Financial Services for Quaker Organizations Since 1898

Friends Fiduciary

ADDING VALUES TO STRONG PERFORMANCE.

From Jeff Perkins, Executive Director

Our last newsletter was published in January – wow, have things changed since then! While there were rumblings about a virus in China, it seemed distant and unremarkable to many in the US. We are being reminded of the interconnection and interdependency of the human species. This has been underscored by the protests calling for change following the recent violent deaths of black and brown people at the hands of the police. These events and the uncertainties of our current times have also been reflected in the stock market volatility. Through all of this, we at Friends Fiduciary have continued our work, with staff rotating between working remotely and working from our office to ensure we meet our constituents’ needs. We hired our first investment Analyst – Ahmed Naji – in mid-March. While arriving just as we began remote operations, Ahmed has integrated well with the team and is working closely with Rich on analysis and research in support of our investment activities.

We recently shared our announcement that Friends Fiduciary is going fossil fuel free in all our portfolios. In its deliberations, the board carefully considered the investment risk of companies that hold fossil fuel reserves, as well as companies involved in the extraction and refining of fossil fuels; all such companies are excluded under the new policy. In addition, companies that derive a majority of revenue from the transportation and storage of those products will also be excluded. The new policy includes refined screens for utility companies and their fuel stock mix for power generation, favoring those moving towards renewable energy. These new screens reflect our investment philosophy that companies with this exposure could represent an additional risk to shareholder value and are less likely to be sustainable in the long-term.

With all our investment options becoming fossil fuel free, this fall we will be reaching out to constituents currently invested in then Quaker Green Fund to discuss options. We are developing an all-world, all cap stock fund with a rigorous focus on companies leading the transition to a low-carbon economy. This could be a supplement to the Quaker Growth & Income Fund for those constituents who want a dedicated allocation to a green stock strategy.

continued on page 2

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Investment Review

As many states attempt to emerge from weeks of quarantine and lockdown, there is a striking difference between trends in the economy and the dramatic rise in stock prices. After collapsing -34% from its all-time high on February 19, the S&P 500 staged an impressive 14-week move, surging +39% through June 30 and prompting some to speculate if the markets had come too far, too fast. One of the most hotly debated topics in investment circles is the shape of the US economic recovery – will it be a V-shaped recovery, a W, an L, or some combination of letters? This outcome will ultimately be dictated by the path of the coronavirus pandemic and how successful we as a nation are at safely re-opening the economy. As we enter week 26 since COVID-19 was first detected in the US, many sectors of the economy continue to struggle under the weight of supply chain disruptions and heavy debt burdens with brick-and-mortar retailers, restaurants, leisure & entertainment, and airlines particularly hard hit and their stock prices have collapsed more than -40% since January 1. Taking up the slack and propelling the S&P 500 index to within 1.5% of its January 1 value are biotechnology and pharmaceuticals stocks as well as so-called “stay at home” sectors like internet & wireless services, home improvements, computer hardware, and grocery store chains. It is widely accepted that stock prices move in advance of trends in the economy, and for the most part this is supported by historical data as the S&P 500 bottomed prior to the end of seven of the past eight recessions by an average of 5.7 months. Given this pattern one could speculate that the economy may bottom in the third quarter of 2020; but the nature of the pandemic and its long-lasting effects on human behavior suggests subdued economic conditions well into 2021. The rebound in stock prices is likely in recognition of marginal improvements in several economic factors. After peaking at 6.8 million on March 27, initial jobless claims have shown gradual improvement every week since, and even though the most recent July 3rd report came in uncomfortable high at 1.3 million claims, the 10-week trend has been in a positive direction. In addition, retail sales increased by +7.5% in June and +18.2% in May, a welcome rebound after the negative -14.7% dip in April. Other indicators appear to be bottoming as well – both the University of Michigan Consumer Sentiment Index and the Conference Board’s Index of Leading Economic Indicators look as if they bottomed in April, and the number of job openings as reported by the Bureau of Labor Statistics showed improvement in May.

