



**American Friends
Service Committee**

**American Friends Service Committee
Investment Policy Statement**

Approved and Adopted by the Board
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American Friends Service Committee

Investment Policy Statement

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I. Purpose

This Statement of Investment Policy is a blueprint for the investment and management of the portfolios of the American Friends Service Committee [AFSC] and for the prudent stewardship of the funds entrusted to AFSC by its donors and sponsors.

The American Friends Service Committee has been provided with investable funds from donors and other sources to support its mission. The organization's 2020 Strategic Plan speaks to this in broad terms: "Philanthropic resources expand to match our organizational vision and program ambitions, with enhanced financial and fundraising systems". The Board of Directors, through its Stewardship Committee and its Investment Subcommittee, must manage these funds with prudent and appropriate care in a way that best supports the AFSC's mission, Quaker values, and long-term financial health.

Accordingly, 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;
- Align the organization's investments with the peace and justice advocacy positions of AFSC's global programs;
- 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.

II. Socially Responsible Investment Policy

The American Friends Service Committee [AFSC] is a globally recognized Quaker organization devoted to challenge unjust systems and promote lasting peace throughout the world. This mission is based on the belief in the worth of every person and faith in the power of love to overcome violence and injustice.

AFSC's overarching investment philosophy is to invest responsibly in alignment with our mission as well as with the Religious Society of Friends' beliefs and testimonies, which include peace, simplicity, integrity, and justice. This investment philosophy reflects the specific concerns of AFSC and will differ from the "ESG" ["Environmental, Social, and Governance"], "socially responsible", "impact", and "sustainable" investment policies of other organizations.

AFSC's investments will be made in funds which hold securities of both public and private entities whose conduct is consistent with the values, goals, and objectives of the AFSC. All

investment shall adhere to the AFSC’s “Social Investment Policy and Guidelines”, found below. The Board accepts that this policy may limit the available investment universe for AFSC’s funds. At times, this may affect the diversification and risk of AFSC’s portfolios relative to broad market indexes.

The AFSC will therefore *favor* investments which are consistent with its values, mission, and program positions, and *avoid* investments which are not. The organization’s goals and program priorities are set forth in a variety of documents, of which the most comprehensive is AFSC’s Strategic Plan adopted in 2020. That ten-year plan puts priority on three goals: (1) just and sustainable peace, (2) just economies, and (3) just responses to forced displacement and migration. Other key programs and priorities are highlighted in the minutes of the Board on various subjects. The Investment Subcommittee will also monitor the consistency of its investments with the AFSC’s current programs.

Investment decisions will be seasoned by guidance from AFSC’s programs and will endeavor to align AFSC’s investments with the organization’s advocacy efforts with companies and other investors. Among other resources, the Investment Subcommittee and the investment consultant will use the recommendations of AFSC’s **Investigate** project to assess specific companies and their complicity in state violence.

Shareholder proxies will also be voted by the AFSC in accordance with this investment philosophy. Additionally, AFSC may, from time to time, use shareholder activism to promote the organization’s program goals and advocacy campaigns. This may include voting shareholder proxies, engaging with companies as an investor, and filing shareholder resolutions. Therefore, an investment otherwise deemed to be “out-of-policy” may exceptionally be held for the sole purpose of corporate engagement.

If an investment is made solely for corporate engagement, it will (a) only be made in the minimum amount for the planned action, (b) only be held for the minimal time needed for such action, and (c) yield returns solely meant for the advocacy effort. Such exceptional holdings will be recommended by relevant program staff and approved by the Investment Subcommittee, Treasurer, and General Secretary.

AFSC incorporates this Socially Responsible Investing Policy [hereafter “SRI”] as a facet of its overall investment program. The investments across the AFSC endowment, employee retirement, and planned giving investment pools shall adhere to the guidelines established herein, and the AFSC’s Investment Subcommittee shall implement these guidelines through a variety of strategies, to include targeted investing, divestment, and/or encouraging corporate management to address activities which conflict with AFSC’s goals and values. The Investment Subcommittee will also work with the investment consultant and staff to provide guidance and maintain compliance with these policies.

