



**GLOBAL CROP DIVERSITY TRUST**

Financial Statements for the year ended  
31 December 2016

SECURING OUR FOOD, FOREVER





# GLOBAL CROP DIVERSITY TRUST

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GLOBAL CROP DIVERSITY TRUST  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016

	Notes	2016 USD	2015 USD
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash & cash equivalents	4	10,835,029	12,186,769
Accounts receivable	5		
Donor		8,931	5,127,057
Other		56,861	19,613
<b>Total Accounts Receivable</b>		<b>65,792</b>	<b>5,146,670</b>
Prepaid expenses	6	777,950	191,602
<b>Total Current Assets</b>		<b>11,678,771</b>	<b>17,525,041</b>
<b>Non Current Assets</b>			
Endowment fund	9	187,962,860	157,401,648
Intangible Assets (net)		22,757	45,515
<b>Total Non Current Assets</b>		<b>187,985,617</b>	<b>157,447,163</b>
<b>TOTAL ASSETS</b>		<b>199,664,388</b>	<b>174,972,204</b>
<b>LIABILITIES &amp; NET ASSETS</b>			
<b>Current Liabilities</b>			
Accounts payable	7		
Donor		1,008,763	-
Grants		2,080,636	7,126,350
Other		493,486	359,803
<b>Total Current Liabilities</b>		<b>3,582,885</b>	<b>7,486,153</b>
<b>Non Current Liabilities</b>		<b>-</b>	<b>-</b>
<b>Total Liabilities</b>		<b>3,582,885</b>	<b>7,486,153</b>
<b>Net Assets</b>			
	8		
Unrestricted		5,740,020	5,731,807
Temporarily restricted		2,378,623	4,378,708
Permanently restricted		187,962,860	157,375,536
<b>Total Net Assets</b>		<b>196,081,503</b>	<b>167,486,051</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>		<b>199,664,388</b>	<b>174,972,204</b>

The accompanying notes are an integral part of this statement.



GLOBAL CROP DIVERSITY TRUST

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 USD	2015 USD
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>			
<i>Income</i>			
Contributions	2.6	671,845	2,410,723
		<u>671,845</u>	<u>2,410,723</u>
<i>Net Assets Released from Restrictions</i>			
Satisfaction of program restrictions	2.6	31,027,602	26,868,997
Income released from endowment fund		2,450,000	1,500,000
		<u>33,477,602</u>	<u>28,368,997</u>
<i>Expenditure</i>			
Program EXPENDITURE	10		
Conservation grants		2,587,933	2,537,189
Global system development grants		25,842,821	22,685,424
Salaries & benefits		2,344,411	2,142,737
Professional services		768,341	489,056
Supplies & Services		157,740	92,398
Travel		743,597	530,243
		<u>32,444,843</u>	<u>28,477,048</u>
MANAGEMENT & GENERAL SERVICES EXPENDITURE			
Salaries & benefits		520,818	701,130
Travel		31,872	34,639
Governance		124,412	163,822
Communications		152,531	265,096
Professional services		43,425	106,347
Facilities		306,549	244,002
		<u>1,179,607</u>	<u>1,515,036</u>
FUNDRAISING			
Salaries & benefits		110,774	201,999
Travel		159,287	224,973
Meetings		40,822	42,226
Professional services		203,280	282,714
Supplies & Services		2,621	18,400
		<u>516,784</u>	<u>770,312</u>
<b>Increase in Unrestricted Net Assets</b>		<b><u>8,213</u></b>	<b><u>17,323</u></b>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>			
Contributions		29,027,517	26,293,955
Net assets released from restrictions		(31,027,602)	(26,868,997)
<b>Decrease in Temporarily Restricted Net Assets</b>		<b><u>(2,000,085)</u></b>	<b><u>(575,042)</u></b>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>			
Contributions		23,973,891	-
Investment income		8,057,106	127,324
Net gain/(loss) on endowment fund		1,006,327	(10,989,334)
Net assets released from restrictions		(2,450,000)	(1,500,000)
<b>Increase/(Decrease) in Permanently Restricted Net Assets</b>		<b><u>30,587,324</u></b>	<b><u>(12,362,010)</u></b>
<b>INCREASE IN NET ASSETS</b>		<b><u>28,595,452</u></b>	<b><u>(12,919,729)</u></b>
<b>Net Assets as at 01/01</b>		<b><u>167,486,051</u></b>	<b><u>180,405,780</u></b>
<b>Net Assets as at 31/12</b>		<b><u>196,081,503</u></b>	<b><u>167,486,051</u></b>

The accompanying notes are an integral part of this statement.