Notwithstanding challenging business conditions in the first six months of 2020, Friends Fiduciary’s balanced funds performed well relative to their benchmarks. The Quaker Growth & Income Fund posted a six-month total return of -3.3% versus the benchmark return of -5.7%. Trailing one-year results were also strong with the fund gaining +3.4% versus the benchmark return of +0.9%. Allocations to active managers provide much needed stability with large cap growth manager Brown Advisory, small cap manager Kayne Anderson Rudnick, and international manager Boston Common Asset Management posting above benchmark results. The fund’s passive components – Quaker Index and Quaker ADR Funds - provided positive contributions with above benchmark performances as did the fund’s allocation to real estate investment trusts. Counteracting negative returns in equities, the fund’s allocation to fixed income provided a positive ballast with a +4.9% total return for the six-month and +6.9% for the trailing one-year period.

We believe changes made in December 2019 to the composition and asset mix of the Quaker Green Fund have benefitted investment results through the first half of 2020. Year-to-date, the Quaker Green Fund posted a total return of -4.5% versus -5.1% for...
Investment Review continued from page 1

the benchmark. As with Quaker Growth & Income, active and passive strategies contributed to the outperformance. Large cap growth and mid cap managers Brown Advisory and Walden Asset Management, respectively, posted above benchmark results as did the fund’s passive components—the fossil fuel-free versions of the Quaker Index and Quaker ADR Funds. Trailing one-year returns were slightly above benchmark, +1.9% versus +1.6% for the benchmark.

The outperformance trend continued with the Quaker Index Fund as the fund posted a modestly negative -1.2% return versus -3.1% for the S&P 500 Index. Trailing one-year returns were +9.5% compared to +7.5% the S&P 500 Index. The fund’s underweight to Industrials was the single biggest contributor to the outperformance in the first half of 2020 followed by positive ESG stock selection in Consumer Discretionary and an underweight in the Energy sector.

Following a period of underperformance in first quarter 2020, the Short Term Investment Fund (STIF) posted strong second quarter results bringing year-to-date performance up to +2.3%, slightly below the benchmark return of +2.4%. For the trailing one-year period, returns modestly outpaced the benchmark at +3.7% versus +3.0%. Federal Reserve Bank actions prompted a sharp drop in short-term rates during the first six months, the fund’s yield-to-maturity declined to 0.8%; but the fund’s low duration of 2.1 years and focus on high quality bonds continue to make STIF a sound investment for short term funds.

The Quaker Growth & Income and Quaker Green Funds operate with semi-annual distributions that occur in June and December. Distribution rates are designed to provide reasonable and reliable income while preserving the purchasing power of the account’s principal over the long term. Distribution rates are reviewed annually by the FFC Investment Committee and approved by the Board of Directors. Constituents may take more or less than the semi-annual amount, and withdrawals can occur at any time throughout the year. In December 2020, the Quaker Growth & Income Fund will distribute $1.05 per unit representing a 4.0% distribution rate, up from $1.04 in June 2020. The Quaker Green Fund will distribute $0.67 per unit in December 2020, even with the $0.67 per unit distributed in June 2020, and representing a 3.5% rate.

As we enter the second half of a very challenging year, we expect continued market volatility as promises for a coronavirus vaccine are punctuated by alarming headlines on the number of new COVID-19 cases and subsequent damage to the US economy. Just as pharmaceutical and “stay at home” stocks have led the market rebound since March, so too will cyclical stocks — those impacted by macroeconomic trends — make a rebound as investors sense improving economic conditions. We know when it comes to investing there are few guarantees, but we believe our commitment to asset class diversification and our disciplined approach to maintaining balance across investment styles, asset managers, and geographies provide the best opportunity to participate in upward market moves while dampening the effects of inevitable market declines. Thank you for investing with Friends Fiduciary - we appreciate your support! Stay safe!

