HOW WE INVEST FOR CHANGE

Friends Fiduciary is a Quaker non-profit providing investment management services to Quaker meetings, schools, churches, and other organizations across the country. We faithfully steward the money under our care in a manner that is consistent with Quaker values. Our mission is to provide our constituent organizations with Quaker-aligned investments, at cost, that meet or beat the market, so that those organizations have the financial security to continue their important work while ensuring their money is in harmony with their mission.

We actively witness to Quaker values of simplicity, peace, integrity, community, equality, and stewardship throughout the investment process. That starts with our comprehensive screening, but once a company is added to our portfolio, our work is just beginning. We believe Quaker values are good long-term, sustainable business values, and we seek to witness to those values on Wall Street both as a testament to our faith and to maximize the value of our investments. We leverage our ownership in these companies, using it to engage them in dialogue and file shareholder proposals. We push companies to address the long-term, systemic risks posed by issues like climate change and forced labor (to name just two!). We are committed to being a robust Quaker voice on Wall Street, so we have significantly expanded the depth and breadth of this work over the past three years, increasing the number of companies we engage from 8 in the 2016 shareholder engagement season to 50 so far in 2019. Many Quakers don’t know we’re doing this work on their behalf—I know I didn’t before I started working here—so we’ve decided to begin publishing a semi-annual newsletter to share stories of the impact we’re having.

We represent just one unique approach to working for a more just, sustainable, and equitable world. We need a variety of approaches, both “inside” and “outside”, to bring about the change we seek. We’re excited to share these stories with you as examples of the way that investors can leverage their power and privilege to make change at the corporations that are a part of all of our everyday lives.

Kate Monahan, Shareholder Engagement Manager

ADVOCATING FOR SUSTAINABLE DRUG PRICING

RISING PRICES, RISING COMPENSATION

As many are all too well aware, there’s something of a drug pricing crisis in the United States—companies have been in the headlines for setting extremely high prices on lifesaving drugs, leading some Americans unable to afford drugs like insulin that they depend on. On average, drugs in the US cost 50% more than in other countries, and there’s very little transparency around pharmaceutical companies’ processes for price-setting. This past March Republicans and Democrats on the Senate Finance Committee questioned pharmaceutical CEOs on their pricing practices.

MAKING THE BUSINESS CASE

Drug pricing is complex, with many intermediaries between pharmaceutical companies and patients. However, as investors, we see dramatically increasing prices year over year as posing reputational and regulatory risk. Companies that prioritize long-term, sustainable growth, rather than relying on pricing increases to raise their income, will be better off in the long run.

ENGAGEMENT

We wanted to ensure that when an executive raises the price of a drug, they’re not increasing the price in order to boost the company’s share price and thus their own paycheck. We’ve been engaging a variety of pharmaceutical companies on their pricing practices for many years as part of an Interfaith Center on Corporate Responsibility investor (ICCR) initiative. This year, we co-filed 5 resolutions asking companies to publicly report the steps they take to ensure that their executives aren’t rewarded for increasing prices.

IMPACT AT ELI LILLY

Eli Lilly manufactures Humalog, a popular brand of insulin. Humalog’s price has increased by over 700% since 1996, and the company has received negative press attention for its price increases of this life-saving drug.

After we co-filed a resolution led by fellow ICCR member Trinity Health, the company and investor coalition entered into dialogue. The company stated that compensation isn’t affected by increases in drug prices and agreed to publish a statement in its financial filings to clarify that the compensation committee adjusts payouts on a quarterly basis to ensure pricing changes don’t positively impact executive pay. Given Lilly’s commitments, we were able to withdraw the resolution.
HOW WE WITNESS TO WALL STREET

At Friends Fiduciary, we bear witness to Quaker testimonies not only by rigorously screening the companies that 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 our company's sustainability and profitability. We do that by engaging companies in dialogue. If companies are unresponsive or unwilling to address an important concern, we may file 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.

PRIORITIES AND SCOPE
Friends Fiduciary is one of the most active faith-based investors doing shareholder advocacy. So far in the 2019 proxy season we have engaged 50 companies on a wide variety of environmental, social, and governance issues. Below you'll find a snapshot of some of those issue areas and companies engaged.

Environmental
- Emission reduction goals
- Methane management
- Sustainability reporting
- Water use policy
- Financed emissions
- Food waste
- Deforestation

Social
- Diversity and inclusion
- Drug pricing
- Ethical recruitment of workers
- Human rights in supply chain
- Opioid accountability

Governance
- Lobbying disclosure
- Proxy voting on climate change
- Business standards review
- Separation of Chair and CEO
- Board diversity
- Political spending

COLLABORATION
We identify companies, coordinate company dialogues, and collaborate with other investors through our investor networks, the Interfaith Center on Corporate Responsibility, Ceres, and the Principles for Responsible Investment. We also partner with a variety of non-profits and grassroots organizations in order to have the latest information on the issues that we work on.

