Approved by the Board April, 2018

American Friends Service Committee, Investment Policy Statement

Board Approved September 2014, Amended March 2016, January 2018, April 2018

Purpose

The American Friends Service Committee (AFSC) has been provided with funds from its donors to support its mission. The Board of Directors, through its Stewardship Committee and its Investment Subcommittee, must manage these funds with prudent and appropriate care and in a way that best supports the AFSC's mission and long-term financial health.

This "Investment Policy Statement" and the associated "Investment Objectives & Guidelines" are designed to:

- Establish a clear understanding of the investment policies and objectives for all interested parties;
- Develop specific guidelines and limitations for the investment managers to ensure that assets are being managed in accordance with these investment policies and objectives; and
- Provide a basis for the evaluation of the investment performance of our assets.

Philosophy, Mission, and Socially Responsible Investing (SRI) Criteria

The AFSC's investment philosophy is aligned with the values of the AFSC's Mission Statement, as well as, the Religious Society of Friends' beliefs and testimonies, which include peace, simplicity, integrity, and justice. Investments shall be made in companies whose business conduct is consistent with those of the AFSC. To follow this goal, all investment purchases and sales will adhere to the AFSC's "Social Investment Policy and Guidelines", found as Exhibit A to this policy. The Board recognizes that the SRI policy will limit the available investment universe for the AFSC's funds. At times, this will affect the diversification and risk of the portfolio and the ability to exceed stated benchmarks. Shareholder proxies will be voted by the AFSC in accord with this investment philosophy.

Fiduciary Responsibility

The AFSC's Board of Directors, Board Committees responsible for investments, investment consultants, and investment staff are fiduciaries for the assets of the AFSC and any assets held in trust by the AFSC. As fiduciaries, they are bound by three legal duties:

- **Duty of care**

  The duty of care is often known as prudence and is often expressed as the Prudent Investor Rule – a fiduciary should act as any prudent person would act under similar circumstances. This duty of care requires that fiduciaries make their decisions deliberately, knowledgeably, and with an understanding of the foreseeable implications of those decisions.

Duty of loyalty

The duty of loyalty requires that fiduciaries avoid all conflicts of interest. When managing charitable assets the fiduciary gives undivided allegiance to the AFSC and its trust beneficiaries without regard to personal, business, or social interests. Confidential information gained through the management of the AFSC's assets may not be used for the personal or business benefit of the fiduciary or anyone connected to the fiduciary.

- **Duty of obedience**

The duty of obedience requires that fiduciaries act within the AFSC's ethical standards and policies, in accordance with the AFSC's articles of incorporation, and within the scope of applicable federal and state legal authority.

Roles and Responsibilities

- **Board of Directors**

The Board of Directors has the ultimate fiduciary responsibility for AFSC's investment portfolio. It is responsible for ensuring that appropriate policies governing the portfolio are in place and are being properly implemented. The Board has delegated the responsibility for oversight and the ongoing monitoring of implementation of those policies to the Investment Subcommittee.

- **Stewardship Committee**

The Stewardship Committee advises the Board on all financial matters and recommends action on any financial policies that may be brought to its attention. The Stewardship Committee approves members of the Investment Subcommittee and at least one member of the Stewardship Committee must sit on the Investment Subcommittee. The Investment Subcommittee is accountable to the Stewardship Committee and the Stewardship Committee is responsible for ensuring that the Investment Subcommittee is adequately informed of the ongoing financial status of the AFSC.

- **Investment Subcommittee**

The Investment Subcommittee is responsible for oversight and ongoing monitoring of the implementation of the investment policies of the AFSC with the day to day support of staff in the Finance department. The Investment Subcommittee establishes the "Investment Objectives and Guidelines" to manage the fund objectives of the AFSC's investments, selects and dismisses any investment advisors and managers, and monitors compliance with all of the AFSC's investment policies. The Investment Subcommittee brings recommendations for new investment policies and adjustments to existing policies to the Stewardship Committee. The Investment Subcommittee has the responsibility to proactively reduce investment exposure to climate related risks in the AFSC portfolios. The Investment Subcommittee will report regularly to the Stewardship Committee.