**GLOBAL CROP DIVERSITY TRUST**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	<b>2016</b>	<b>2015</b>
	<b>USD</b>	<b>USD</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from temporarily restricted contributions	32,810,722	26,965,831
Cash received from unrestricted contributions	671,845	2,410,723
Cash released from endowment fund	2,450,000	1,500,000
Cash paid for program and operations	(3,946,799)	(4,422,260)
Grants paid	(33,337,508)	(25,980,402)
<b>Net Cash from Operating Activities</b>	<b><u>(1,351,740)</u></b>	<b><u>473,892</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash received for the endowment fund	23,973,891	3,780,122
Cash invested	(23,973,891)	(3,780,122)
Interest earned	-	-
<b>Net Cash from Financing Activities</b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Decrease/(Increase) in Cash &amp; Cash Equivalents</b>	<b><u>(1,351,740)</u></b>	<b><u>473,892</u></b>
<b>Cash &amp; Cash Equivalents as at 01/01</b>	<b><u>12,186,769</u></b>	<b><u>11,712,877</u></b>
<b>Cash &amp; Cash Equivalents as at 31/12</b>	<b><u><u>10,835,029</u></u></b>	<b><u><u>12,186,769</u></u></b>

**Reconciliation of Change in Net Assets to Net Cash from Operating Activities**

Change in net assets	28,595,452	(12,919,729)
<b>Adjustments</b>		
Decrease/(Increase) in endowment fund	(30,561,212)	12,273,754
Decrease/(Increase) in non current assets - cash	-	2,100
Decrease/(Increase) in fixed assets	22,758	22,758
Increase/(Decrease) in accounts payable	(3,903,268)	(1,035,702)
Decrease/(Increase) in accounts receivable	5,080,878	2,034,099
Decrease/(Increase) in prepaid expenses	(586,348)	96,611
<b>Net Cash from Operating Activities</b>	<b><u>(1,351,740)</u></b>	<b><u>473,892</u></b>

*The accompanying notes are an integral part of this statement.*



**GLOBAL CROP DIVERSITY TRUST  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 December 2016**

**(Expressed in United States dollars unless otherwise stated)**

**1. STATEMENT OF PURPOSE**

The Global Crop Diversity Trust (hereinafter referred to as the "Crop Trust" or the "Organization") was established in October 2004 as an independent organization under international law. This status was conferred on it through the signing of an Establishment Agreement by seven states from five of the regions referred to in the basic texts of the United Nations Food and Agriculture Organization. The international status of the Crop Trust is conferred under an Establishment Agreement, which has been signed by 28 countries.

**Mission**

The mission of the Crop Trust is to ensure the conservation and availability of crop diversity for food security worldwide.

Donors to the Crop Trust include governments from developing and developed countries, foundations, the private sector and individuals.

These financial statements have been reviewed by the Finance & Investment Committee and approved by the Executive Board of the Crop Trust.

As at 31 December 2016 the Crop Trust employed 28 full time equivalent staff members (2015: 26.5).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Crop Trust are prepared with reference to International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). However, since existing IFRS do not cover issues unique to not-for-profit organizations, the Crop Trust has drawn from other widely used standards (such as the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC)) to provide guidance on issues of importance that are not yet addressed by existing IFRS. The significant accounting policies followed are described below.

**2.1 Cash and Cash Equivalents**

Cash and cash equivalents comprise contributions and grants in advance received together with related interest earned. As contributions for the endowment fund are permanently restricted, cash and cash equivalents at year-end does not include contributions to the endowment fund.

**2.2 Accounts Receivable**

All receivable balances are valued at their net realizable value, that is, the gross amount receivable less an allowance for doubtful accounts where appropriate.

