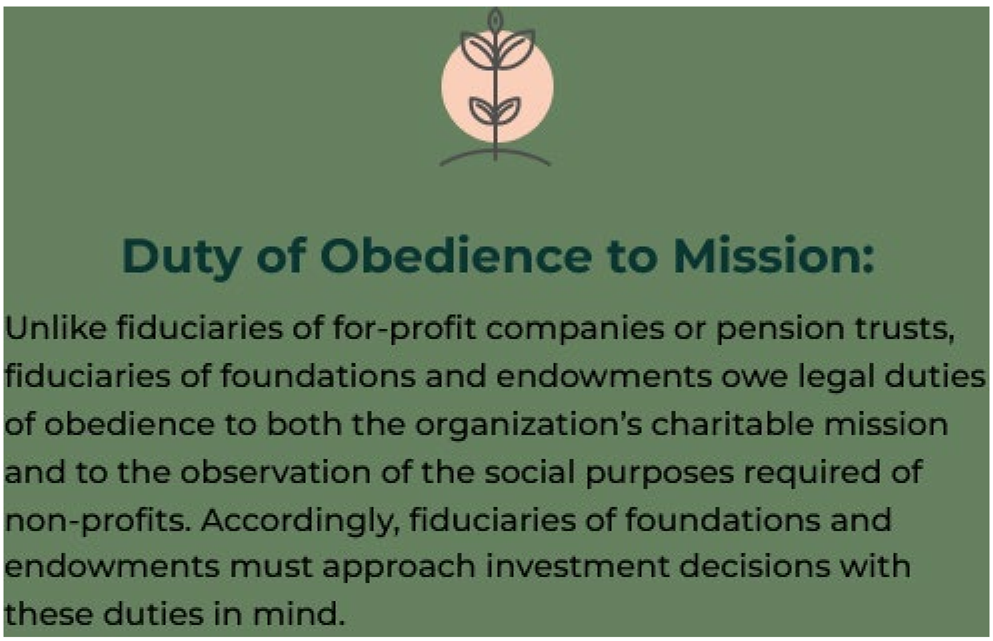
Investment Policy – Lydia B. Stokes Foundation

FOUNDATION MISSION

The Lydia B. Stokes Foundation is committed to the Quaker philosophy of peace and justice. The Foundation supports building resilient, healthy communities by focusing on social and economic justice, regenerative organic agriculture, viable, healthy ecosystems, quality of life issues, development of local food systems, local energy security and peace initiatives.

This vision of interconnected Life and Living Values inspires our grant making and investment decisions.



STATEMENT OF PHILOSOPHY

A core tenet of Quaker philosophy is that spiritual principles apply not only to individuals, but also to social and international relations, trade, and businesses. Therefore, we believe it is our responsibility to view our assets, as well as our income, as vehicles to achieve our mission, and have chosen to align our asset management with our mission.

Because the purpose of this Foundation is to promote improved quality of life for both people and our Living Earth, we believe the portfolio should be invested in companies that make consistent, committed efforts to be socially responsible as defined in our guidelines. We will seek out mostly small and mid cap companies, and locally owned, independent businesses and organizations whose products, services, and methods of conducting business enhance the human condition and sustain the health of our ecosystems.

We recognize that no company is perfect, and that companies may excel in one social criteria and lag behind in another. We will look for quality of corporate disclosure, consistent efforts to be responsive to social concerns and changes, and impacts to ecosystems as we evaluate investments on an individual basis for their ethical suitability.

OBJECTIVES

The primary investment objective is to provide a return on investments that provides for the adequate support of Foundation operations, meets its distribution requirements, and adheres to its focus on Slow Money capital and the triple bottom line. (ecological, social and financial return) Every investment will be assessed according to the criteria of our mission, particularly regarding climate stability, local energy security, healthy food and food systems security, and community sustainability. We call this BSRI (Beyond Socially Responsible Investing)

SPENDING AND INVESTMENT GOALS

The spending and investment goals of the Foundation are:

- To generate income and capital gains necessary to support the foundation's operations and fund its grant making over the long term
- To provide capital directly to, or own the equity or debt of enterprises which further the foundation's mission
- To avoid investing in companies whose ecological or social impacts contribute to the issues that the foundation's grant making seeks to address
- To set spending levels based primarily on an assessment of current need and of current and projected investment returns
- To preserve, to the extent possible consistent with the foundation's spending levels, the real (inflation adjusted) value of its assets over the long term.
    1. The specific objective for the account is to achieve an average annual real total rate of return (net of investment fees) of at least 4- 6% over a rolling three-year period.
    2. Appreciation and income may be used to finance cash requirements for grants and operating expenses. Assets may be spent down during periods in which neither appreciation nor income are sufficient to fund grant making budgets.
    3. We will utilize Mission Related Investing, (MRI), and Program Related Investing, (PRI) as part of our investment policy and strategy.
    4. In a down market the preference is to take a more "defensive" posture with respect to principal preservation. Using MRI/PRI will be a vital part of dealing with down markets while continuing to support our mission, goals, and fiduciary requirements.