- **Staff**

  Staff in the Finance Department will provide instructions and contact on a day to day basis to the investment advisors and managers. Staff are responsible for supporting meetings of the Investment Subcommittee, for the accurate and timely accounting of investment activity, and performing due diligence on managers with regard to the SRI policy. Staff will collaborate with the investment consultant and the clerk of the sub-committee between meetings to study new investment options, develop meeting agendas, and peruse meeting presentation materials.

Advisors and Managers

The Investment Subcommittee may select a qualified investment advisor to provide research and advice regarding investment matters, to assist in the selection of investment managers, and to provide quarterly performance reports. The criteria for selecting the investment advisor will include (but is not limited to) breadth of its money manager database, research staff and library of reports, ability to present peer manager universe comparisons, ability to provide investment and market analysis, understanding and competence in socially responsible investing, and the ability to comply with the AFSC's commitment to diversity and inclusion.

The Subcommittee will also select investment managers who will be responsible for implementing the investment strategy for which they have been retained. The criteria for selecting investment managers will include (but is not limited to) historical performance and risk factors relative to their peers, cost, the soundness of the investment strategy, the qualifications of the staff, and the firm's ability to comply with the AFSC's socially responsible investing policies and the AFSC's commitment to diversity and inclusion.

Risk Management

The investment funds are subject to varying types of risk, including: market risk, interest rate risk, credit risk, currency risk, liquidity risk, and active management risk. Risk cannot be eliminated, but must be managed within the context of each type of investment fund. A major tool to manage risk is diversifying across different asset classes. The management of investment risk will be the responsibility of the Stewardship Committee and its Investment Subcommittee.

Distributions and Capital Appreciation

The AFSC is legally obligated to distribute either income (in the form of interest and dividends, or a percentage of market value) or a fixed dollar amount from the funds it manages. The income percentage will be set at a rate which attempts to provide a growing income stream and keep the principal's purchasing power stable over the long term and within an acceptable risk level.

For funds with a fixed dollar payout, it will not always be achievable or prudent to maintain the purchasing power of the principal. In these cases the risk tolerance level and asset allocation strategies may differ from that of the income distribution funds.

Endowment Spending Policy

The purpose of the various Endowment funds is to contribute to the mission of the AFSC, while maintaining its real principal value over time. Therefore, the annual endowment spending rate shall be reduced to 4.5% of the previous three fiscal-year-end market values of the total Endowment, implemented over a gradual transition period that will begin in FY2019.

General Policies

The AFSC maintains several funds, such as the defined benefit pension fund, the endowment, and various planned giving funds. Each fund has a fund objective, an investment objective, and a benchmark. The fund objectives will be approved by the Board upon recommendation by the Stewardship Committee. The Investment Subcommittee designs the investment objective and the benchmark to meet the fund objective. The investment objectives provide guidelines regarding the asset allocation for the fund, the fund's approach to managing risk and liquidity, and any other appropriate instructions for requirements or restrictions for the investment managers. The specific asset allocation targets, permissible ranges for variance, and benchmarks are listed in the "Investment Objectives and Guidelines".

Each fund should be monitored by staff to ensure that the total allocation remains within reasonable limits of the target allocation, as established by the Investment Subcommittee. Staff will rebalance the funds once per year to maintain the target allocations. The Subcommittee will direct Staff regarding additional rebalancing, if necessary.

All AFSC investments are subject to its socially responsible investing policy and all Board, committee, and staff members, as well as investment advisors and managers, are obligated to understand and act in compliance with that policy. The socially responsible investment policy is incorporated into the investment policy by reference and is included as an addendum.

FUND OBJECTIVES:

Consolidated Fund Objective

The Consolidated Fund consists of endowments, funds functioning as endowments, term endowments, charitable gift funds, and the long-term portion of the Central fund (the AFSC's general operating fund). The primary long-term management objective is to ensure that the assets of the Fund are prudently invested in order to preserve the purchasing power of the Fund while providing annual operating funds in accordance with the endowment spending policy.

