Central England Quakers - Investment Policy – Revised May 2019

A Introduction

The adoption of an investment policy forms an important part of Quaker witness. It represents an opportunity to demonstrate Quaker testimonies by discouraging investment in companies whose products or practices are inconsistent with Quaker principles, and by encouraging investment in companies which operate in a constructive and sustainable way for the benefit of the communities and environments in which they operate.

When investing in pooled funds it is appreciated that CEQ's ethical criteria may not be entirely matched by those of the fund. We currently only invest in pooled funds which provide "screening" of their investments, based on published ethical criteria, and which focus on areas we are keen to support such as renewable energy, education, clean water, healthcare, social housing and sustainable development.

Ethics are not always clear cut; sometime difficult judgements need to be made. While on some issues a firm position is taken, on others the degree of a company's involvement in a questionable area is taken into account, along with indications of improving practices and positive features of its activities.

Trustees are aware that individual Friends may hold views, on financial or ethical aspects of investment, which may not be congruent with actions taken by CEQ's appointed investment managers. As noted in *Quaker faith & practice* (14.20) in relation to investment matters, Trustees have obligations which may constrain them more, as trustees, than as individuals. So, while Trustees, through Finance Committee, will be sensitive to honestly expressed dissenting opinion, they will put their collective responsibility before their own or others' personal preferences.

Charity Trustees have an obligation to maximise the return on investments and in theory this requirement might be seen to conflict with ethical "screening", but in practice it has been demonstrated that ethical investments perform just as well as non-ethical ones, so it is possible to select holdings which are both ethical and perform well.

We are confident that our investments will continue to be based on our spiritual principles, and we shall avoid investments that may be related to any activity which may be considered in conflict with our spiritual principles, or illegal in international law. When making investments, we seek positive impacts in wider society as part of our investment approach.

B Options for Central Funds, Local Meetings and Branches

There are four basic types of investment portfolios:-

1. Individual **stocks and shares** selected by the responsible Quaker Fund Managers, purchased through, and held by, a broker. Brokers generally offer a range of services, such as:-
    - Execution only (buying and selling shares on instructions from the client)
    - Advisory (client retains control, but can seek advice)
    - Advisory Managed (proactive advice given, but decisions approved by the client)
    - Discretionary ("hands off" management of a portfolio, by the broker)

Fees vary according to the type of service requested

2 **Units Trusts**, the Fund Managers of which manage their own portfolios against defined criteria. Some Unit Trusts offer different investment options (including ethical funds), and in some cases different levels of risk and return. Quaker Fund Managers can choose a Unit Trust (and a sub-fund of it) but have no control over the investment decisions made by the Unit Trust Fund Managers. *(Note: a commentary on the Unit Trust investments currently held by CEQ is given in section D below).*

3 **CCLA COIF funds** – CCLA essentially operates as a Unit Trust, but specialises in managing funds for Religious Organisations and the Public Sector. CCLA is largely owned by its clients' funds and is strongly aligned with the needs and preferences of those clients. CCLA operates strict ethical criteria, underpinned by their principle of "engagement" – active campaigning, using their investor power, to change company behaviour. The COIF Funds have an excellent track record in terms of both yield and capital growth. One major advantage of holding a COIF Fund investment is that it is easy to sell units or buy additional units, by means of a simple written instruction, without having to pay commission. The fund comprises some 138 individual holdings, which keeps the level of risk under careful control. Although the typical yield is around 4%, the fund is essentially low to medium risk.

4 **Social investments** – these are investments which have an expectation of a particular **social** outcome, reflecting (in our case) Quaker witness or concern, but with a financial return which is usually below market rate. Charities are permitted to hold social investments, as an expression of their charitable activities, but they are required to declare them in their published accounts.

Central Funds

Whilst CEQ has a strong interest in investing in CCLA (The COIF Ethical Investment Fund in particular), the policy for Central Funds is to maintain around 50% of total investments in broker held funds, currently managed by Walker Crips.

Broker-held funds are currently managed on an advisory basis (see above). The risk level agreed with the broker is classified as "low to medium". This provides the optimum balance for CEQ between risk and return. The broker follows the CEQ Ethical investment policy. Responsibility within CEQ for investment decisions currently rests with a small "team" of four Friends, liaising closely with (and under guidance from) the broker. Minor changes to portfolios are made by the "team", but major decisions are referred to Trustees Finance Committee, and, if appropriate, to Trustees.

Review meetings are held with the broker at least twice a year, when all of the holdings in each portfolio are reviewed individually.

Trustees Finance Committee is presently exploring moving CEQ's broker-held investments to a different firm of Stockbrokers that offers a discretionary service featuring well-researched ethical screening. This would not only provide greater confidence in the ethical basis of our "broker-held" investments, but would avoid the burden of responsibility currently placed on our Investment team for managing the portfolios.

Local Meetings and Branches (with investments)

Local Meetings and Branches (LM/B) are recommended to hold investments in CCLA, as this type of investment requires no management on the part of the LM/B Treasurer and reduces the level of risk to which both the LM/B and Treasurer is exposed.

(Given the very low prevailing interest rates, LM/Bs are being encouraged to transfer significant amounts of cash held in bank accounts (which are not needed for short term expenditure) to a CCLA COIF Ethical Fund investment, so as to achieve a positive return, and make better use of charitable funds).