Richard Kent, CFA, Chief Investment Officer

From the Executive Director continued from page 1

I would also like to highlight two investments earlier this year. In partnership with Philadelphia Yearly Meeting we made our first impact investment with a regional community development financial institution, the Reinvestment Fund. We invested in their bridge loan fund providing key financing primarily for non-profits in the Delaware Valley, Maryland and Georgia. This investment is part of the fixed income allocation in the Quaker Growth & Income Fund. In addition, we recently purchased part of the Ford Foundation’s social bond issue in response to COVID-19. This bond financing was a creative way for the Foundation to leverage their assets in support of their racial justice work and health funding during these difficult times. The bond met our strict investment parameters for fixed income and provides a strong social return as well.

Our shareholder engagement work has continued unabated through the pandemic. We have joined efforts to address concerns with company practices and policies around COVID 19 and racial justice; Kate’s article provides more detail on this work.

As we all adjust to a “new world” I hope that you, your loved ones, and your Quaker communities are healthy and safe.

Services Supporting Friends Organizations:

Friends Fiduciary will receive and liquidate stock gifts from your members and donors for free when the proceeds are added to your fund at FFC. We offer free or low cost stock gift processing brokerage services that save you time and money. When stock gift proceeds are paid out, FFC charges a fee of $25; for the current fee schedule visit the “Services for Donors” page in the Charitable Services section of our website.

Friends Fiduciary offers donor advised funds to Quakers and those wishing to benefit Quaker organizations. A donor advised fund is established with an irrevocable gift to Friends Fiduciary for which the donor receives a tax deduction when the gift is made. The donor retains the ability to make grant recommendations from the fund to qualified charities.

Donors can recommend grants once their fund reaches $25,000. Donors can start up a fund with an initial contribution of $5,000 and then take a maximum of three years to build the fund to the $25,000 minimum. For more information on donor advised funds, please contact Mimi Blackwell at mblackwell@friendsfiduciary.org or 215-241-7272.

Friends Fiduciary Funds

Investment Returns for the Period Ending June 30, 2020

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<tr>
<th>Fund</th>
<th>2nd Q</th>
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<th>3-Yr</th>
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<td>Blended Benchmark2</td>
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<tr>
<td>Quaker Index Fund</td>
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<tr>
<td>S&amp;P 500 Index</td>
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<tr>
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Annualized Returns

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<th>10-Yr</th>
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<td>2.4</td>
<td>1.7</td>
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</table>

All returns are in percent, gross of fees, and reflect the reinvestment of dividends. No predictions are made for the future. Past returns are no guarantee of future results.

1Blended Benchmark: 28% S&P 500, 9% Russell Mid-Cap, 8% Russell 2000, 25% MSCI ACWI ex-US, 5% FTSE NAREIT, 18% Barclays Aggregate Bond, and 7% Barclays Global Aggregate Bond as of 12/31/19; formerly, 28% S&P 500, 9% Russell Mid-Cap, 8% Russell 2000, 25% MSCI ACWI ex-US, 5% FTSE NAREIT, 25% Barclays Aggregate Bond.
2Blended Benchmark: 23% S&P 500, 8% Russell Mid-Cap, 8% Russell 2000, 21% MSCI EAFE Index, 10% MSCI World Index, 5% FTSE NAREIT, and 25% Barclays Aggregate Bond as of 12/31/19; formerly, 25% S&P 500, 10% Russell Mid-Cap, 8% Russell 2000, 21% MSCI EAFE Index, 10% MSCI World Index, 25% Barclays Aggregate Bond.
3Blended Benchmark: 30% Both Merrill Lynch 1-Year US Treasury & Agency Index, 20% Lipper Money Market Index.

Fees: The Quaker Growth & Income Fund budgeted expense ratio for 2020 is 0.77%. The Fund’s expense ratio for the past five years has averaged 0.76%. The Quaker Green Fund annual fee is 0.90%. The Quaker Index Fund operates with a tiered fee schedule of 0.30% on the first $5 million, 0.25% on the next $5 million, and 0.20% on balances above $10 million. The Short Term Investment Fund annual fee is 0.34%.
A Quaker Voice On Wall Street

The 2020 shareholder engagement season marked another successful year of bringing Quaker values to Wall Street. Our work this season, however, has been marked by the murders of George Floyd, Breonna Taylor, and so many others by police, as well as the global pandemic. These events have laid bare the racism and inequality endemic to our society and economy, and highlighted the importance of issues that we have been raising with companies for years such as equity in the workplace, paid leave, and drug pricing.

