It’s official - in 2019 Friends Fiduciary (FFC) surpassed $0.5 Billion in Quaker assets under management. Reaching this milestone was fueled by $26 Million in additions by new and existing constituents in 2019 as well as strong investment performance. Throughout the year, staff met in-person and via conference call with over 200 current and prospective investors across the country. These interactions are an important way for us to remain in touch with investors, understand their needs, and listen to concerns about environmental, social, and other issues that are important to them. It also gives us the opportunity to talk about our Quaker approach to investing, which includes our shareholder engagement. For several years now, FFC has been one of the most active faith-based investors engaged in shareholder advocacy. We do this work on behalf of all investors, witnessing to the broadly held values of Friends.

As Rich Kent’s performance review notes, FFC’s funds continued to post strong returns in 2019, with the Growth & Income Fund posting a gain of 22.6%, Quaker Green Fund +23.0%, Quaker Index +23.1%, and the Short Term Investment Fund +3.9% (all equity) and the Short Term Investment Fund +4.0% (all fixed income). Our long-term performance continues to prove that you don’t have to give up returns to invest consistent with your values.

Our investment committee continues to consider environmental issues in the context of our exclusionary screens and investment policy. The Quaker Growth & Income Fund holds oil and gas companies but is significantly underweight this sector. The companies we do hold have better environmental rankings than other companies in the sector. The Quaker Green Fund gives our investors the option of avoiding fossil fuel investments, and many constituents have chosen to do so. In order to bring the Quaker Green Fund closer in alignment with the Growth & Income Fund, we made several changes to the Green Fund at the end of 2019. We increased the number of asset classes and managers represented in the fund in order to further diversify the fund and mitigate risk. We are also analyzing the current fee structure and over time will review the spending rate.

As a result of our growth in managed assets and with the increased number of constituent investors - now well over 400 - we are hiring an investment analyst in order to better serve the needs of our constituents.

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The Quaker Index Fund underperformed the S&P 500 Index in the fourth quarter posting a return of +8.6% compared to +9.1% for the S&P 500 Index; however, the fund outperformed over the full year, +32.5% versus +31.5% for the S&P 500, and over trailing 3, 5-year, and since inception periods. Individual stock selection in the Financial and Consumer Staples sectors were negative contributors to performance in the quarter and full year while the fund’s underweight to the Energy sector and stock selection in the Healthcare sector were the biggest positive contributors to performance.

The Short Term Investment Fund (STIF) posted a positive investment return of +0.6% in the fourth quarter, slightly above the benchmark return of +0.5%, and a full year return of +3.9%, above the benchmark return of +2.2%. Short-term rates, as measured by 2-year Treasury bond, declined from 2.5% to 1.6% in 2019 as the Federal Reserve Bank lowered its benchmark overnight lending rate three times throughout the year. With a yield-to-maturity of 1.8%, STIF is a high quality, low volatility option for constituents.

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 current 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 calculated using a three-year average of the fund unit value to smooth out the peaks and troughs in the markets. Constituents are always free to take more or less than the announced distribution rate, and withdrawals can occur at any time throughout the year. In June 2020, the Quaker Growth & Income Fund will distribute $1.04 per unit representing a 4.0% distribution rate, up from $1.02 in December 2019. The Quaker Green Fund will distribute $0.67 per unit in June 2020, representing a 3.5% rate and up from the $0.65 in December 2019.

Following ten consecutive years of positive GDP (gross domestic product) growth, the consensus outlook for 2020 is for the economic expansion to continue as the United States and China make progress on trade negotiations and the Federal Reserve Bank maintains its accommodative stance on short-term interest rates. After peaking at +3.2% in the second quarter of 2018, US GDP slipped to +2.1% in Q32019 due to trade tensions, but most economists are expecting a modest acceleration from this level next year. Corporate profits, also a victim of restrictive trade policies, are expected to rebound in 2020 adding support to current stock market levels. While it is difficult (if not impossible) to predict market moves, and though there are no obvious signs of economic slowdown on the horizon, our balanced funds (Quaker Growth & Income and Quaker Green Fund) are designed to weather market volatility by maintaining broad diversification across domestic and international stocks, and Real Estate Investment Trusts (REITs) while the fixed income allocation offers balance and a safe haven in times of market and geopolitical turmoil. Thank you for investing with Friends Fiduciary — we appreciate your support!

Richard Kent, CFA, Chief Investment Officer
A Quaker Voice On Wall Street

At Friends Fiduciary, we bear witness to Quaker testimonies not only by rigorously screening the companies we hold but also by actively owning those companies. We take our responsibilities as shareowners very seriously and believe that it is in the long-term interest of companies to be attentive to environmental, social, and governance factors in their operations.