Defined Benefit Pension Plan Fund Objective

The primary long-term objective is to ensure that the assets of the Defined Benefit Pension Plan shall be invested in a prudent manner, so that, they will be sufficient to meet the obligations of the Plan and to minimize annual contributions to the Plan. Specifically, this means seeking a minimum total return equal to average real (inflation adjusted) beneficiary wage gains. In addition, to the extent that it is consistent with the above, it should be the goal of the fund to reduce the volatility of portfolio returns. The assets of the Pension Fund are held by the AFSC, whose Board is Trustee for the Plan.

Retiree Medical Plan Fund Objective

The primary long-term objective is to ensure that the Retiree Medical Plan Fund (a voluntary employment benefit plan) shall be invested in a prudent manner, so that, it will be sufficient to meet the obligations of the Plan and to minimize annual contributions to the Plan. Specifically, this means seeking a total return equal to or greater than average real (inflation adjusted) beneficiary wage gains. In addition, to the extent that it is consistent with the above, it should be the goal of the fund to reduce the volatility of portfolio returns.

Interest Free Loan Reserve Fund Objective

The assets of the Loan Reserve Fund are on loan to the AFSC from many individual donors and may be called back by any one donor with a ten-day notice. If the donor recalls the loan, the original loan amount is repaid, and the AFSC retains the accumulated income and capital gain/losses.

The primary management objective is to ensure that the assets of the Fund are prudently invested in order to meet repayment requirements of the Fund as they occur. Once this goal is met, the income accruing to the AFSC should be maximized, subject to volatility restrictions.

Gift Annuity Reserve Fund Objective

A charitable gift annuity is a contractual arrangement, whereby an individual donates an irrevocable gift of cash or long-term, appreciated securities in exchange for an annual fixed payment by the AFSC to a specified beneficiary or beneficiaries (annuitant or annuitants) for his/her/their lifetimes. The Gift Annuity Reserve Funds are assets required by state statute to be held for the contractual payments to annuitants. The contributions of gift annuity donors are deposited in the annuity reserve. Each year an independent actuary calculates the net present value of future annuity obligations; this is the required reserve amount. Excess reserve amounts may be withdrawn from the fund; however, it is the practice of the AFSC to hold the full current market value (*the required plus the excess reserve amount*) until the maturity of the contract.

The primary fund objective is to ensure that the assets of the Reserve Funds are prudently invested in order to meet current and future payment obligations.

Pooled Life Income Fund Objective

Pooled Life Income Funds (PLIFs) are designed to allow a donor to make a charitable contribution to the AFSC, while giving the donor and/or second beneficiary a lifetime income stream. When a donor gifts cash or long-term, appreciated securities to a pooled income fund, these assets are combined with the assets of all other PLIF donors. Each gift is assigned principal units of participation. Every quarter, the designated beneficiaries of the PLIFs receive their proportional share of the fund's income. The total amount distributed is the income yield of the fund. When the final beneficiary of a PLIF contract dies, the remaining principal of the gift is removed from the fund and made available to the AFSC.

The primary fund objective of the PLIFs is to ensure that principal is prudently invested, in order for it to appreciate in real terms while maximizing the income stream to beneficiaries over their lifetimes.

Charitable Remainder Trusts Fund Objective

Charitable Remainder Trusts are designed to allow a donor to make a charitable contribution to the AFSC while providing the donor and/or beneficiary with an annual income stream for their lifetime or for a period of years. All charitable remainder trusts have a payout rate, arrived at through discussions between the donor and AFSC staff. Contributions to charitable remainder trusts are irrevocable. At the death of the final beneficiary or at the end of the term of years, principal is available to the AFSC. The two main types of charitable remainder trusts are unitrusts and annuity trusts. Unitrusts are divided into two payment type categories: straight payment and net income payment. Straight payment unitrusts pay a fixed percentage of the market value of the trust, as valued annually. Over time, this payout rate is expected to be lower than the total return of the trust assets, so the payment amount as well as principal will grow. Net income payment unitrusts pay out only the actual interest and dividends earned by the trust, not to exceed a payout rate limit. Annuity trusts pay a fixed dollar amount to the beneficiary each year. The income payments of unitrusts and annuity trusts are taxable to the beneficiary, and the tax rate is determined by a four-tier system of taxation. The order of taxation is as follows: 1) current and accumulated ordinary income, 2) current and accumulated capital gains, 3) current and accumulated tax-free income, 4) principal.