5. We will evaluate our strategy, processes and tools at least once a year and adjust as necessary. Since this is an evolving field, we anticipate significant changes and innovations in this developing investment market over the next decade.

DEFINITIONS:

Socially Responsible Investing (SRI) is the general practice of considering social, corporate governance and ecosystem sustainability factors in investment decisions. SRI utilizes positive and negative screening, community investor and shareholder activism and public advocacy criteria in addition to financial criteria when selecting an investment.

Mission-Related Investing (MRI), encompasses any SRI investment activity which is focused specifically on furthering the Foundation's mission. These investments may be conventional stocks and bonds, or may be alternative investments that are used to complement our grant making strategies while also recycling capital and/or earning a financial return
Among the MRI alternative investment choices, the most common are:

- Community Development Banks and Credit Unions
- Loan funds
- Slow Money Capital
- Private Equity
- Real Estate and timber or agricultural lands

COMMUNITY INVESTING

The Foundation is working toward the seamless merging of our investments with our mission and is committed to community investing as a primary way to both align our assets with our mission, and leverage our grant making activity. We seek out community-based projects with a potential for high positive social, economic, and ecological impact.

Among community investment choices are:

- Community Development Banks and Credit Unions
- Loan funds
- Community investment notes and certificates of deposit

Program Related Investing (PRI)

PRI investments are made in strict accordance with IRS Section 4944 guidelines, which state:
Under, Section 4944 private foundations are allowed to make "program-related investments" that meet three criteria:

1. The investment's primary purpose must be to significantly further the foundation's charitable objectives as expressed in it's mission;

2. Neither the production of income nor appreciation of property can be a significant purpose; and
3. The funds cannot be used directly or indirectly to lobby or for political purposes

These PRI investments also include the following intentions:

1. The investment would not have been made but for the relationship between the investment and the accomplishment of the Foundation's exempt activities.
2. Recycling the principal invested and/or earning a below market return.
3. Addressing a critical funding gap, leveraging additional capital, and delivering social impact for the areas defined in our mission.
4. May include a for profit business as long as the investment is made primarily to further our mission, in which case, expenditure responsibility rules are required

PRIs fund capital projects, provide bridge loans, or offer liquidity to loan funds, among other things. PRIs employ financing methods such as loans (senior and subordinated), loan guarantees, lines of credit, linked deposits, or equity investments.

PRIs may help a program acquire property; reach scale; create jobs, products or services; or approach self-sufficiency. Often, PRIs are made to share risk and leverage co-investment, and often attract traditional financial players to the table.
As PRIs are paid back, the funds are recycled into the next charitable purpose.

PRI Options we typically use:

- Public Equity
- Private Equity
- Public Preferred Stock
- Private Preferred Stock
- Convertible Debentures
- CDs
- Community Investment Notes

MANAGER

The Foundation's assets will be managed by a professional money manager, who is selected by the Investment Committee, and approved by the Board. Assets are allocated in accordance with guidelines set forth by the Investment Committee and approved by the Board. The investment manager has discretion to manage the portfolio assets to best achieve investment objectives and requirements consistent with the social and financial guidelines set forth in the Foundation's Investment Policy. Portfolio management will be monitored on a regular basis.

MONITORING

The Finance Committee will monitor the portfolio on a quarterly basis, with a face-to-face meeting scheduled with the manager at least annually. Investment results will be evaluated on a longer-term basis, since our perspective is focused on a larger, more long-term set of strategies and goals. The quarterly monitoring is intended to help us and our manager stay on track, and respond to the rapidly changing circumstances of this period of global transition, currently regarded as: 2007-2023.
Issues to be addressed include:

1. Social research and interactions with portfolio companies including shareholder activities, including opportunities for community and alternative investing.
2. Adherence to the Foundation's mission, screens, and values.
3. Market capitalization, asset allocation, portfolio balancing and holdings for the portfolio.
4. Year-to-date and cumulative performance in terms of our screened portfolio
5. Transactions and transaction costs

CONSTRAINTS

Taxes – The foundation is tax exempt. It must distribute 5% of its market value annually to maintain its tax-exempt status.

