

# Britain Yearly Meeting of the Religious Society of Friends (Quakers)

Registered Charity No. 1127633



## Investment policy

Our aims and objectives .....	1
Why we have investments .....	1
Investment timeframe .....	2
Ethics .....	3
Engagement .....	5
Delegation and decision making .....	5
Reporting .....	5
How to address concerns with BYM investment policy and holdings .....	5
Technical - investment principles .....	5

## Our aims and objectives

Britain Yearly Meeting (BYM) is a faith-based charity. It supports and sustains the Religious Society of Friends in England, Wales and Scotland. Our charitable objectives are:

- sustaining our church and faith
- supporting meetings
- promoting Quakerism
- witness through action

## Why we have investments

BYM has average annual income of £8–8.5m from contributions, grants, legacies, dividends, property income and profit from the Hospitality Company. Annual expenditure averages £9m.

Investments such as equities and bonds form 32% of our total assets. Investment and functional property form 63% of our total assets. For this reason, we hold a low level of property-related investments in our investment portfolio. Dividend income provides 5–6% of our annual operating expenditure requirements.

Our investments seek to provide capital growth as well as income. This enables BYM to meet expenditure requirements and fulfil charitable aims in the near term as well as maintain the value of our endowments and related work into the future. Increases in the value of investments mitigate against inflation and future risks.

Investments are held as part of our approach to income and assets. Holding diverse sources of income mitigates the high level of risk associated with depending on one source. It also enables BYM to satisfy the different timing and scale of expenditure requirements as an employer and long-term partner in areas of charitable work. Investments generate a return in excess of inflation over the longer term while generating income to support ongoing activities.

Investments also enable BYM to meet its commitments in terms of endowments, and underpin the reserves policy. 7% of BYM's reserves are held as permanent endowments, 80% identified as long-term reserves (including reserves represented by property) and the remainder as short-term reserves to meet unanticipated cash flow needs. Long-term reserves are invested to grow at a rate above inflation. Short term reserves are invested emphasising certainty of value.

Investments, and our behaviour as an investor, need to strike the right balance, financially and in terms of trustees and staff time between:

- funding BYM work over the short and long term
- investing in companies which align with Quaker concerns (e.g. sustainable energy, fair trade, social housing)
- avoiding investing in enterprises whose activities conflict with our values
- encouraging businesses to be ethical, socially responsible and to protect the environment

Through Quaker discernment, testing and monitoring we have confidence that these aims are not in conflict.

## **Investment timeframe**

In relation to our investments portfolio, BYM defines short term as less than 5 years, medium term as 5–10 years, and long term as over 10 years. In relation to our owned properties, BYM defines short term as less than 5 years, medium term as 5–25 years and 25 years plus as long term. In relation to cash, BYM defines short term as less than 3 months, medium term as 3–6 months, and long term as 6–12 months.

BYM invests for the long term, but longevity is not our overriding aim. Our aims with regard to investments are to generate total returns to support present and future charitable work. We also want to be a great example of an ethical and responsible investor in the way we choose to invest, exclude, engage and innovate. Our investments are one of the means we use to enable us to meet the commitments we have entered into and to carry out our charitable purposes.

As a long-term investor our investments are weighted heavily towards real assets, usually equities. These are expected to grow in capital value and income generated over time ahead of the rate of inflation. We do not aim to make short-term speculative gains.

We align our interests with those of companies invested in and take our responsibility as owner of the assets seriously. Over the long term responsible companies in sustainable and fair business activities are more likely to survive and

prosper. As long-term shareholders, we share the rewards of the success of companies we are invested in.

We do not necessarily need to sacrifice financial returns to invest ethically or responsibly. We do not allow financial returns to be the sole consideration when making investment decisions. We always take ethical considerations into account.

## **Ethics**

BYM will invest ethically—consistent with its Quaker witness and true to its Quaker testimonies.

The following five principles, which are the product of Quaker spiritual leadings, inform BYM's investment policy.

### **1. Truth and integrity**

BYM expects the enterprises in which it invests to maintain high public standards of honesty and fairness in all their dealings and to demonstrate levels of corporate governance that are among the best in their sector.

### **2. Justice, equality and community**

Based on respect for each human being, BYM seeks to invest in enterprises which avoid the exploitation of employees, suppliers, customers or communities. BYM will not invest in enterprises whose offerings are primarily concerned with the bringing to market of goods and services that do harm, such as tobacco, gambling, pornography or alcohol.

### **3. Simplicity**

BYM believes that a simple lifestyle, freely chosen, is a source of strength and that no person's place in the world should be defined by his or her material possessions. BYM therefore wishes to support enterprises that address authentic human needs.

### **4. Peace**

Peace is a process that calls for practical work as well as for the expressed opposition to wars, armed hostilities or the use of violence in order to resolve conflict. Therefore, BYM will not invest in those enterprises which engage in the arms trade, the production of weapons or the promotion of violence.

### **5. The earth and the environment**

BYM believes that a proper concern for creation requires environmental stewardship on behalf of all life on Earth. BYM seeks to foster responsibility both to existing life on Earth and to future generations. While we uphold Quaker principles, we acknowledge that the integrated and complex nature of the modern world requires some accommodation. As an investor BYM seeks to engage with enterprises in order to effect an improvement in their environmental practices. It will avoid investing in enterprises that it considers harmful to the natural world. Following its commitment to becoming a low-carbon, sustainable community, BYM will not invest in enterprises

which engage in, or have a significant stake in, servicing or supporting, the extraction of fossil fuels.