Allowances for doubtful accounts are provided in an amount equal to the total receivables shown, or reasonably estimated to be doubtful of collection. The amount in the allowance is based on past experience and on a continuous review of receivable reports and other relevant factors. When an account receivable is deemed doubtful of collection, an allowance is provided during the year the receivable is deemed doubtful. Any receivable, or portion of receivable judged to be un-collectible is written off. Write-offs of receivables are done via allowance for doubtful accounts after all efforts to collect have been exhausted.

The Crop Trust did not have any doubtful accounts during the year.

### **2.3 Non Current Assets**

This relates primarily to a permanently restricted endowment fund established by the Crop Trust to support the effective conservation and ready availability of the biological basis of agriculture.

The endowment fund investments are recorded as non-current assets at fair market value. The fair value of financial assets and liabilities is determined with reference to quoted market prices, observable market data and unobservable valuation inputs. Regular way purchases and sales of financial assets are recognized and derecognized using trade date accounting. Changes in the market value of the fund are net of investment management fees and are reported as an increase or decrease in permanently restricted net assets.

Expenditure with respect to the development of a new website is included under non current assets and is accounted for in line with our tangible and intangible asset policy outlined below.

### **2.4 Tangible and Intangible Assets**

Office equipment and furniture are recorded at cost and depreciated over the estimated useful lives of the respective assets (three to five years) on a straight-line basis where the asset has an original cost greater than USD 2,000. Items with an original cost lower than this amount are charged directly to operating expenses in the period in which they are incurred.

There were no tangible fixed assets with acquisition cost greater than USD 2,000 during the year. The Organization included the cost of website development in intangible assets in 2014. This asset is amortized over a three year estimated economic useful life commencing in January 2015.

### **2.5 Accounts Payable**

These are short-term liabilities reflecting amounts owed in respect of services received during the year, grants in advance for the year and liabilities with respect to staff vacation leave earned but not yet taken. Accounts payable also includes the net position against the Consortium Group of International Agriculture Research (CGIAR), which includes amounts held by the Crop Trust which relate to the CRP Genebank Program.

### **2.6 Revenue Recognition**

Contributions received by the Crop Trust fall into three categories:

- 1) Unrestricted – contributions not subject to donor-imposed restrictions.
- 2) Temporarily restricted – contributions subject to donor-imposed time or use restrictions.
- 3) Permanently restricted – contributions subject to donor-imposed restrictions that the funds be invested in perpetuity.

Unrestricted contributions are recorded in full upon receipt of funds as contribution income in the period received.

Temporarily restricted contributions are recorded upon receipt of funds, or upon expenditure of project costs for which contributions have been pledged, as temporarily restricted net assets and are subsequently recognized as income to the extent grant conditions have been met. The amount recognized as income for the year is reported in the statement of activities as net assets released from restrictions. Contributions pledged for project expenditure but not yet received are accrued among donor receivables to the extent expenditures have been made.

Permanently restricted contributions are recorded in full upon receipt of funds as permanently restricted net assets. In accordance with the Investment Objectives and Policies approved by the Executive Board of the Crop Trust, up to 4% of the average market value of the endowment fund over the previous twelve quarters may be withdrawn to cover program and operational expenses of the Crop Trust. Funds withdrawn are reported in the statement of activities under net assets released from restrictions.

Total annual income and support less expenditure is reported as an increase or decrease in unrestricted net assets.



## **2.7 Expenditure**

The activities of the Crop Trust have been summarized on a functional basis in the statement of activities. Accordingly, costs have been allocated between program expenditure, management and general services expenditure and fundraising expenditure. Expenses are recorded on an accrual basis in the statement of activities in the period in which the cost is incurred with the exception of direct investment management expenses, which are released from the endowment fund. The costs of the investment advisor are netted against the endowment fund in line with all other investment management fees.

## **2.8 Foreign Currency Transactions**

The Crop Trust conducts its operations in several currencies and maintains its accounting records in United States dollars.

Assets and liabilities held in currencies other than United States dollars have been translated at the year-end exchange rate. Revenue and expense items in currencies other than United States dollars have been recorded at the UN monthly exchange rate.