A. Investments to Be Avoided

The following are types of investments which AFSC will seek to avoid. There will be situations of *de minimis* involvement which the Investment Subcommittee will need to consider on a case-by-case basis. Otherwise:

1. **Investments should not be made in companies which consistently, knowingly, and directly facilitate and enable state violence and repression, war and occupation, and/or severe violations of international law and human rights.** This includes, but is not limited to, companies involved in the following business activities:
 - a. Industries of mass incarceration and detention, including those providing prison and jail services, detainee transportation and deportation services, bond services, reentry and other “community corrections” services, electronic monitoring, or companies which use prison labor;
 - b. Security, defense, and military industries, including the industries of border security, militarized policing, and mass surveillance; and,
 - c. Companies that facilitate and enable violations of international law and human rights as part of the Israeli occupation of Palestinian and Syrian lands and/or as part of Israeli apartheid.
2. **Investments should not be made in companies which develop, manufacture, license, or sell any form of weaponry.** Due to the development of new types of weapons and the dual use of some tools as weaponry, however, some products, technologies, and companies will be evaluated by the Investment Subcommittee on a case-by-case basis.
3. **Investments should not be made in companies that have major military contracts.** Companies that do some military work but are not major contractors should be considered individually based on factors such as the attitude of management toward military contracts, the total amount and percentage of sales represented by military contracts, the types of materials and services contracted for, and the direction of the company toward increasing or decreasing military work.

However, major defense contractors or suppliers, major military research and development contractors, or companies with total military contracts representing more than a small amount of total sales are generally to be avoided. Investments in companies among the top 100 U.S. Department of Defense contractors and prime global defense contractors should be scrutinized with particular care.

4. **Investments should be avoided in industries of questionable social value and conduct.** For example, investments should, where prudent, be avoided in companies with major involvement in making or purveying intoxicants, tobacco, gambling, or other products and services of questionable social good. Companies with a compelling history of unjust, criminal, or negligent conduct should be also be avoided. Investments may, however, be considered in retail distributors of such products provided these products represent only a small percentage of overall sales.

5. **Investments will be avoided in any electric generation company that produces nuclear power or is in the process of constructing nuclear power facilities.** AFSC's position on nuclear electric-power generation is based on serious concerns about the safety of this activity as well as the lack of a safe means of disposing of spent nuclear fuel.
6. **Investments will not be made in companies involved in the mining, processing, production, or use of coal and oil/tar sands nor in major petroleum and natural gas producers.** This is because of AFSC's deep concern with issues relating to global warming and climate justice.
7. **Investments in U.S. Treasury bonds or the financial instruments of states whose policies and conduct are deeply contrary to Quaker values shall likewise be avoided or significantly limited.** As an organization committed to peace and social justice, AFSC continues to hold principled opposition with a number of the U.S. government's and other governments' policies. These include military policies and wars, treatment of indigenous peoples, environment policies, and immigration policies. The Investment Subcommittee will therefore scrutinize, avoid, or significantly limit investments in the instruments of "problem" foreign states on a case-by-case basis. AFSC likewise decided many years ago to minimize its holding of U.S. Treasury securities and continues that practice today. The AFSC, however, recognizes the fiscal prudence of making U.S. Treasury investments in some instances under the following guidelines:
 - a. Investments in U.S. Treasury bonds or the financial instruments of other states whose policies and conduct are deeply contrary to Quaker values will only be made in situations where appropriate federal agency or acceptable corporate bond issues are not available or are available at inordinate investment risk. Treasury investments will be an option of last resort.
 - b. During periods of rapidly changing market conditions, temporary investment in U.S. Treasury bonds, if deemed appropriate, is permissible with the understanding that these purchases can be replaced as soon as practical with other acceptable bond investments.
 - c. The amount of U.S. Treasury bonds which are held should not exceed 10% of the total American Friends Service Committee portfolio when averaged over any twelve-month period.
 - d. In order to limit, to the greatest extent possible, the amount of AFSC funds invested in U.S. Treasury bonds or the financial instruments of other states whose policies and conduct are deeply contrary to Quaker values, it is the responsibility of the Investment Subcommittee and the investment advisor to annually review the holdings of any questionable financial instrument and make reasonable efforts to find substitute investments.

B. Investments To Be Favored

While avoiding or minimizing the types of investments cited above, AFSC recognizes other kinds of investments as having particular merit. *Favored* investments include:

1. **Investments in companies providing goods and services which meet the daily needs of individuals, families, and communities** — such as manufacturers and purveyors of food, clothing, housing, heat, light, transportation, communication, recreation, and other necessities of everyday, peaceful life.
2. **Investments in companies promoting environmental responsibility**. Consideration shall be given to investments in clean energy, sustainable agribusiness, and renewable energy sources. Investments in companies supporting climate mitigation strategies will likewise be considered with favor.
3. **Investments in companies with strong environmental, labor, and social records**. In judging investments, favorable consideration will also be given to companies having superior records in such areas as:
 - a. Hiring and personnel policies as reflected in the AFSC’s Diversity and Equity Policies;
 - b. Health and safety of workers, relations with unions, and relations with worker-organizing groups;
 - c. General business practices and policies, to include corporate governance, advertising, and financial practices;
 - d. Disclosure to stockholders of information on business and social responsibility practices;
 - e. Recognition and respect for the rights and cultures of native peoples;
 - f. Environment and climate-change awareness policies and operations; and,
 - g. Policies and practices that audit supply chains for environmental, labor-rights, and human rights violations.