As Quakers and as investors, we believe a more just, equitable, and inclusive economy is essential to the long-term success of our society and therefore our portfolios. Our work on Wall Street is a witness to that world that we seek.

2020 SEASON OVERVIEW

In addition to the work outlined above, we have continued our work across the environmental, social, and governance spectrum. We engaged 51 companies in over 20 different issue areas. Of those 51 engagements, 26 were resolutions and 25 were dialogues. We were able to withdraw 12 of the resolutions following substantive company commitment, for an overall withdrawal rate of 46%.

Although we engage with a wide variety of companies in a wide range of issue areas, we tend to take leadership in areas where we have built up a level of expertise. Serving as “lead” with a company means we are the investor with the primary company relationship, responsible for gathering other interested investors and setting the dialogue agenda. In the 2019-2020 season, we were lead investor on 20 engagements. 11 of those were resolutions and 9 were dialogues. For the 11 resolutions that we filed as lead, 7 went to a vote, and we withdrew 4 following substantive company commitments. However, that doesn’t mean that there weren’t substantive company commitments made in the 9 engagements where we didn’t file resolutions—in fact, many of those engagements are long-term relationships that may have begun with a resolution, but where the companies have continued forward progress, and no shareholder resolution was needed.

The resolutions that went to a vote received record levels of support—including one resolution, asking for disclosure of political contributions at Centene Corporation, that passed with 51% of the vote. Our resolution asking Vertex Pharmaceuticals for lobbying transparency received just under 49%—up from 32% last year. We also received high votes at Delta (political contribution disclosure, 45.98%) and Expedia (political contribution disclosure, 36%).

OPPORTUNITY IN A TIME OF CRISIS

The steps above are just a few of the actions we have taken to address racial injustice and COVID-19 and other important issues. This time of crisis has made it even more clear where our economy fails people and communities. As we head into the coming engagement season, we are looking critically at how we can best use our unique voice as Quaker, responsible investors, in service of better outcomes for the people most impacted.

As we set strategy for the 2021 season, we are prioritizing ways we can use this current moment to encourage a paradigm shift at companies in terms of their relationships with their stakeholders.

Kate Monahan, Shareholder Engagement Manager

WORKING FOR RACIAL JUSTICE

As our Executive Director outlined in our June statement, we are committed to doing our part to dismantle systems of racial oppression, both in our own operations and in our corporate engagements. Over the past several years, we have successfully advocated for companies to tie diversity, equity, and inclusion metrics to executive compensation, to publicly release data on the race, ethnicity, and gender of their employees, and to diversify their boards. This year, through our work with companies on private prison financing, predatory lending, and hiring practices, we have used our leverage to catalyze changes in some corporate policies and practices that have particularly impacted people of color. This year, we engaged with several banks, including Regions Bank and Citizens Financial, on their financial relationships with private prisons, urging them to sever ties. We voted against directors of boards without a woman and a person of color, and against the Nominating Committees of boards with less than 30% women and people of color. We co-filed a resolution at Apple asking for the company to tie executive compensation to sustainability metrics, including diversity, equity and inclusion, which received 12% of the vote in February—but we are optimistic that more mainstream asset managers are seeing the importance of creating executive accountability for company culture and hiring practices, and may be more likely to support future resolutions.

IMPACT HIGHLIGHTS

- Our resolution at Centene Corporation asking for political contributions disclosure was one of 19 resolutions in the United States that passed, meaning that over 50% of shareholders voted for our proposal.
- Western Union announced it would end its partnership with the Myanmar military-owned Myawaddy Bank.
- Sherwin Williams, Nucor, and Steel Dynamics all agreed to consider adopting renewable energy and energy efficiency goals.
- Western Digital published a global human rights policy which covers direct employees as well as workers in their supply chain, and released new disclosures with more comprehensive information on their ethical recruitment practices.
- BlackRock agreed to continued investor feedback on their climate-related proxy voting after they announced their new position on climate change management and expectations to portfolio companies.
Supporting Friends Through Planned Giving

Planned Giving News

Since early 2020, Friends Fiduciary has worked diligently with several yearly and monthly meetings to understand more fully how best to support them before we applied for a grant from the Thomas H. and Mary Williams Shoemaker Fund. The process was a fulfilling one that emphasized the importance of Quaker organizations working together to find solutions, leveraging expertise, and providing support in a cost-effective manner. These are all important strategies, especially true during these challenging and unpredictable times.

