



## INVESTMENT GUIDELINES

March 2018

FRIENDS FIDUCIARY CORPORATION  
Investment Guidelines

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## SOCIALLY RESPONSIBLE INVESTING: FRIENDS TESTIMONY OF VALUES AND ACTIONS

### 1. Quaker Values

Historically and today, Friends (also called Quakers) believe investments should be made in businesses that serve a beneficial purpose to society. As in all our experiences, the judgment of what is beneficial to society changes over time in both degree of certainty and importance. Friends Fiduciary is guided in this challenge and obligation by the Quaker testimonies of simplicity, peace, integrity, community, equality and stewardship.

### 2. World Citizenship

Friends Fiduciary reviews a company's products, management, employment and personnel practices, and its respect for human rights, community relations and environmental commitment. While we strive to invest in most sectors of the economy, we especially seek companies that are good corporate citizens and that perform well in terms of environmental, social and governance (ESG) criteria. We approach our work with the understanding that within our faith community there is a wide range of viewpoints on these issues.

### 3. Investment Portfolios

A unifying and consistent belief of Friends is the importance and value of the peace testimony. Adhering to this and other broadly held Quaker values and a sense of world citizenship, when considering companies for addition to our portfolio, we evaluate them based on their environmental, social, and governance performance. We use objective, third party sustainability research services as well as non-profit reporting and our own research to screen companies and assess those who would be considered best-in-class.

The following criteria are followed in the development and construction of our investment portfolios:

#### ENVIRONMENTAL

- We seek to avoid investing in businesses involved in the production and in some cases the distribution and/or servicing of coal mining.
- Companies engaged in the exploration, production, refining and/or transportation of oil and gas products are evaluated against their industry groups and peers using industry standard, objective ratings data as well as non-profit reporting and benchmarks.
- For companies engaged in electricity production, we seek to invest in 'cleaner' companies with a more favorable fuel mix.

## SOCIAL

- We exclude from our portfolios companies whose business involves the production, distribution, and/or direct support of weapons or weapons components.
- We seek to avoid investing in business involved in the production and, in some cases, the distribution and/or servicing of alcohol, tobacco, firearms, gambling, pornography, and for-profit prisons.
- We evaluate companies on their human and labor rights performance using industry standard objective ratings data and conducting our own research. We look at company performance on labor management relations, including hiring practices; employee and management diversity; employee health and safety; and child labor and supply chain standards, among others.
- We also consider company involvement in internationally recognized conflict zones and occupied territories, due to the unique risks such involvement may pose. We avoid investing in companies that provide products or services that materially contribute to the maintenance and expansion of occupied territories and conflict zones.

## GOVERNANCE

- We assess company corporate governance policies and practices as well as our ability to impact a company through direct dialogue, engagement and/or proxy.

## PURPOSEFUL INVESTMENTS AND ACTIONS

Quaker testimonies and values guide our investment activity in three primary ways:

### **1. Screening**

We actively screen for companies that meet our social responsibility investment criteria, as outlined above

### **2. Proxy Voting**

We deliberately vote our shareholder proxies in a manner that communicates our Quaker values on financial and social issues to corporate management. Our specific intentions are stated in "Proxy Voting Policy Guidelines." These guidelines provide an overview of how Friends Fiduciary intends to vote its proxies on most issues and are reviewed on an annual basis in order to update them as new social and corporate governance issues arise.

### **3. Shareholder Resolutions and Company Dialogues**

We join other institutional and faith-based investors in company dialogues and shareholder resolutions to encourage reform.

## INVESTMENT OBJECTIVES AND MEASUREMENTS

The Investment Committee sets investment objectives and tracks the performance of FFC's funds.

### **1. Time Horizon**

Friends Fiduciary's investment guidelines are based on a long-term investment time horizon. Interim fluctuations in market value should be viewed with that perspective.

### **2. Risk**

Portfolios are exposed to a range of risks including market risk, interest rate risk, credit risk, and currency risk. These risks generate volatility in the value of the portfolio and in its return pattern over time. Friends Fiduciary invests in a diverse range of asset classes, investment styles, managers and securities in order to minimize volatility in the portfolio as a whole.