## **3. SUBSEQUENT EVENTS**

The Organization has evaluated events and transactions up to 28 February 2017 for potential recognition or disclosure in the financial statements. No subsequent events have been recognized or disclosed.

## **4. CASH AND CASH EQUIVALENTS**

Cash balances amounting to USD 10,835,029 as at 31 December 2016 (2015: USD 12,186,769), recorded under current assets, include grants received in advance.

## **5. ACCOUNTS RECEIVABLE**

### **Credit Risk Management**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Organization. Total accounts receivable represent 0.03% of total assets (2015: 3%). The Organization does not have any significant credit risk exposure as amounts receivable consist primarily of tax receivables and a formation capital loan to the Crop Trust Foundation.

### ***Accounts Receivable - Donor***

Accounts receivable from donors consist of claims for expenses paid on behalf of restricted projects in excess of the amount received. Accounts receivable as at 31 December 2016 amounts to USD 8,931 (2015: USD 5,127,057). This balance relates to the CRP project, which the Crop Trust entered into in 2012 and which concluded on 31 December 2016. As Bioversity International was the lead center for the CRP Genebank Program, with the Crop Trust being Program Manager, the funds were transferred to Bioversity for disbursement to the program participants on request by, and on behalf of, the Crop Trust. The Crop Trust received the balance of USD 8,931 on 19 January 2017.



The following table provides the detail of accounts receivable.

	31/12/2016	31/12/2015
<b>Accounts Receivable - Donor</b>		
Biodiversity	8,931	9,852,453
CGIAR	-	(4,732,516)
ACIAR	-	7,120
<b>Accounts Receivable - Donor</b>	<b>8,931</b>	<b>5,127,057</b>
<b>Food And Agriculture Organization of the UN (FAO)</b>		
Balance as at 1/1	-	141,836
Funds received		
Disbursements	-	(141,836)
<b>Accounts Receivable - FAO</b>	<b>-</b>	<b>-</b>
<b>Other</b>		
VAT receivable	23,976	11,127
Other	32,885	8,487
<b>Accounts Receivable - Other</b>	<b>56,861</b>	<b>19,613</b>
<b>TOTAL</b>	<b>65,792</b>	<b>5,146,670</b>

## 6. PREPAID EXPENSES

Total prepaid expenses as at 31 December 2016 amount to USD 777,950 (2015: USD 191,602). Included in this balance is an amount of USD 702,321 (2015: 146,457) for Genebank Equipment to AfricaRice which was committed in 2016 and will be delivered to the new AfricaRice genebank in early 2017.

## 7. ACCOUNTS PAYABLE

This balance consists mainly of amounts payable at the year-end in respect of global system development grants and represents grants and contributions received in advance not yet disbursed. Donor payable of USD 1,008,763 includes amounts committed for genebank equipment that will be released from temporary restrictions in 2017 and unspent funds to be returned to donor following the completion of the CRP project. These unspent funds of USD 109,537 represent 0.1% of the total project budget for the period 2012-2016 of USD 94,437,899. Accounts payable also includes payables for services and supplies received during the year.

The following table provides the detail of accounts payable.

	31/12/2016	31/12/2015
<b>Donor Payable</b>		
CGIAR	1,008,763	-
<b>Total</b>	<b>1,008,763</b>	<b>-</b>
<b>Grants in Advance</b>		
Global system development grants	2,077,003	7,011,100
Conservation grants	-	111,513
Other program grants	3,633	3,737
<b>Total</b>	<b>2,080,636</b>	<b>7,126,350</b>
<b>Other</b>		
Supplies & services	493,486	359,803
<b>Total</b>	<b>493,486</b>	<b>359,803</b>
<b>TOTAL</b>	<b>3,582,885</b>	<b>7,486,153</b>

## 8. NET ASSET BALANCES

Resources are classified for accounting and reporting purposes into net asset classes according to the restriction imposed. The following tables show the changes in net assets during the year.