Active ownership goes beyond just voting proxies at a company’s annual meeting—it means raising issues that we see as important to the company’s sustainability and profitability. We do this by engaging companies in dialogue, and if companies are unresponsive or unwilling to address an important concern, by filing a shareholder resolution. Shareholder resolutions are voted on by a company’s shareholders at its annual meeting and serve as an important barometer of shareholder interest and perspective.

2020 SHAREHOLDER ENGAGEMENT SEASON

We are midway through the 2020 engagement season and on track to match last year’s activity. Most of our resolutions have been filed, and we are in the midst of deciding whether those resolutions will go to a vote. We have filed 25 resolutions and had 24 dialogues that are not part of a resolution, with more dialogues planned. We are the lead, meaning that we coordinate the dialogue, set the agenda, and gather other interested investors, on 19 of those 49 engagements.

LEVERAGING IMPACT AT BLACKROCK

Over the past several years, we have engaged several large banks and asset managers on their approach to climate risk. The climate crisis poses a myriad of risks to portfolios, which we take seriously as stewards of our own portfolio and as long-term shareholders in financial institutions which have extensive portfolios. One key area of focus for asset managers is their proxy voting record, particularly on climate-related shareholder proposals. As shareholders, we’re concerned that a poor proxy voting record on climate poses reputational risks and signals that the asset manager doesn’t consider the climate crisis a significant business concern.

In collaboration with other faith-based and socially responsible investors, we’ve engaged with several asset managers over the past several years, including T. Rowe Price, BNY Mellon, and BlackRock.

This January, BlackRock CEO Larry Fink made waves in the investment world when he said that BlackRock would “place sustainability at the center of our investment approach” in his annual letter to CEOs. BlackRock is the largest asset manager in the world and because of that BlackRock would “place sustainability at the center of our investment approach” in his annual letter to CEOs. BlackRock is the largest asset manager in the world and because of that BlackRock would “place sustainability at the center of our investment approach” in his annual letter to CEOs. BlackRock is the largest asset manager in the world and because of that BlackRock would “place sustainability at the center of our investment approach” in his annual letter to CEOs. BlackRock is the largest asset manager in the world and because of that BlackRock would “place sustainability at the center of our investment approach” in his annual letter to CEOs.

We’ve been engaging BlackRock since 2016 and were glad to see BlackRock taking a firmer stance than it has in the past—this isn’t the first time its CEO has addressed climate change in his annual letter. In 2016, Larry Fink asked companies to consider the long-term impacts of environmental, social, and governance issues, including climate change, on their businesses. However, BlackRock’s public statements weren’t backed up by disclosures around its engagement with portfolio companies or its public proxy voting record on climate-related shareholder proposals. Thus, he lagged behind peers. That year we co-filed a shareholder proposal led by Boston Trust Walden asking the company to align its proxy voting with its public statements, and withdrew it after they published a statement outlining its engagement priorities with its portfolio companies, including a new focus on managing climate impacts.

We were heartened to see BlackRock vote against management that year on a climate shareholder proposal at ExxonMobil, which passed—a historically significant vote that received substantial press coverage. However, BlackRock continued to lag behind other asset managers in voting on climate-related shareholder proposals, and so this fall we again co-filed a resolution asking the company to assess its climate-related proxy voting. We were glad to see Larry Fink’s most recent letter to CEOs, and although it’s an important first step, how BlackRock’s views on the climate crisis are operationalized will be the most significant marker of true change. We remain in conversation with the company.

DRIVING UPTAKE OF CLEAN ENERGY

 Constituents often ask how we choose which companies to engage and which environmental, social, and governance issues to engage them on. In a portfolio with nearly a thousand companies—and many important issues to raise—we narrow down our list by gauging constituent interest, seeing where that dovetails with a strong business case, where that overlaps with our investor network priorities, and then discerning where our voice as long-term Quaker investors will have the most impact.

That’s why engaging companies on their energy efficiency and renewable energy procurement targets, known together as “clean energy,” made sense to us. Because there’s a strong business case, it’s an easy entrée into the world of GHG emissions and net-zero targets for companies who are just beginning to look at climate risk. Raising energy efficiency standards can be a significant source of cost-savings, even without additional capital expenditures. Renewable energy is the cheapest it has ever been. According to a recent International Renewable Energy Agency (IRENA) report, unsubsidized renewables are “frequently less expensive than any fossil-fuel option.” In addition to the economic benefits to companies, energy efficiency measures and renewable energy procurement are essential to reaching the greenhouse gas reductions we need to keep warming under 1.5 degrees Celsius. And as an added benefit, corporate commitments to purchase renewable energy signal demand to utilities, particularly salient for utilities in states without renewable energy portfolio standards.