TIME HORIZON

The overall time horizon is long term, which for planning purposes, means 3-5 years.

However, we believe the world has entered a time of transition, moving from the *Age of Oil*, the fossil fuel based Industrial Age of endless exponential consumption, growth and debt, to the *Age of Soil,* based on ecological economics, sufficiency, and living within our planetary means.

We regard this period of global transition as the years between 2007-2023, and have divided this period into three phases, in order to facilitate planning our granting and investment strategies: Phase 1 2007-2012, Phase 2 2013-2017, Phase 3 2017-2023.

In 2006, we began to consider how to move through this transition period, and set our initial time frame and goals to cover the years from 2007-2012 as Phase I. We implemented a transition strategy specifically for this period, broken into a series of stages, which proved to be successful from both a financial as well as a mission standpoint.

We expect Phase 2 of this three phase transition period to be expressed over the years 2013-2017, and are implementing a transition strategy specifically for this period. We expect volatility to be a hallmark of this stage, with increasing failure of our current economic rules of the game to effectively address rapidly emerging climate, social, and financial problems.

We expect that between 2015-2017 the impossibility of continuing to realize endless exponential consumptive growth on a finite planet will become increasingly evident, and that the challenge of how to shift from an extractive model to a regenerative model of finance and economic activity will become much greater, since it means curtailing our consumption — which means negative GDP measured growth overall. We recognize the difficulty and challenges of making this transition from oil to soil; from an extractive to a regenerative economy. Basic underlying assumptions about our entire economic and social structures need revision. We must deal with issues of equity and justice for all, not lock in worse poverty and decay of our commonwealth. We are required to distribute at least 5% of our market value each year. Retirement plans are all based on the portfolio growing and building a large nest egg during working years, and that retirees will be able to withdraw 4% per year for twenty or more years. Mortgages and all other loans are based on growth that allows debt to be repaid with interest. This extractive system no longer works. We are living beyond our personal, national, and planetary means, and cannot keep drawing down the principal of the natural systems upon which our economy, and all life depend.

This difficult period will require adaptation. This requires us to be alert and creative in analyzing developing trends in this transition. We will respect the long term philosophy, which is expressed in our mission, and, at the same time, be prepared to move into new investment forms as they emerge. We will be nimble in selling investments that represent the declining era, and parking the proceeds in cash as necessary. As opportunities arise, and after we assess them and perform due diligence, we will make investments in the companies and organizations we anticipate will form the core base of an ecological systems based Sufficiency Economy.

We will implement our Phase 2 transition investment plan as follows:
Stage I: January 2013 – June 30 2014
Stage 2: July 2014 – June 30 2015
Stage 3: July 2015 – June 30 2016
Stage 4: July 2016 – July 2017

These dates will roll forward on an annual basis.

During and at the end of each stage, we will re-evaluate and reset if necessary, the criteria and allocations for the next stage.

If, during the course of each stage, rapidly changing world conditions require an interim reassessment and adjustment, we will meet with our managers to determine the adjusted criteria.
Every investment will be assessed according to criteria of food and food systems security, peak oil and climate change impacts, and community sustainability in addition to the criteria listed below:

Use of Social and Living Earth Investment Criteria
The portfolio manager will judge potential portfolio additions or changes on their quality, financial soundness, effect on asset mix, and congruency with the Foundation’s social and Living Earth criteria guidelines. Since companies are often involved in controversies around areas of qualitative concern, the portfolio manager is requested to discuss with the investment committee, any confusion or question about the intent of that criterion.

SOCIAL JUSTICE CONCERNS

The account shall avoid domestic investments in companies with the following characteristics:

- Companies that advertise irresponsibly, which includes targeting minors for alcohol, gambling or tobacco products; denigrating groups of people, or stating false or misleading statistics or numbers that promote fossil fuel use, industrial animal and crop production or privatizing public assets.
- Derivation of more than 5% of revenues from alcohol production and distribution if company is over $ 500 million in revenues.
- Any involvement in tobacco production or processing
- Derivation of more than 3% of revenues from the sale of tobacco products
- Gambling services, and production and manufacture of gambling equipment or software
- Animal testing unless accredited by the AAALAC or the National Institutes of Health
- Manufacture and distribution of weapons of war and/or weapons whose sole purpose is to kill people (not including hunting guns)
- Derivation of more than 3% of revenue from the Department of Defense. This criterion does not apply to goods and services that have no direct military purpose. The Foundation wishes to avoid companies providing weapons and other goods or services created solely for the purpose of harming people or the earth.
- Companies that have ongoing poor performance with respect to occupational health and safety laws and regulations
- Companies that have ongoing poor performance with respect to affirmative action standards, practiced discriminatory labor practices based on disability, gender identity, age, race, religion or sexual orientation and/or engaged in anti-union activities.