The primary fund objective is to ensure that the funds are prudently invested, so as to appreciate or at least maintain in real dollars (inflation adjusted dollars) the principal of the fund while meeting the income requirements of the beneficiary.

The asset allocation of each trust is determined individually based on the income requirements of the beneficiary and the estimated life of the trust.

EXHIBIT A

AMERICAN FRIENDS SERVICE COMMITTEE

SOCIAL INVESTMENT POLICY AND GUIDELINES

AFSC incorporates socially responsible investing (SRI) guidelines within the management of its overall investment program. The underlying investments across the AFSC pools will adhere to the guidelines established herein, and the Investment Subcommittee may enact such guidelines through divestment, working to encourage management to address activities that conflict with socially responsible corporate activities, and shareholder voting. The Investment Subcommittee will work with the investment consultant and staff to provide oversight and maintain compliance with these policies. Additionally, the Investment Subcommittee will consider the information and recommendations of AFSC programs that enhance compliance with AFSC's socially responsible investing (SRI) guidelines. Please see below for the socially responsible investing criteria.

I. Social Responsibility Considerations

A. Investments should be in companies providing goods and services which people and peacetime industry need by way of food, medicine, clothing, housing, heat and light transportation, communication, recreation, etc.--all the needs of everyday life.

B. Investments <u>should not</u> be made in any company which is a developer or a manufacturer of products in the general category of weaponry, including chemical and biological warfare, nuclear weapons systems, anti-personnel weapons, small arms and goods for the automated battlefield.

C. Investments in <u>other companies deriving revenue from military contacts should be considered individually</u> to determine the attitude of management to military contracts, their total amount and the percentage of sales they represent, the type of materials and services contracted for, and the direction of the company toward increasing or decreasing military involvement. Major defense contractors or suppliers, major research and development contractors or companies with total military contracts over 3% of sales are especially to be avoided. Investments in companies among the top 100 defense contractors should be scrutinized with particular care.

D. Investments <u>should not</u> be made in a company that owns, operates or manages prisons. Investments should be avoided in companies whose primary business involves the design and/or construction of prisons.

E. Investments <u>should not</u> be made in companies that are primarily involved in the mining, processing, or production of coal or oil sands/tar sands. Further, in order to limit risks related to negative impact from climate change, the AFSC should refrain from investments in the top global publicly-owned coal, oil, and gas reserves owners as defined by a divestment list designated by the Investment Subcommittee.

F. Investments should be made in companies that promote environmental responsibility. In addition, select AFSC investments will be guided by an intent to provide capital for climate change mitigation strategies. Consideration should be given to investments in clean energy, sustainable agribusiness, and renewable energy sources.

G. Investments <u>should be avoided</u> in companies primarily involved in products or services of limited or questionable social value, such as intoxicants, tobacco, some luxury items or land speculation.

H. In judging investments, consideration should be given as to whether companies have a superior rather than an inferior record within their industry in areas such as the following:

    1. Environmental and climate change aware policies and operations;
    2. Hiring and personnel practices as reflected in our Affirmative Action Plan;
    3. Health and safety of workers;
    4. General business practices, including advertising and financial practices;
    5. Disclosure to their stockholders of information on business and social responsibility practices;
    6. Natural resource companies' recognition of the rights and cultures of native peoples; and
    7. Relations with unions and with worker-organizing committees.

I. Because of differences in culture and values, it is exceedingly difficult to make judgments about companies with international operations. Further study will be required to determine ways of measuring whether the foreign operation of a corporation: (1) benefits the host country; (2) is consistent with the local culture and fosters human dignity; (3) avoids unnecessary depletion of resources of the host country; and (4) is sensitive to the aspirations of that country. Absolute size of the operation relative to the host country will be a factor. Investment policy should be sensitive to and informed by the experience gained through our program activities outside the United States.

