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PEACENEXUS INVESTMENT GUIDELINES

Introduction

The overall purpose of PeaceNexus (PN) is to improve the effectiveness of peacebuilding. An investment that is aligned with this purpose does not fuel conflict, but rather supports the stabilisation of "fragile states"[1].

This document guides PN's finance committee and asset managers to make sure that the investments of PN's endowment fund are in line with the purpose of the foundation. This means that investments are

a) checked against inconsistencies with the PN mission; to reach this objective PN has defined exclusion and extreme caution criteria;
b) supportive of the PN mission; to reach this objective PN has defined impact investing and engagement criteria.

The document includes: guiding principles; investment criteria and the investment framework related to financial expectations; a risk profile; asset allocation; and information on reporting/evaluation. The annexes contain more detailed criteria on what is considered company behaviour that reinforces the PeaceNexus mission as well as return benchmarks.

Guiding Principles

PN's investment policy supports the mission and values of the foundation by choosing assets that are not in contradiction with, at least neutral to, and to the extent possible supporting the purpose of the organisation.

PN's investment policy favours investments that best comply with the following principles:
- Protection of the environment and human rights;
- Good governance standards;
- Business models and innovation addressing poverty and inequality;
- Promoting the real economy rather than pursuing speculative objectives;

[1] Fragile states in general terms are countries that emerge from crisis and/or are at risk of crisis including armed conflict. Symptoms of fragile states include: disparity, poverty, discrimination; continuous security problems; dysfunctional justice system and high level of corruption; mistrust in state institutions and between different social groups; limited infrastructure and a challenging business framework with unclear rules and regulations; limited diversification of the economy; lack of capacities. An overview of current fragile states is given here: http://ffp.statesindex.org/rankings-2014. The website of self-proclaimed fragile states, the "g7+", also included indicators of what they consider signs of fragility: http://www.g7plus.org/

- Transparency and disclosure of costs.

PN prefers asset management institutions that have a proven track record in Socially Responsible Investment (SRI) and are guided by an SRI investment philosophy.

Investment criteria

1. Exclusion criteria

PN excludes investing in companies whose core business is related to[2]:

- Weapons
- Gambling
- Pornography
- Tobacco
- Genetically modified organisms
- Animal testing for cosmetic or other non-medical products or medical testing on endangered species

Investments in commodities and hedge funds are generally excluded.

In addition, PN excludes investing in companies that are found to be involved in:

- continuous controversies related to human rights, and governance issues;
- severe violations of human rights such as killing, forced labour and forced displacements;
- active support to the persistence of an oppressive regime;
- severe environmental damage
- gross corruption

2. Extreme caution criteria

PeaceNexus invests only in "best in class" companies that have good environmental, social and governance standards (ESG criteria). In case of sovereign bonds, government performance will be measured against criteria similar to those used in the MSCI ESG Government Rating Methodology.

Asset managers invest at least 80% of the portfolio in companies / government bonds from the top ESG quartile, maximum 20% in companies / government bonds from the second quartile and no investments in companies / government bonds from the two last quartiles.

[2] Tolerance levels: Exclusion from investment will arise where the turnover of a company's activities associated with any of these areas exceeds five per cent.

In critical industries such as the extractive sector, investments are limited to the top 10% ESG-ranked companies.

3. Criteria for impact investing

Due to its work on peace and conflict, PeaceNexus is active in fragile states that suffer from war or post-war instability. International companies working in these contexts are mostly those who need access to scarce resources (e.g. oil, gas, mining) and those who look for new consumer segments (e.g. IT, telecommunication, construction, pharmaceuticals) and cheap labour (e.g. manufacturing).

Conflict-sensitive companies operating in these countries can promote stability and economic development if they uphold international standards and promote the respect for human rights principles internally as well as in their supply chain.

PeaceNexus is developing an instrument to measure the peacebuilding impact of companies. This "Peacebuilding Business Index" should allow investors to pick peace-supporters within the corporate sector.

