Homewood Friends Meeting

What Guides Trustees in Making Investment Decisions?

Trustees are charged with the responsibility of managing the Meeting’s market investments as well as a group of alternative investments, which are essentially loans to Quaker and community organizations.

As part of our management of the Meeting’s market investments, we decide each year on a percentage to be used in calculating the amount that Trustees will contribute to the Meeting’s operating budget. This percentage is then applied against the average of the prior three-year balance of the total investments. The three-year period is used in order to smooth out precipitous variations in the market. The Trustee’s annual decision of what percentage is used is based upon the needs of the Meeting for the coming year, standard practices for not-for-profit organizations as communicated to us by our fund managers, and the goal of maintaining a balance sufficient to continue supporting the Meeting in perpetuity. This decision over the last few years reflects the additional goal of Trustees gradually to grow the total value of the Meeting’s investments to the level before the severe market decline in 2008/2009, primarily to build up a reserve for future major expenditures, such as a new elevator or replacement of the heating system.

Trustees have decided that we should invest in mutual funds rather than individual stocks, so that professional managers are managing our funds for us. Our decisions about which mutual funds to invest in is guided by four major concerns:

1) A fund must be a socially responsible fund managed in keeping with our Quaker values. Munitions, polluting energy companies, etc. must be excluded or minimized. Funds are favored if they invest in alternative energy companies and other environmentally protective companies.

2) A fund must invest in companies that meet our standards of corporate governance. The invested businesses should have stated policies and demonstrated practices in consonance with Quaker values such as equal-opportunity hiring practices; respect for employees; a reasonable ratio of management/employee compensation; providing health care, vacation, profit-sharing and other progressive benefits to their employees. In short, is it a good place to work for both management and employees?

3) The fund management should engage in shareholder advocacy by actively seeking to influence their invested companies to improve their policies in both social responsibility and corporate governance. All mutual funds that label themselves as socially responsible claim to work in shareholder advocacy, but many only piggy-back their efforts on the initiatives of other funds or merely give lip-service to the concept.

4) Financial returns. We seek to get the greatest possible financial return for the Meeting. One way to do this is to invest only in funds that have either an average or smaller than average management fee. Funds that charge hidden fees, such as the Templeton Social Responsibility Fund, are therefore easily eliminated from consideration.

How do our current investment funds comply with these guidelines?

The Trustees currently have investments in three mutual funds:

Trillium Asset Management - Trillium is a very active socially responsible fund. They have several fund managers, but our investments are primarily managed by Cheryl Smith, with whom we communicate directly and especially every year or two during in-person meetings. Our investments are managed with a general strategy to match other Trillium clients, but can be altered to suit our individual preferences. For example, if we have a problem with an invested company, Trillium is responsive to divesting. Trustees have generally assessed Trillium’s advocacy work to be the strongest of our current three funds because they have a greater number of initiatives and a greater focus on corporate governance than our other funds. Details of their advocacy work is included in their monthly newsletter. Trillium issues monthly reports on the value of our investments and all transactions
conducted during the month. Their funds generally perform well overall, but better in a down market than the *Pax World Balanced Fund*. Their management fees are clearly listed each month and are pegged at 100 basis points or 1.0% - the industry average. Because they are easy to work with, we generally withdraw money from this fund when cash is needed to support the Meeting’s expenses.

**Pax World Balanced Fund** - Pax is a long-standing socially responsible fund. Many other Quaker organizations have invested with them. We rely on their stated screening standards and a careful review of their invested companies to ensure that they maintain quality in their social responsibility. They are not as active in share holder advocacy as the other funds, but they have been improving over the years. Pax is generally the best performer of our three funds, particularly in an up market. They only issue detailed reports on a quarterly basis and their management fees are not reported directly, but rolled into the overall value of the fund at reporting time. Their fees are pegged at 95 basis points or 0.95%. They are somewhat difficult to work with because of imposed limitations on withdraws and their strict signature requirements.

**Friends Fiduciary Fund** - Trustees made the decision to add this fund to our investments in 2014 and have gradually transferred funds from Pax to Friends Fiduciary. We are invested in their *Sustainable Opportunities* fund and will consider investing in their relatively new *Green Fund* after it has had a chance to develop more of a performance track record. Friends Fiduciary is a Quaker run fund that has the highest level of screening standards of our three funds and is in excellent correspondence with our Quaker values. It has a unique management approach in that it hires independent fund managers with expertise in market areas to manage portions of the overall portfolio. It communicates its screening standards to these outside managers and changes managers if they fail to comply sufficiently. Their advocacy work seems to be only slightly behind that of *Trillium* and is gradually getting more comprehensive. They communicate their advocacy via a quarterly newsletter. We are still getting more of a reading on their performance, but they outperformed the other two funds in the generally down market of 2015. Their management fees, though not explicitly stated in reports, are pegged at 75 basis points or .75%, the lowest of our three funds. They are easy to work with and quite responsive to special requests.

**How have Trustees applied these guidelines to investment decisions?**

Over the past few years, Trustees have made several decisions to make changes in our investments and have been informed by the guidelines outlined above.

In 2012, we decided to add Friends Fiduciary Fund because of its greater degree of adherence to Quaker values. Early in 2013 we were finally able to begin transferring funds into the account. The other two investment funds reflect our Quaker values well, better than many other socially responsible funds, but Friends Fiduciary seemed to be a more perfect fit because of its Quaker background. We also were drawn to its unique management strategy, the prospect of good returns and its promise of establishing a *Green Fund* in the future.

In 2015 we decided to move all of our Trillium investments from its *Standard Investments* strategy to the more green-based *Sustainable Opportunities* strategy because of its much greater focus on green investments and issues of sustainability. We realized that the performance returns might not be as good, but the adherence to Quaker values was greater.

Based on a detailed analysis of the holdings of all three funds in the worst pollution generating companies as listed on 350.org’s published list of 100 worst polluters, Trustees decided that both Trillium and Friends Fiduciary were doing well in essentially eliminating those polluters from their invested companies. Pax however was conspicuous by its comparatively large holdings with polluters. Consequently, we decided to send a letter to Pax early in 2014 suggesting that they divest of several of their more egregious holdings. Over the next year, their percentage of “pollution investments” dropped from 2.3% to less than 1%.