### *Unrestricted Net Assets*

	2016	2015
Balance as at 1/1	5,731,807	5,714,484
Contributions	671,845	2,410,723
Net assets released from restrictions	33,477,602	28,368,997
Expenditure	(34,141,234)	(30,762,397)
<b>Balance as at 31/12</b>	<b>5,740,020</b>	<b>5,731,807</b>

### *Temporarily Restricted Net Assets*

	2016	2015
Balance as at 1/1	4,378,708	4,953,750
Contributions	29,027,517	26,293,955
Expenditure	(31,027,602)	(26,868,997)
<b>Balance as at 31/12</b>	<b>2,378,623</b>	<b>4,378,708</b>



**Permanently Restricted Net Assets**

<b>Donors</b>	<b>Balance Jan 1, 2016</b>	<b>Contributions</b>	<b>Other movements</b>	<b>Balance Dec 31, 2016</b>
Australia	16,316,296	737,097		17,053,393
Bundesverband Deutscher Planzenzuechter	25,735			25,735
CropLife International	43,726			43,726
Dupont/ Pioneer Hi-bred	1,000,000	250,000		1,250,000
Egypt	25,000			25,000
Ethiopia	25,000			25,000
Gates Foundation/UN Foundation	8,003,118			8,003,118
Germany	10,200,000	20,692,704		30,892,704
India	50,000	102,000		152,000
International Seed Federation	30,000	50,785		80,785
Ireland	4,144,250			4,144,250
KWS SAAT AG	35,588			35,588
Norway	31,491,161			31,491,161
New Zealand	50,000	716,400		766,400
Slovak Republic	20,000			20,000
Spain	2,629,650			2,629,650
Sweden	11,886,620			11,886,620
Switzerland	10,262,704	730,000		10,992,704
Syngenta AG	1,000,000			1,000,000
United Kingdom	19,468,582			19,468,582
United States	42,825,073	694,905		43,519,978
Private	750			750
Interest Earned	1,628,436			1,628,436
Unrealized gain/(loss) on investment fund (change in market value) less management fees	16,463,005		1,006,327	17,469,332
Income withdrawn	(9,181,208)		(2,450,000)	(11,631,208)
Realized gain/(loss)	(11,067,950)		8,057,106	(3,010,844)
<b>Total</b>	<b>157,375,536</b>	<b>23,973,891</b>	<b>6,613,433</b>	<b>187,962,860</b>

Further detail can be found in Note 9.

## 9. ENDOWMENT FUND

The Crop Trust manages an endowment fund, which is used to fund the effective conservation and ready availability of the biological basis of agriculture. An endowment fund provides a permanent source of financial support matching the long-term nature of conservation with long-term secure and sustainable funding.

Funds are invested in accordance with Investment Objectives and Policies approved by the Executive Board. The Finance and Investment Committee implements the investment strategy adopted by the Executive Board. Up to April 2016 the Crop Trust retained the services of an independent financial advisor, Cambridge Associates, to assist in all areas of investment management including the provision of advice on the ethical policies adopted by the Crop Trust. Following a tender process for investment management services in early 2016, the Crop Trust has now appointed two investment managers to manage the endowment funds on a 50:50 basis - Mercer Global Investments Europe Limited, based in London, and Deutsche Asset Management International GmbH, based in Frankfurt.

The Organization is an official signatory to the United Nations Principles for Responsible Investment (UNPRI), an international framework for incorporating sustainability into investment decision-making. The Crop Trust is actively working with its investment managers to find areas in which the UNPRI principles can be integrated into the decision making, manager selection and due diligence processes of the Crop Trust. In addition, the Executive Board of the Crop Trust has approved the incorporation of UNPRI factors into its investment policy statement to ensure that it addresses risks and opportunities of Environmental, Social and Governance (ESG) factors in the management of the Crop Trust's assets.

### Endowment Fund

The permanently restricted net assets at year-end of USD 187,962,860 (31 December 2015: USD 157,375,536) represent the endowment funds - principal together with changes in market value less management fees and income released - and cash and cash equivalents. The endowment fund total is represented by changes in the market value of the funds and interest earned is reported as an increase or decrease in permanently restricted net assets.