LEADERSHIP
This year, we are leading engagements with 19 companies. Taking the lead means we developed expertise in the subject area, gathered other interested investors, initiated and coordinated dialogue, and are the investor with the primary company relationship. We've steadily increased our leadership over the past three years.

MAXIMIZING IMPACT
In the broader investment landscape, we are a relatively small shareholder— but that doesn’t mean that we can’t maximize our impact on Wall Street. First, we strategically choose our engagements, determining where our investor network priorities dovetail with the leadings and concerns of our Quaker constituents, and seeing where those align with a strong business case.

In the past, we’ve measured our success by calculating the percentage of resolutions that we’ve been able to withdraw, because that means a company has agreed to substantive change. In the 2018 season, we had a withdrawal rate of nearly 50%, which we’re very happy with. We’re in the midst of negotiating withdrawals for the 2019 season.

However, withdrawals only capture a small piece of our total company engagement. Some issues can’t be addressed via shareholder proposal because of SEC regulations, and we often see significant forward movement from companies we engage with via dialogue alone. While we determine how best to measure impact, we’ll be highlighting a handful of engagements that demonstrate the power of the Quaker investor voice on Wall Street.

Watch our QuakerSpeak video!
https://tinyurl.com/FFCquakerspeak
PROMOTING CORPORATE TRANSPARENCY

WHY LOBBYING?
In 2018, companies spent over $11 billion on lobbying combined—and that’s just at the federal level. That includes neither lobbying they do at the state level, where disclosure requirements are uneven or nonexistent, nor payments made to tax-exempt groups who lobby on their behalf. We think companies should be transparent about these often-significant expenditures because as Quakers, we believe that integrity is good long-term business.

DARK MONEY
Payments to tax-exempt groups like trade associations can often be very substantial—and companies aren’t required to disclose them, so investors have no way of knowing exactly how much corporations are spending on lobbying. Membership in trade associations and other organizations, like ALEC, can pose reputational risk to a company, especially when the organization’s actions aren’t lining up with the company’s private statements.

WHAT INVESTORS ARE LOOKING FOR
When we engage with companies on lobbying, we ask them to disclose their state, federal, and local lobbying, as well as their memberships in and payments to tax-exempt groups that lobby. We also encourage a board committee to adopt oversight of lobbying and memberships. A growing number of companies are recognizing these risks. Since 2011, the number of companies disclosing at least some of their trade association and other non-profit group memberships has more than doubled.

WHY COMCAST?
We have been engaging with top management at Comcast for the past three years, asking the company for comprehensive disclosure of its lobbying spending and priorities. Comcast spent over $15 million on federal lobbying alone in 2018, making it the 12th highest spender out of all corporations and trade associations.

The company does not disclose any substantive information about its lobbying beyond what is required at the federal level. That means their state-level spending, as well as payments made to social welfare organizations and other grassroots groups used for lobbying, go unreported. Additionally, they don’t disclose their memberships in tax-exempt groups involved in lobbying. This lack of transparency poses reputational risk, which Comcast is in a poor position to withstand - in 2017, they were identified as the most hated company in America by a 24/7 Wall Street poll. The company has received negative press attention for the inconsistency of its public statements in favor of net neutrality in comparison with its private lobbying activities to undermine it.

PERSISTENT PATIENCE
After two years of filing resolutions without hearing from the company, they agreed to dialogue for the first time in 2016. Although they weren’t willing to make substantive changes, we felt encouraged that we were meeting with top management at the company and that they were at least hearing our concerns. We’ve continued to meet with them annually.

RESULTS
We had been asking Comcast to leave ALEC for some time, given ALEC’s controversies and the reputational risks we felt membership posed for the company. Many corporations have already left ALEC, including Comcast peers AT&T and Verizon. This year, the company confirmed that they are no longer ALEC members, and cited our engagement as one of several factors in their decision. We applaud Comcast’s decision to leave and consider it a meaningful first step in aligning its values with its memberships.

This forward movement doesn’t mean we withdrew our resolution, as Comcast still doesn’t disclose its lobbying expenditures. Our resolution will go to a vote at the company’s annual meeting on June 5th, 2019.

WHAT IS ALEC?
The American Legislative Exchange Council, or ALEC, is a non-profit group that writes and endorses model legislation at the state level.

Why do companies join?
Companies join because ALEC provides economies of scale for lobbying on certain issues at the state level, instead of establishing a lobbying presence in all states.

Why does ALEC membership damage corporate reputations?
ALEC is known for its controversial work to undermine climate change regulation, as well as its promotion of “Stand Your Ground” and voter suppression laws.

Many large corporations have left ALEC because of the reputational risk, including Exxon Mobil, AT&T, Apple, Wal-Mart, and Ford. Most recently, ALEC was heavily criticized for inviting a speaker with a known history of racist remarks to its annual meeting.