I am pleased to share that FFC has been awarded a multi-year grant from the Shoemaker Fund. The grant will be used to support three important initiatives. The first is the creation of a simple template page for organizations’ websites to encourage giving. FFC will maintain and update the page which will be hosted by FFC at no cost to the organization.

In addition, Friends Fiduciary will establish and maintain a link for gifts by credit card and ACH facilitated by FFC for the benefit of meetings and churches which can be linked to their websites. The third initiative is to encourage individuals to give, particularly those who may want to support multiple Quaker organizations or make more complex gifts.

Friends Fiduciary’s website will be recrafted to serve as an additional resource that both organizations and donors can rely on for accurate information and gift planning tools. More detailed information will be shared directly with yearly and monthly meetings and on the FFC website as this exciting work begins.

The American Council on Gift Annuities (ACGA), the organization that suggests maximum charitable gift annuity rates to which FFC adheres, has also been busy during the first half of 2020. As part of its ongoing review process, the Rates Committee of the ACGA monitors certain interest rates that underlie the investment return assumptions used to create the rate schedules. Annuitant mortality and other assumptions are evaluated and updated as well on an annual basis. This methodology provides for the routine announcement of any modifications to the suggested rates. The ACGA announced new rates, for the second time this year, effective July 1, 2020. The rates have decreased by 0.4% to 0.5% from previous levels.

If your Quaker organization includes ACGA rates in your planned giving materials, be sure that they have been updated to reflect these recent changes.

New rates can be found on the FFC website, under the Ways to Give heading, or by visiting www.acga-web.org.

No matter how it is phrased—unprecedented, remarkable, uncertain, or challenging—everyone has been impacted by the circumstances that we currently face as a nation and world. Individuals are looking for meaningful ways to support change and healing.

Over the past months, giving from established Donor Advised Funds at FFC has increased dramatically. Recommended grants have supported many non-profits working in the areas of food insecurity, homelessness, and racial justice. Thank you to our donor advisors for making a difference in a time of great need.

If you are currently a participant in a Pooled Life Income Fund or a lifetime beneficiary of a Charitable Gift Annuity you may consider relinquishing your interest to support charitable organizations now. Your decision to do so will result in a larger gift going immediately to the non-profit instead of at a future time. You will be able to see the impact of your gift today and you may be entitled to an additional income tax deduction.

While our “new normal” will continue to evolve in the second half of 2020, and beyond, the biennial Quaker Fundraisers Gathering will take place. Typically, a three-day event in Philadelphia in early October, the Gathering is moving to different format for 2020. After thoughtful consideration, Friends Fiduciary and the Planning Committee have decided that a virtual Gathering is most appropriate for the event. The virtual Gathering will span the five Fridays in October. Each session will be followed by a breakout group that will meet to work collaboratively in a smaller setting.

Pricing is being determined as planning shifts to a virtual format. There will be options for a package rate (all five sessions) and for individual sessions. While this is not how the Planning Committee originally envisioned the event last fall, the group is gladdened that the virtual format will allow more individuals to safely participate, at lower cost, and from greater distances, particularly monthly meeting members.

The team at FFC has worked hard over the past months to stay connected with our constituents and responsive to their needs. Although not meeting in-person for now, we have embraced emails, phone conferences, and Zoom presentations as our “new normal”.

For planned giving support that meets your unique needs as a donor or organization contact me, Mimi Blackwell, Planned Giving Program Manager, mblackwell@friendsfiduciary.org or 215.241.7272, to learn more.

Mimi Blackwell, JD, Planned Giving Manager