The following schedule represents the composition of the market value of the invested portion of the endowment fund including amounts held in trust in the form of cash and cash equivalents:

	31/12/2016	31/12/2015
Equities	85,387,973	67,316,813
Bonds	56,299,982	58,931,654
Hedge Fund	26,587,704	
Commodities	3,063,255	3,991,882
Private Market	2,421,309	
Cash	14,202,637	27,135,187
<b>Total</b>	<b>187,962,860</b>	<b>157,375,536</b>

The following table provides an analysis of changes to permanently restricted net assets during the year.

	Note	2016	2015
Balance as at 1/1		157,375,536	169,737,546
Contributions		23,973,891	-
Endowment Fund Gain/(Loss)	a	1,006,327	(10,989,334)
Income Released	b	(2,450,000)	(1,500,000)
Investment Income	c	8,057,106	127,324
<b>Balance as at 31/12</b>		<b>187,962,860</b>	<b>157,375,536</b>

**Notes:**

a. Endowment fund gain/(loss) represents the change in the market value of the fund and is reported as an increase/(decrease) to permanently restricted net assets, net of investment management fees. This represents an unrealized gain as at 31 December 2016.

b. The Investment Objectives and Policies of the Crop Trust permit the annual withdrawal of up to 4% of the average market value of the fund over the previous twelve quarters. During the year the Crop Trust did not require the entire 4%, only 1.4% or USD 2,450,000 was withdrawn with the balance being retained in the fund. The amount released is reported in the statement of activities under net assets released from restrictions.

c. In 2016, the realized gain on redemption of investments amounts to USD 8,057,106 and primarily relates to redemption from prior asset managers as part of the transition to the new investment managers Mercer and Deutsche Asset Management.

Further unaudited information with respect to investment risk and risk management can be found in Appendix 1.

## 10. TOTAL EXPENDITURE

The Crop Trust continued its program of providing long-term sustainable funding to the world's most important collections of crop diversity with the help of its donors; collections of banana, barley, bean, cassava, chickpea, edible aroids, faba bean, forages, grasspea, lentil, maize, pearl millet, rice, sorghum, sweet potato, wheat and yam were supported in 2016.

Program expenditure increased from USD 28,477,048 in 2015 to USD 32,444,843 as the Crop Trust continued to work with international Genebanks under the agreement with the Consortium of International Agricultural Research Centers and Bioversity International for the program 'CRP In Trust for the International Community: Plan and partnership for managing and sustaining CGIAR-held Collections (Genebanks). This is a five-year agreement for the period 2012-2016 with an approximate budget of USD 94.4 million.

The Crop Trust has an agreement with the Norwegian Agency for Development Co-operation for a three phase project on Crop Wild Relatives. The Crop Trust will enter into phase 3 of this agreement in 2017 for a period of four years from 2017 to 2020.

The Federal Office for Agriculture and Food (BLE) in Germany established a two year agreement with the Crop Trust starting in June 2016 to produce the "Genesys catalog of phenotypic datasets".

All of the technical activities of the Crop Trust, which are currently packaged in the above projects, are designed to develop and support an effective and efficient global system for the ex situ conservation of crop diversity.

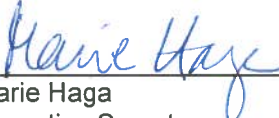


Preparatory work were completed in 2016 to establish a new charitable corporation of the Crop Trust under German law. This will offer donors subject to German taxation the option to deduct donations to the Crop Trust from their taxable income.

The Crop Trust retains the services of a government affairs company in Washington, DC, as well as services of a communications company to assist with various national fundraising efforts and to support global media outreach.

The Crop Trust continued to strengthen its public presence in 2016 with upgrades to its corporate website, the roll-out of the public awareness campaign and the addition of an online scientific blog on the importance of the Crop Trust's work for food security and nutrition.

On behalf of the Executive Board:

  
\_\_\_\_\_  
Marie Haga  
Executive Secretary

  
\_\_\_\_\_  
Janet Muir  
Director of Finance

  
\_\_\_\_\_  
Date



## APPENDIX 1 (Unaudited Information)

### Investment Risk & Risk Management

The investment objective of the Fund is to earn returns sufficient to outpace spending, maintaining the Fund's real purchasing power over time and, if possible, growing it. With this goal in mind, and given the 4% cap on spending adopted by the Crop Trust, the Fund aims to attain an annualized real total return<sup>1</sup> of at least 4%, net of fees, over rolling five-year periods.