It will be the role of the investment consultant, in conjunction with AFSC staff, to conduct ongoing oversight and monitoring of the AFSC investment portfolios in order to determine the level of adherence to socially responsible investing (SRI) guidelines. Formal reviews will take place at least annually and the investment consultant will present the results to the Investment Subcommittee to use in determining the appropriate action for any security or fund that is in violation of the guidelines. The Investment Subcommittee will report on resulting actions to the Stewardship Committee at its next meeting, and the Treasurer will report those actions at least annually to the Board and Corporation.

On an ongoing basis, if a prohibited company is discovered, the investment consultant will initiate a dialogue with the manager and may recommend instruction to liquidate the position and re-allocate the proceeds. If the Investment Subcommittee decides to liquidate the position, the investment manager should divest from the position within six months of notification. AFSC does not consider the trade a breach of contract.

II. Consistency with Major Program Directions

Investment policies have been influenced by positions of the American Friends Service Committee Board on major program issues. The South Africa program, the nuclear disarmament work, U.S. Treasury obligations, and the Israel/Palestine conflict have all generated specific policies on investment.

(A) Until January 1994, it had been the policy of the American Friends Service Committee to not hold investments in any company which does business in South Africa. The current policy is to consider firms that do business in South Africa will be guided by the same social guidelines as other firms.

(B) A position on nuclear power was developed in 1978 for internal use to guide peace education staff. The corresponding investment guidelines are:

(B,1) Investments in any public utility company which is in the process of constructing nuclear power facilities should be avoided.

(B,2) Over a period of time, holdings in any public utility with significant involvements in nuclear power production should be reduced and eventually eliminated. (The bonds of some public utility companies now using nuclear power should be held until market conditions permit prudent disposal in order to avoid significant losses.)

(C) The American Friends Service Committee Board in 1967 decided not to hold any U.S. Treasury bonds for the duration of U.S. military activities in Vietnam. The Investment Committee has continued this practice and has held instead bonds of U.S. Government agencies. When the investment guidelines were applied to the corporate bond portion of the portfolio in 1983, one result was a large drop in the number of other possible investment choices. In times of rapidly changing investment opportunities, it becomes fiscally prudent to invest temporarily in Treasury bonds which have the advantages of liquidity (can be bought and sold easily at a lower cost), variety, low risk, and non-callability. Appropriate guidelines are:

(C,1) Investments in U.S. Treasury bonds will be made only in situations where appropriate federal agency or acceptable corporate bond issues are not available or are available at an inordinate investment risk. Treasury investments will be an option of last resort.

(C,2) During periods of rapidly changing market conditions temporary investment in U.S. Treasury bonds if appropriate with the understanding that these purchases can be replaced as soon as practical with other acceptable bond investments.

(C,3) The amount of U.S. Treasury bonds which are held should not exceed 15% of the total American Friends Service Committee portfolio when averaged over any 12-month period.

(C,4) In order to limit to the greatest extent possible the amount of American Friends Service Committee funds invested in Treasury bonds, it is the responsibility of the Investment Committee and the investment advisor to review annually the list of any U.S. Treasury bonds and make every possible effort to find substitute investments.

(D) AFSC investments shall not be made in any company that provides products or services, including financial services, to Israeli or Palestinian military bodies that are used to facilitate or undertake violent acts against civilians or violations of international law, or to Israeli or Palestinian organizations or groups that are used to facilitate or undertake violent acts against civilians or violations of international law. Among other information sources, the AFSC will utilize the research of AFSC programs to determine specific companies in violation of the AFSC guidelines on Israeli occupation, war and policing, incarceration and deportations.

For the purposes of this investment screen, this would include companies that knowingly (that is, not those with inadvertent or unintended involvement):

- Provide products or services that contribute to violent acts that target either Israeli or Palestinian civilians;
- Provide products or services that contribute to the maintenance of the Israeli military occupation of Gaza and the West Bank, including East Jerusalem;
- Provide products or services that contribute to the maintenance and expansion of Israeli settlements in the occupied Palestinian territories;
- Provide products or services that contribute to the maintenance and construction of the Separation Wall.