Alternatively to investments in listed companies (equity/bonds) and government bonds, PeaceNexus can also invest in specialised funds that can have a peacebuilding effect or in local companies or other businesses with a direct peacebuilding value. This includes funds, companies and other businesses that

- Provide access to finance for small and medium businesses in fragile states (e.g. through microfinance schemes);
- Provide direct financing resources and support to small and medium businesses in fragile states (e.g. through private equity funding);
- Promote income generation for vulnerable groups in in fragile states (e.g. employment generation for especially women and unemployed youth);
- Promote innovation to address challenging issues for fragile states (e.g. measures in response to climate change, access to health care, power generation, communication etc.).

4. Engagement criteria

PeaceNexus seeks to establish dialogues, mostly through collaboration with other investors, with international companies that have business in fragile states. In these dialogues, PeaceNexus promotes responsible business practices in these complex contexts based on the PBBC (see annex III). Principles include

- Create long-term and shared value
- Engage and build relationships with key stakeholders
- Promote transparency, accountability and functioning public services
- Identify opportunities to support local growth and livelihood
- Adapt company governance to address context issues effectively

To influence company behaviour, PeaceNexus will pool expertise and votes through collaboration with other investors that pursue similar principles.

Investment rules

Contractual arrangements

Asset managers are to invest in line with these guidelines and are expected to justify any investment upon request from PN, based on the criteria set herein. The investment guidelines are an integral part of the contract with asset managers. All asset management fees and other costs/benefits related to the investment vehicle have to be made transparent and be agreed upon.

Performance expectation

The target return for PN is 5% in CHF per year net of fees over a period of 10 years. Returns will be measured against the benchmark as outlined in annex II.

The implementation of the investment guidelines and the financial performance will be continuously monitored based on a benchmark reflecting the asset allocation. A full review of the financial performance will only be conducted after three years unless PN´s financial committee decides otherwise.

Risk profile

The investments have a time frame of 10 years and a medium risk to high risk profile.

Asset allocation

The strategic asset allocation should be balanced as follows: 50% for equity and 25% for bonds with a 15% leeway each way; 20% for alternative investments with a 10% leeway each way; 5% is available cash.

Access

Asset managers will provide access to key fund managers and companies to discuss the PeaceNexus' investment criteria. They will also facilitate contact with their research and analysis experts and partners.

Reporting

Fund managers will report quarterly on the implementation of the investment guidelines. Financial transactions, costs and performance are reported on a monthly basis to meet the auditing needs of the foundation.

There will be a review of the investments every six months with individual fund managers and PeaceNexus' experts in a face-to-face meeting.

ANNEX I: Criteria for “best in sector” screening

a) Environmental criteria

All companies have an impact on the environment, some sectors more than others, but all can make efforts to reduce their environmental footprint. Therefore, in sectors with a big environmental footprint and a high level of associated emissions, PN wishes to invest only in those companies that follow high environmental standards and report fully and openly on how they address these issues.

Most critical industries are: mining and metals, oil and gas, power generation, construction and utilities, transportation, chemicals, food and beverages, forestry, waste management.

b) Human rights criteria

The PN investment policy requires companies to demonstrate respect for human rights, in particular by:

- following health and safety standards for workers and communities (e.g. limits on exposure to health-threatening pollution and hours of work);
- respecting labour rights (e.g. freedom of association, abolition of forced labour and child labour, equal opportunities);
- implementing the Voluntary Principles on Security and Human Rights (e.g. regarding the use of private security forces);
- engaging respectfully with local communities (e.g. providing access to land, following the Free Prior and Informed Consent principles).

Most critical industries are: Mining and metals, oil and gas, agriculture, food and beverages, manufacturing, construction, accommodation and food services.