However it is acceptable for LM/Bs to hold their own individual investment portfolios against certain criteria:-

1. The portfolio is held by the CEQ-approved broker (in the name of the LM or B) and managed by the CEQ investment team, or
2. The portfolio is managed for the LM or B by a broker on an advisory-managed or discretionary basis (see above), and/or
3. The stocks and shares chosen are classified as low risk

If the LM/B chooses to manage its own investments (following the above criteria) decisions to buy and sell shares should not be made by any one individual (however competent) but shared with a nominated colleague or committee. Significant changes to portfolios should be approved and Minuted at a Business Meeting.

C Ethical screening criteria

CEQ recommends:-

- Avoiding holdings in businesses pursuing policies that conflict with our charitable aims or objectives, or offend Quaker witness, such as gambling, pornography, alcoholic beverages and tobacco, military equipment, “payday” type loans
- Avoiding investments which might inhibit Quaker activities
- Avoiding investments where business policies support oppressive regimes, or are harmful to individuals or the environment
- Avoiding investments in banks which have low ethical standards, irresponsible trading practices, or take excessive risks.
- Avoiding investments in companies (especially trans-national corporations) that are involved in the evasion or avoidance of tax.
- Supporting responsible employment practices
- Supporting businesses which observe good corporate governance practice
- Supporting businesses which demonstrate best practice in human and animal welfare, employment and human rights
- Supporting businesses which operate a responsible attitude towards environmental protection, and contributing towards a cleaner environment or healthier society
- Avoiding investments in companies involved in fossil fuel extraction
- Supporting companies which offer “solutions” such as renewable energy or the provision of micro-finance

Nowadays it is difficult to identify companies which have no involvement at all in some of the excluded activities, and screening sometimes has to be pragmatic. An example is the retail sector, in which almost all supermarkets have some involvement with alcoholic beverages and tobacco. Wherever possible we encourage Investors to exclude companies where more than 5% of their turnover is known to be derived from excluded activities.

How we deal with risk

Because of our long time horizon and desire to maintain and grow our investment value, we are comfortable with the level of risk inherent in equity markets and run a balanced equity based portfolio.

Although there is a significant investment in equities, the portfolio is diversified with the aim of avoiding overdependence on individual companies, industry sectors or geographical markets

We avoid speculative and opaque investments and other investments we do not understand.

We can tolerate falls in the value of our investment portfolio as long as our investments are making positive contributions in wider society. We are well diversified in terms of our income streams and this allows us to have a high exposure to real assets, as long as the risk taken is commensurate with long term prudent investment.

Britain Yearly Meeting's commitment to fossil fuel divestment means that as a general rule we should not have any investments in companies involved in fossil fuel extraction. This policy is considered further in the next section.

D Fossil Fuel divestment

Background

In June 2014 Finance Committee was asked by Area Meeting to ascertain what investments CEQ had in fossil fuel extraction, in response to the BYM divestment initiative. Although CEQ had no direct holdings in this sector at that time, some 50% of the central investment portfolios were invested in Unit Trusts which, though all carefully chosen as "ethically based", might contain a proportion of fossil fuel holdings. This concern led to a dialogue being established with the Fund Managers of the principal Unit Trusts. The information provided by the Fund Managers was comprehensive, and in some cases surprising, demonstrating that a superficial analysis of these Funds based on published information can be misleading.

In parallel with this work, CEQ participated in a consultation process undertaken by CCLA, as part of a review of their ethical policy

The outcome of this exercise was quite encouraging:-

1. All of the Unit Trusts (and CCLA) apply strict screening criteria which address a range of "Quaker concerns", and most actively engage with companies, using their influence and power as shareholders to change company behaviour.
2. The proportion of the Funds associated with fossil fuel extraction were all under 5%, with most less than 1%. The screening criteria are constantly reviewed and are getting ever stricter.

CEQ's current policy is to:-

1. Maintain investments in those Unit Trusts that have low or zero investments in the fossil fuel sector, demonstrate effective "screening" and have a pro-active policy of "engagement".

2 Seek opportunities to invest in individual companies and Unit Trusts which promote "solutions" – such as renewable energy.

3 Maintain support for CCLA, since the COIF Fund is ethical, performs well and is an ideal "product" for Local Meetings, as it requires no intervention by inexperienced LM Treasurers.

Clearly if CEQ moves to a "discretionary" managed portfolio with a broker specialising in ethical investment, the policies described in 1 & 2 above will become part of the brief given to the broker.

E Ethical Banking

Choosing banks which demonstrate ethical practices is as important as ethical investment. CEQ recommendations on ethical banking are published separately.

F Support & Guidance

Finally, this and other CEQ Finance Policies and Procedures are held in a "Finance Library" which is published on the CEQ website *http://centralenglandquakers.org.uk/policies/finance/*

Also, support and guidance on investment and banking matters, is available from the Trustees Finance Committee. Initial contact should be made via the LM Support Treasurer (currently Claire Bowman), who will direct the enquirer to the most appropriate Committee member. Local Meetings are encouraged to seek advice from the central Treasurer team when completing application forms and mandates (to ensure that these are completed consistently across the charity) and are reminded that all application forms for bank accounts and investments must be endorsed by two Trustees.

"True godliness does not turn men out of the world, but enables them to live better in it, and excites their endeavours to mend it....." William Penn

John Kimberley, CEQ Investment Treasurer
On behalf of CEQ Trustees Finance Committee

May 2019