best in class criteria and/or other ways of demonstrating their commitment to sustainability. The Foundation uses the following criteria to select pooled investment vehicles for investment:

- *Restricted Investment Universe Funds.* If the nature of the investment activity of pooled investment vehicle has a restricted investment universe that falls outside the business activities covered by the exclusion criteria it is by definition compatible with the SRI principles of this Policy (e.g., real estate).
- *Externally Certified Funds.* The Foundation may use and rely on sustainability rating services such as MSCI, Morningstar and ISS ESG. These providers typically employ a combination of negative filters and/or best in class screening and very often consider the UN Global Compact principles. The Foundation will only rely on rating services that are widely accepted in the market, in line with a set of rules agreed by the Investment Committee that selects the best 10% or better of the rated funds universe from an ESG perspective, and taking into account the negative filter criteria as closely as possible.
- *Foundation Vetted Funds.* The Foundation may vet and internally sanction pooled investment vehicles which consider SRI aspects. In doing so, the Investment Committee may rely on policies and other documents produced by the fund or vehicle in question and analyses of the Investment Advisor.

## 3. Positive Filter Criteria and Impact Investments

The Foundation specifically undertake to invest a part of their portfolios in direct investments, investment funds or other pooled investment vehicles which positively contribute to environmental, social or governance issues. Examples include:

- so-called Green Bonds, e.g. of KfW, following international standards applicable at the time of the investment and as long such bonds provide a positive return
- sustainable bond funds
- impact investments
- SRI themed investment funds

The Investment Committee shall, with the support of the Investment Consultant, use standard SRI criteria (such as direct contribution to an SDG) for the purpose of selection and record the relevant criteria for each decision.

## 4. Banks

In Germany or elsewhere in the EU or Switzerland, banking relationships may be established with a financial institute with a prime rating (C+ ISS ESG or similar).

## 5. SRI Targets

All Foundation investments will be made in compliance with the Policy. By 2025, 15% of the portfolio, will be in Positive Filter Criteria/Impact Investments. This schedule takes into account the fact that the investment universe for SRI investments is currently growing strongly, but that there are currently few suitable sustainable products available on the market for certain investment themes.

The Investment Consultant will monitor the sustainability profile of its investment portfolio such that it conforms to this Policy and that any material deviations are promptly brought to the attention of the Investment Committee and corrected.