### **3. Asset Allocation**

Asset allocation targets are established with the goal of providing annual total returns (capital appreciation + interest and dividends) over the long term that exceeds the annual distribution plus long-term inflation. This reflects Friends Fiduciary's goal of protecting the long-term purchasing power of constituent accounts.

### **4. Performance**

Investment performance is calculated in compliance with Global Investment Performance Standards (GIPS) for all Friends Fiduciary funds on a monthly, quarterly and annual basis.

### **5. Measurement**

Investment returns are monitored over various periods of time. Each fund has a benchmark composed of commonly used market indexes appropriate to its asset allocation. Common indexes currently in use are the Standard and Poor's 500 Index, the Russell Mid-Cap Index, the Russell 2000 Index, the Barclays Aggregate Bond Index, the FTSE NAREIT Index, the MSCI-EAFE (Europe Australia Far East) Index and the MSCI-All Cap World Index ex-U.S.

## RESPONSIBILITIES OF OUTSIDE INVESTMENT MANAGERS

Outside managers must manage the assets under their care according to the guidelines with particular emphasis on Quaker values and Friends Fiduciary's social responsibility objectives.

The Investment Committee is charged with monitoring managers' adherence to the investment styles for which they were hired. Managers must inform Friends Fiduciary Corporation in writing of any significant change that might affect Friends Fiduciary's portfolios, such as changes in investment strategy, organizational structure, professional staff, ownership, financial condition and SEC or other agency regulatory issues.

Additional specific requirements relative to Friends Fiduciary's operations and portfolios are noted below:

### **1. Unauthorized Securities and Transactions**

- A. Letter stock and other unregistered securities; commodities contracts; short sales and margin transactions are not permitted.
- B. Lending, pledging or hypothecating of securities is not permitted
- C. Investments for the purpose of exercising control over management are not permitted.

### **2. Domestic Equity Portfolios**

- A. Individual holdings must be in entities whose shares have ready liquidity in the markets.
- B. Holdings in any one company should not exceed 5% (at cost) of the value of each advisor's account. Requests to amend the 5% limit may be considered on a case by case basis by the Investment Committee at the request of the managers.
- C. Allocation to any one economic sector should not be excessive and should be consistent with the advisors' investment style, as described in their written materials.
- D. Managers may hold a portion of the assets in cash reserves, but they will be measured on the performance of the total funds under their management.
- E. Managers will use suitable socially responsible investment research and analysis. This must include reviews from MSCI ESG research or other approved sources.

### **3. International Equity Portfolios**

- A. It is recognized that international investing is fraught with numerous challenges. Incorporating socially responsible screens magnifies these difficulties. Investing in 'emerging markets' is particularly difficult especially when weighing potential social positive impacts against what is often less than ideal information and subsequent higher risk. The Investment Committee monitors international investment for a prudent balance between developed and emerging market exposure.

Holdings in any one company should not exceed 5% (at cost) of the value of each advisor's account. Requests to amend the 5% limit may be considered on a case by case basis by the Investment Committee at the request of the managers.

## 4. Bond Portfolios

### A. Asset Mix

Bond portfolios may invest in U.S. dollar-denominated debt obligations of U.S. and non-U.S. issuers. Global mandates may use local currency-denominated obligations of non-U.S. issuers. Managers may hold a portion of the assets in cash reserves, but they will be measured on the performance of the total funds under their management.

### B. Eligible Investments

At the manager's discretion, direct obligations of the U.S. Government (i.e. US Treasury Bills, Notes and Bonds) may be used as a temporary source of liquidity and/or a 'safe-haven' during periods of extreme market stress and dislocation. The intention is to avoid these securities as long-term investments in the portfolio.