We do not invest directly in companies that are primary producers of the following:

- pornography
- prostitution
- munitions and related products
- fossil fuel extraction

We do not invest directly in companies that are profiting from the occupation of Palestine.

We may invest where an enterprise's main business purpose is held to be generally in the public interest, and less than 5% of the company's annual turnover is generated in one or more of the following:

- tobacco
- alcohol
- gambling

When investing in pooled funds it is appreciated that BYM's strict ethical criteria may not be entirely matched by those of the fund. We currently only invest in pooled funds which focus on areas we are keen to support such as renewable energy, education, clean water, healthcare, social housing and sustainable development. As such the funds are very unlikely to hold any companies from restricted industries in our list. Our fund manager regularly checks and reports to us on this matter.

Ethics are not always clear cut; sometime difficult judgements need to be made. While a firm position is taken on some issues, 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 BYM's appointed discretionary 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 and Property Committee, will be sensitive to honestly-expressed dissenting opinion, they will put their collective responsibility before their own or others' personal preferences.

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

Trustees are aware of the investment manager's methodology in rating the ethical and social credentials of those enterprises which are deemed suitable as investments for BYM.

## Engagement

BYM engages with companies, both directly and through its investment manager to try to improve practices and may, in the event of ongoing concerns, sell its shares.

We believe in working with others; there are times when those with stronger voices than BYM's will lead engagement. Collaborative engagement reduces pressure on BYM's limited resources. We believe group engagement offers added impact.

As shareholders we seek to influence a company's policies towards those that better reflect our value and ethics by:

- membership of the Church Investors Group (CIG) – a group of investors connected with Churches and other Christian charities in Britain and Ireland
- regular reports from our investment manager on how they have exercised company voting rights
- writing directly to companies we hold to express support of concerns being taken forward by Quaker Peace & Social Witness

## Delegation and decision making

The trustees of BYM have delegated investment decisions to their Finance and Property Committee. Investment management is delegated to an investment manager on a discretionary basis. The investment manager is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Where the investment manager has doubt concerning the acceptability of any potential investment, they are encouraged to raise this doubt with the Finance and Property Committee through its clerk and the head of Finance and Resources.

## Reporting

The investment policy together with a full listing of our investments, as at 31 December each year, is [published on our website](#).

## How to address concerns with BYM investment policy and holdings

Britain Yearly Meeting's trustees are responsible for the centrally managed work, assets and property. Queries can be raised by emailing [clerkoftrustees@quaker.org.uk](mailto:clerkoftrustees@quaker.org.uk).

Meeting for Sufferings keeps under review and tests, as appropriate, the existing and new concerns referred to it by area meetings and others. It receives minutes from area meetings and, when thought appropriate, passes them to Britain Yearly Meeting's trustees and the central or other standing committees for attention.

## Technical - investment principles

### How we invest

We invest directly in equities and in pooled funds. Our portfolio is structured within the following strategic ranges:

Fixed interest	0–10%
UK equities	50–70%
Overseas equities	15–35%
Alternatives	0–10%
Cash	0–10%

We hold a low level of property-related investments in our securities portfolio as we directly own investment properties.

### **How we measure performance**

Our long-term view of performance is appropriate for our long time horizon and above average risk tolerance. We are not concerned about short-term market volatility and use five year time periods to smooth out such movements.

We measure the investment manager's performance against bespoke benchmarks and review performance on an annual basis.

Our minimum requirement for returns is CPI+4% over rolling 5 year periods. We will also review the investment manager's performance against ARC Charity Equity Risk benchmark and a composite benchmark reflecting the mid position of the strategic asset class control ranges.

We measure performance net of fees and ask managers to provide performance data that is annualised, post fees and in sterling where fees are measured as a total expense ratio.

### **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 predominantly equity-based portfolio.

Although primarily invested 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.

### **Monitoring**

Investments are kept under regular review. We meet with the investment manager at least twice a year. We receive reports from them and have procedures in place for monitoring their financial and non-financial performance, including engagement.

## **Liquidity**

We aim to maintain sufficient liquidity to meet commitments to partners, grantees, staff, and creditors. We hold sufficient cash on deposit for 4–6 months of net operating costs ahead. This reduces the likelihood of being a forced seller of equities.

The dividend income, and where deemed appropriate the realised capital gains, from the financial investments will be applied towards BYM's charitable purposes. Other degrees of liquidity will be determined by the specific additional operating or capital expenditures identified in the rolling three year plan.

In line with our Quaker values, we seek to deposit cash balances with ethical banks or deposit fund providers with as high a credit rating as possible. We monitor financial strength if credit ratings are less than A. This is rated by Moody's, Standard & Poor's or Fitch. Cash balances on medium-term deposit are placed as far as is practicable with faith-based companies that 'pool' clients' money and actively manage risk by spreading funds across 30–40 counterparties.

## **Currency**

Base currency of the investment portfolio is sterling.

## **Approval and review**

This investment policy was approved by Finance and Property Committee on 25 October 2018. It was adopted by trustees on 16 November 2018. It will be reviewed annually by the Finance & Property Committee.