This year we chose to focus on manufacturing companies based in states where we have constituents. We are leading engagements with Sherwin Williams, Nucor Steel, and Steel Dynamics, headquartered in Ohio, North Carolina, and Indiana, respectively. After filing resolutions with all three, we were able to withdraw the resolutions at Sherwin Williams and Nucor after they committed to consider setting renewable energy and energy efficiency goals and continue dialogue with us. Although “committing to consider” a goal may not sound that impactful, these companies are at the beginning stages of incorporating systemic climate risk into their planning, so we see fostering a long-term relationship and continuously serving as both a resource and a motivator as more impactful than a shareholder vote.

LOOKING FORWARD

As always, this summary is just a snapshot of our work. We are engaging a wide variety of sectors and issue areas in an effort to fully represent Quaker concerns on Wall Street. We’re talking to electronics and apparel companies about forced labor and ethical recruitment in their supply chains and asking companies across industries to disclose their lobbying and political spending, particularly related to the climate crisis. We appreciate the opportunity to do this work on behalf of our constituents, and please don’t hesitate to reach out with any questions or concerns.

Kate Morahan, Shareholder Engagement Manager
Supporting Friends Through Planned Giving

Planned Giving Update: 2019 in Review and a Gathering in 2020

The Planned Giving Program at Friends Fiduciary supports the development efforts of Quaker organizations which in turn strengthens and grows The Religious Society of Friends. In 2019, donors established over $680,000 in charitable gift annuities to benefit Quaker organizations, made $400,000 in gifts to donor advised funds, and contributed $100,000 to endowment funds, all through Friends Fiduciary. We welcomed a new constituent to the FFC Planned Giving Program, adding $2 million to our pooled life income pool and $1 million to our charitable gift annuity pool. We also processed 100 gifts of stock benefitting Friends organizations and faith communities.

What does this mean for Quaker organizations? Planned gifts, like those referenced above, provide financial support to Quaker organizations, which means meetinghouses stay in good repair, social justice issues can be advanced, students are able to attend Quaker schools, and residents receive assistance that allows them to stay in communities that are familiar to them. In 2019, Quaker organizations received $1.1 million in gifts of stocks facilitated by Friends Fiduciary. Our ability to transfer stock directly to a Quaker organization or into an account at FFC negates the need for those entities to maintain brokerage accounts, greatly lowering the expense and administration typically associated with these gifts. Remainder gifts from Charitable Gift Annuities issued by FFC totaling $216,812 were paid to 11 Quaker organizations including Yearly Meetings, Monthly Meetings, schools, life care communities, and Quaker organizations. Pooled Life Income Funds and Endowment Funds held by FFC distributed an additional $420,000 to Quaker non-profit beneficiaries. By offering gift planning and administrative services and effective socially responsible investment management, Friends Fiduciary plays an integral part in making these gifts a reality.

The past year was also a busy one for outreach and support. I visited 54 Quaker organizations, traveling to Santa Rosa and La Jolla, CA; Albany, NY; Burnsville, NC; and many spots in between! Organizations visited included Yearly Meetings, life care communities, schools, churches, monthly meetings, retreat centers, a college, and a camp. The visits included two collaborative events in Greensboro, North Carolina and West Chester, Pennsylvania which brought members of those communities together to learn how to support the local Quaker organizations. One of two trips to California included working with Alternatives to Violence Project in a board visioning session and sharing basic planned giving strategies with the group’s local chapters. The highlight of the second trip to California was an impromptu dinner with two generous Friends who maintain a donor advised fund with FFC. It was wonderful to hear their personal stories and understand more fully their motivation for supporting the Quaker organizations that have benefited from their donor advised fund.

Raising funds in Friends’ settings is unique. Connect with peers, hear from experts, share your experience—join us for the Quaker Fundraisers Gathering! The Gathering is a biennial, multi-day event sponsored by Friends Fiduciary and organized by a planning committee of representatives from various Quaker organizations, affiliations, and regions of the country. The 2020 planning committee brings diverse perspectives and represents the broad spectrum of Quaker fundraisers. Members of the committee include Ray Slater (Westtown School), Andrea McCabe (Foulkeways), Lise Twiford (Germantown Friends School), Nikki Mosgrove (City of Trenton), Claire Hannapel (Quaker Voluntary Service), and Andy Albertini (Ramallah Friends School). The 2020 event will be held in Philadelphia, October 4–October 6, 2020. Additional details will be available in early February at www.friendsfiduciary.org.

The American Council on Gift Annuities (ACGA) is the organization that suggests maximum charitable gift annuity rates to which FFC adheres. 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 effective January 1, 2020. The rates have decreased by 0.2% to 0.4%. 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 Charitable Services heading, or by visiting www.acga-web.org.

Friends Fiduciary, with its knowledge and experience in facilitating planned gifts to benefit Quaker organizations, is here to help. For planned giving support that meets your unique needs as a donor or Quaker organization, contact Mimi Blackwell, Planned Giving Program Manager, mblackwell@friendsfiduciary.org or 215.241.7272.

Mimi Blackwell, JD, Planned Giving Manager