Eligible investments include any security contained in the Index and may include the following:

- U.S. government and agency securities
- Sovereign and supranational securities
- Corporate securities
- Green Bonds
- Non-U.S. issuer securities denominated in U.S. dollars, including Yankee bonds, Eurobonds and Global bonds
- Non-U.S. issuer securities denominated in local currencies (Global mandates only)
- Mortgage securities, including CMOs, whole loans and CMBS
- Asset-backed securities
- Inflation-linked bonds
- Medium-term notes
- Municipal securities
- Derivatives may be used in global mandates for the management of currency risk
- Treasury futures used to adjust duration
- Fully collateralized loans to constituents

Investing in the following securities is not permitted:

- Derivatives, including exchange-traded and over-the-counter derivatives such as interest rate, credit and index futures; bond and swap options; and other derivative instruments, except as noted above in Global mandates for currency risk.
- Private placements, including bank loans and other restricted securities
- Insurance surplus notes

- Securities classified as hybrids, contingent convertibles, convertible bonds, equity, preferred equity and any equity-based derivatives.
- Credit-linked notes
- Structured notes
- Dollar roll transactions

Managers must consult Friends Fiduciary if they wish to purchase securities that they deem to have similar risk characteristics to those in the Index, but which are not explicitly approved as eligible investments.

#### C. Duration

The average duration of the portfolio will be within 12 months of the average duration of the index/benchmark in use for each respective bond portfolio. Requests to amend the duration limit may be considered on a case by case basis by the Investment Committee at the request of the managers.

#### D. Credit Quality

Investment-grade rated securities will be purchased; however, up to a total of 20% of portfolio assets may be held in non-investment grade securities with a limit of 10% below investment grade domestic bonds and a limit of 10% below investment grade emerging markets bonds. Securities rated below investment grade due to a ratings downgrade by the rating agencies will be included in the maximum of 20% of portfolio assets. The purchase of non-rated issues is prohibited. These guidelines apply to all co-mingled portfolios with the exception of Charitable Gift Annuity (CGA) portfolios which must adhere to state-mandated credit guidelines.

Credit ratings for bond issues will be the highest of Moody's, S&P or Fitch. Investment-grade securities are securities whose long-term debt is rated at least Baa3 by Moody's, BBB- by S&P, or BBB- by Fitch. Requests to amend the prohibition on non-rated issues may be considered on a case by case basis by the Investment Committee at the request of the managers.

#### E. Diversification

FFC seeks broad diversification by market sector, industry and issuer. Exposure to any single issuer, excluding the U.S. government and its agencies, will not represent more than 5% of portfolio assets at time of purchase. Requests to amend the 5% limit may be considered on a case by case basis by the Investment Committee at the request of the managers.

## F. Investment Terminology

For the purposes of these investment guidelines:

**Agency or Agencies** are issuers whose securities carry direct guarantees of timely payment of interest and principal from governments, are majority owned by a government, or carry out government policies and benefit from “closeness” to the government.

**Duration** means effective duration, determined and applied in good faith and in accordance with standard industry practice.

**Green Bonds** are fixed income securities that are commonly issued for the development of brownfield sites; e.g. areas of land that are underutilized, have abandoned buildings or are under developed. For the purpose of these guidelines Green Bonds are further defined as fixed income securities the proceeds of which may be used for the following environmentally beneficial projects and activities.

- Renewable Energy
- Energy Efficiency
- Environmentally Sustainable Waste Management
- Environmentally Sustainable Land Use
- Biodiversity
- Environmental Finance
- Pollution Control
- Clean Technology
- Clean Transportation
- Clean Water and/or Drinking Water

### 5. REIT Portfolios

The REIT manager should look at the underlying use of real estate, particularly avoiding prisons, casinos and uses that might conflict with Friends Fiduciary’s socially responsible guidelines.

### 6. Cash

Cash shall be invested daily through an automatic interest-bearing sweep vehicle managed by the custodian.

## REPORTING

Period end statements are prepared for constituents as of the last day of each quarter and list current balances, and any deposit or withdrawal of activity during the prior three-month period. Constituents have access to the annual audit, quarterly fund factsheets, newsletters and our socially responsible shareholder activity. Quarterly holdings reports of individual securities held in the co-mingled funds are available upon request.

## DISCRETION AND QUESTIONS

Any item not specifically covered in this policy resides in the discretion of the Investment Committee and the Board of Directors.

Questions and concerns may be directed to:

Friends Fiduciary Corporation  
Telephone: (215) 241-7272  
Email: [info@friendsfiduciary.org](mailto:info@friendsfiduciary.org)  
[www.friendsfiduciary.org](http://www.friendsfiduciary.org)

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