A number of companies source extensively from countries where governments do not provide adequate enforcement of labour standards for workers. Companies have leverage over their suppliers and can make the observance of basic labour standards a pre-requisite for business relations. PN therefore expects companies sourcing from high-risk countries[3] to monitor their suppliers’ human rights performance, in particular concerning labour rights (based on the four ILO Core Convention areas: equal opportunities, forced labour, child labour, freedom of association and collective bargaining).

c) Countering bribery and corruption criteria

The behaviour of companies can have a significant impact on corruption practices, particularly in fragile countries. Corruption fuelled by companies undermines the rule of law, weakens the credibility and functioning of public institutions, and potentially contributes to political and social tensions in a country. PN investment policy is particularly vigilant with companies that have large public contracts in high risk countries.[3]

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[3] “High risk” countries for corruption are defined as those scoring 0 or less on the World Bank Governance Indicators List or countries scoring 4 or less on the Transparency International Corruption Perceptions Index. The list is to be reviewed annually.

<u>Most critical industries are</u>: Mining, construction and utilities, manufacturing, chemicals, power generation, oil and gas, telecommunications, accommodation and food services, IT.

	Environment & climate change	**Human rights**	**Bribery & corruption**
Policy	- Does the company have an environmental policy addressing key issues, which is globally applicable? - Does the company commit to sustainability, monitoring and targets? - Does the company have a public statement or policy identifying climate change as relevant to business activities and the need to address climate change as a key concern?	- Does the company have published policies covering human rights issues that are communicated globally, and for which Board member of senior managers are responsible? - Do these policies - where relevant - include guidelines on armed security guards, respect for Indigenous Peoples rights and respect for labour standards?	- Does the company have a publicly available policy that prohibits giving and receiving bribes? - Does it publicly commit to control and restrict facilitation payments including giving and receiving gifts?
Management	- Does the company apply Environmental Management Systems? - Do those cover at least 2/3 of the company and have documented objectives and targets in key areas? - Does the company have a strategic goal of significant quantified reductions of emissions both in the short/medium and in the long term?	- How does the company monitor the implementation of the policy? - Does the company have remedies for non-compliance, training for employees (especially security forces), consulting with local stakeholders in countries of concern, and human rights impact assessments?	- Is the policy communicated to employees? - Are employees trained? - Are there compliance mechanisms in place, as well as procedures to sanction non-compliance?
Reporting and disclosure	- Has the sustainability or annual report been published recently? - Is the report public? - Does it contain meaningful performance data? - Are total emissions disclosed to the public?	- Does the company report to the public on policy and performance?	- Are compliance mechanisms publicly disclosed?
Performance	Has the company's performance improved over a given period?		

ANNEX II: Benchmarks

Asset allocation

	Weight		
	Min.	**Benchmark**	**Max.**
Cash	5%	5.0%	45%
Bonds	10%	25.0%	40%
CHF Government		12.50%	
CHF Corporate		12.50%	
Equities	35%	50.0%	65%
SPI (Switzerland)		16.67%	
MSCI Wolrd AC (World)		33.33%	
Alternative	10%	20.0%	30%
CHF	50%	66.67%	100%

Alternative in CHF

- Bonds 15% leeway
- Equities 15% leeway
- Alternative 10% leeway
- Cash min is 5% for 1 year of cost

Benchmark

	Weight (%)		Description	Currency	
Cash	**5.0%**				
		5.00%	IMON CIT CHF 3M L	CHF	
Bonds	**25.0%**				
		12.50%	IO SBI FOR AAA TR	CHF	CHF Government bonds
		12.50%	IO SBI FOR A-BBB TR	CHF	CHF Corporate bonds
Equities	**50.0%**				
		16.67%	IX SPI	CHF	1/3 Switzerland
		33.33%	MS ACF WORLD ND$	USD	2/3 Europe
Alternative	**20.0%**				
		20.00%	IMON CIT CHF 3M +2.5% DIV	CHF	
TOTAL	**100.0%**				

ANNEX III: The Peacebuilding Business Criteria - PBBC

PN will develop a peacebuilding-relevant set of criteria at a later stage to further guide asset managers.