The Fund should attempt to achieve its investment objective above within risk levels deemed appropriate by the Finance and Investment Committee (FIC) and consistent with the Executive Board approved Investment Policy Statement as follows:

- (a) Conditional Value at Risk – the forward looking one-year conditional value at risk, at a 95% probability level, should be less than 30% of the value of the Fund. This risk measures the average loss (negative change in market value) over a given time horizon and conditional on the event that the loss exceeds 95% probability level. For Mercer, the forward looking year 95% cVaR amounted to 30.5% and for Deutsche Asset Wealth Management this amounted to 11% as at 31 December 2016. Mercer made an initial allocation to private markets investments at the end of 2016 which led to an increase in the cVAR and VAR. We consider the cVAR and VAR of the total portfolio to be acceptable.
- (b) On a forward looking basis, the aim should be to maintain the annualized 10 year volatility of the portfolio at no more than 15% per annum. For Mercer the level of volatility was 15% and for Deutsche Asset Wealth Management it amounted to 14.6% as at 31 December 2016.

The investment performance of the Fund will be monitored against the investment return objective, risk tolerances and liquidity requirements set out in sections II-IV of the Investment Policy Statement. Performance reports generated by the Investment Managers will be consolidated quarterly and reviewed by the FIC. The evaluation of overall investment performance results will be assessed over significantly longer periods of time meant to capture a full economic cycle, such as rolling five-year periods.

In addition to the above, risk reporting will assess the additional financial risks incurred by the Crop Trust in pursuing its investment objective, as well as analysis of whether the expected returns justify the risks taken. These financial risks include, but are not limited to:

- **Liquidity** - The FIC recognizes that there is liquidity risk in holding assets that are not readily marketable and realizable. Given the Crop Trust's very long-term investment horizon, the FIC also recognizes that a degree of liquidity risk is acceptable in order to capture an illiquidity premium on investments. Thus up to 20% of the Fund may be invested in illiquid assets. New commitments to such investments may be restricted if necessary to ensure future compliance. Liquidity risk will be monitored regularly to ensure that illiquidity does not present a significant risk to the meeting of future planned spending requirements of the Portfolio.

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<sup>1</sup> Real total return is the sum of realized and unrealized capital appreciation (or loss) and income in the form of dividends and interest, adjusted for inflation as measured by the U.S. Consumer Price Index.



- **Concentration Risk** – The FIC recognizes the risks that may arise from the lack of diversification of investments. The Investment Managers therefore aim to ensure their asset allocation results in an adequately diversified portfolio. Some investment exposure is obtained via pooled vehicles.
- **Inflation and Interest Rate Risk** – The risk that investments do not keep pace with inflation. Investing in bonds introduces interest rate risk and inflation risk.
- **Equity Risk** – The uncertainty of the return from equities is captured in the form of equity risk.
- **Exchange Rate and Currency Risks** –The risk from unhedged investments in currencies that deviate from the currencies of expenditures of the Fund. To the extent that assets are denominated in a different currency (or in currencies in different proportions) compared to expected spending, there is a risk that adverse currency moves could impact the Fund’s ability to support the Crop Trust’s spending. The Crop Trust values its assets and considers its risk in USD terms. Whilst the Crop Trust has a global remit and spending can be made in a variety of currencies, for the foreseeable future, spending from the Fund will be predominantly in USD. Therefore, the Crop Trust aims to maintain a portfolio which is well diversified by currency and does not consider it cost effective to hedge currency exposure (for example, into USD).
- **Derivative risk** - The risk associated with investments in derivative contracts which are associated with; market risk, control and monitoring risk, legal risk, liquidity risk, leverage and collateral management.
- **Counterparty risk** - The possibility that a counterparty will not fulfill its contractual obligations.
- **Manager Risk** – The risk that the chosen underlying investment manager underperforms the benchmark against which the manager is assessed. In particular, the Crop Trust has considered the risk that active managers may underperform, whereas passive managers are likely to achieve a return close to any chosen benchmark. The Crop Trust believes active management skills exist and can be identified but not with complete certainty.