III. Roles and Responsibilities

The following parties have responsibility for overseeing AFSC’s investments and ensuring compliance.

A. Fiduciary Responsibility

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

1. 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.

2. 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.

3. **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.

B. Operational and Governance Roles

1. **Board of Directors**

The Board of Directors has the ultimate fiduciary responsibility for AFSC's investment portfolio. The Board 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 the ongoing monitoring of implementation of those policies to the Stewardship Committee through its Investment Subcommittee and the Board Treasurer.

2. **Treasurer**

The Treasurer is a Board member and the officer of the corporation broadly responsible for monitoring all matters relating to AFSC's finances as well as reporting matters of interest or concern to the Board on a regular basis. The Treasurer serves on all committees that are primarily focused on financial issues, including the Stewardship Committee, the Investment Subcommittee, and the Retirement Subcommittee (but not the Audit Committee). Part of the Treasurer's role includes monitoring the performance of AFSC's investments and adherence to investment policy and reporting any concerns to the Investment Subcommittee, the Stewardship Committee, and Board. The Treasurer will also alert the Investment Subcommittee to matters of concern raised by the Board that may call for consideration of possible modifications to investment policy or specific investments.

3. **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.

4. **Investment Subcommittee**

The Investment Subcommittee is responsible for guidance 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 consultants 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 will report regularly but at least annually to the Stewardship Committee.

The Investment Subcommittee may select a qualified investment consultant 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 consultant will include (but is not limited to) the 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 Investment 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) the qualifications of the staff, the ability to comply with the AFSC's Socially Responsible Investing Policies as well as the AFSC's commitment to diversity and inclusion, the soundness of each firm's investment strategy, cost, as well as historical performance and risk factors relative to peers.

5. Retirement Subcommittee

The role of the Retirement Subcommittee is defined in the Board's "Charge of the Subcommittee" dated October 24, 2020. Among other responsibilities, the Retirement Subcommittee broadly monitors the organization's retirement-related portfolios for compliance with investment policy and adherence to the advice of the plan's actuary and investment counselors. The Retirement Subcommittee may make comments or observations on portfolio content to the Investment Subcommittee from time to time, with copy to the Stewardship Committee. However, the Investment Subcommittee has ultimate responsibility for the selection of investments and the diversification of AFSC's portfolios.

6. Staff

Staff in the Finance Department will provide instructions and contact on a day-to-day basis to the investment advisor(s) and managers. Staff are responsible for supporting meetings of the Investment Subcommittee, for the accurate and timely accounting of investment activity, and for 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. In addition, staff liaison personnel will represent program priorities and concerns.

7. Investment Consultant

It will be the role of the investment consultant, under the direction of the Investment Subcommittee and AFSC staff, to conduct ongoing guidance and monitoring of

AFSC's 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 on-going basis, the investment consultant will monitor the investment content of AFSC's portfolios for suitability and, if a prohibited company is discovered, the consultant will initiate a dialogue with the manager and may recommend to the Investment Subcommittee that the position be liquidated and the proceeds reallocated. If the Investment Subcommittee decides to liquidate the position, the investment manager should demonstrate prompt action to do so and actually divest within six to nine months of notification.

IV. General Investment and Risk Policy

AFSC maintains several separate investment funds, such as the defined benefit pension fund, the endowment fund, various planned giving funds, and the segregated reserve fund. Each has a fund objective, an investment objective, and a benchmark. 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 will 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.

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 diversification across different asset classes. The management of investment risk will be the responsibility of the Stewardship Committee and its Investment Subcommittee.

All AFSC investments are subject to its socially responsible investing policy and all Board, committee, and staff members, as well as investment consultants and managers, are obligated to understand and act in compliance with that policy. Each Fund's Overall Fund Objectives and specific Investment Objectives are included in the AFSC Investment Objectives and Guidelines Statement. The Funds included are:

- Consolidated Fund
- Defined Benefit Pension Plan Fund
- Retiree Medical Plan Fund

- Interest Free Loan and Operating Surplus Reserve Fund
- Gift Annuity Reserve Fund
- Pooled Life Income Fund
- Charitable Remainder Trusts Fund
- Segregated Reserve Account Fund

Each Fund will adhere to the SRI investment policy as described in this Investment Policy Statement.

V. Spending Policy and Distributions

A. Endowment Spending Policy

The purpose of the various Endowment funds is to contribute to the mission of the AFSC while maintaining their real value over time. In accordance with that principle, a decision was reached in 2018 to reduce the annual endowment spending rate from the former 5% to 4.5% over a gradual transition period. The annual endowment spending rate will be regularly monitored and adjusted by the Board based on recommendations by the Stewardship Committee and the Treasurer.

B. 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.

However, for planned giving and retirement 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 endowment funds.