ECOLOGICAL CONCERNS

The account shall avoid investments in companies with the following characteristics:

- An ongoing pattern of disregard for a healthy and sustainable Living Earth i.e. polluting, not disclosing information, substantially or repeatedly violating air, water, hazardous waste management, or other environmental regulations
- Own and/or operate nuclear power plants and/or mine, store and/or transport nuclear fuel; or manufacture products or services designed exclusively for the production of nuclear power
- Refusing to change harmful production methods or practices when alternative technologies or practices are available
- High toxic emissions levels

- Production and use of ozone-depleting and soil depleting synthetic agricultural chemicals, pesticides and herbicides
- Genetic engineering and trans-genetically modified foods, plants and animals/animal products.
- Companies that run Concentrated Animal Feeding Operations (CAFOs)and use antibiotics, hormones and other drugs to enhance weight gain
- Industrial large scale fossil fuel and/or GMO dependent farming practices and farms
- Industrial scale fuels or biofuels such as corn based ethanol, that have flat or a negative Energy Return on Investment (EROI)
- Derivation of revenues from the mining, refining, processing, transport pipelines, or exclusive combustion of coal, oil or natural gas
- Fossil fuel extraction or refining, especially unconventional methods of extraction, such as shale fracking, tar sands, deep water, and arctic drilling
- Exploitation, waste, depletion or pollution of ocean, ground, or surface water, disregard for careful stewardship of fresh water as the fundamental right on our Planet (rights of Mother Earth)

INTERNATIONAL INVESTING

The account shall avoid international investments with the following characteristics:

- Strategic support for repressive regimes
- Sweatshop labor, including unacceptable labor conditions and practices and use of forced labor or child labor
- Conflict with or destruction of indigenous peoples and their lands
- Use of chemicals, pesticides, drugs, or abusive agricultural or environmental practices that would be banned in the United States or Europe

Corporate practices abroad should be carefully examined. If any doubts exist, the Investment Manager should consult with the Investment Committee to decide whether to invest, divest, or file shareholder resolutions/protest.

AFFIRMATIVE SCREENING

The account shall seek out socially responsible investments in companies that have the following characteristics:

- Adopting GRI standards and participating in recognized industry specific positive sustainable indicators and recognizing principles as written in the Universal Declaration of the Rights of Mother Earth http://therightsofnature.org/universal-declaration/

- Strong, pro-active policies and practices designed to minimize ecological footprint, and address climate change both nationally and locally, including resource conservation programs (source reduction), utilizing a substantial amount of recycled products as raw materials, adoption of strong pollution prevention and and/or the initiation of sustainable business practices including cradle to cradle practices
- Strong ecological management systems, including the use of independent audits and linking management compensation to the fulfillment of sound ecological objectives
- A focus on regenerative organic and biodynamic agricultural practices, especially when part of regionally or locally based food systems development that include production, processing, distribution and consumption. This can include investing in artisan/craft production and products containing alcohol, such as microbreweries, vineyards and distilleries
- Focus on products and services providing solutions to ecological challenges, e.g., renewable energy, energy efficiency, or filtration, clean water, restoration of healthy soils
- A focus on renewable, appropriately scaled, regionally appropriate and locally or regionally based non fossil fuel derived energy.
- Hiring practices that foster diversity and inclusivity
- Facilitate quality accessible reproductive healthcare by providing reproductive services, products and/or insurance to their employees and/or to the general public.
- Support development of community banks, co-operatives and credit unions, and public banks
- Companies with demonstrated leadership in innovative approaches to community development, including environmentally friendly building designs, affordable accessible low-income housing and excellence in the public education system
- Companies whose labor practices and compensation standards support strong supplier diversity, collective bargaining, living wage and pay equity
- A diverse board of directors and top two levels of management with regard to gender and race
- Reasonable compensation packages for CEOs relative to average employees

SHAREHOLDER ACTIVITIES

Shareholder activities are a component of aligning the socially responsible investment guidelines with the investment activities. Voting on the proxies, co-filing, and filing shareholder resolutions are all part of this effort. Proxies shall be voted in accord with the concerns stated in the policy guidelines, and with the Clean Yield proxy recommendations.

Our Mission

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