Lydia B. Stokes Foundation
Investment Policy Statement
(Source: FoundationPartnership.org)

Statement of Philosophy

The Lydia B. Stokes Foundation is committed to the Quaker philosophy of empowering people to help themselves. The Foundation accomplishes this through grant making, which focuses on women's issues, children, education, the environment and Quaker concerns (peace and social justice).

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 that mission.

Corporations are more than institutions for making money. They do not operate in a vacuum. They can provide quality and service, and promote innovation in their products. They can make efforts to improve the lives of their workers and the communities in which they are located. They can change their practices to diminish pollution and other negative environmental impacts. Because the purpose of this Foundation is to promote improved quality of life for both people and the environment, we believe the portfolio should be invested in companies which make consistent, committed efforts to be socially responsible, as defined in our guidelines. We will seek out companies whose products, services, and methods of conducting business enhance the human condition and sustain our natural environment.

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 environmental impacts as we evaluate investments on an individual basis for their ethical suitability.

Objectives

The overall goal of the Foundation is to ensure the maximum level of grant making by preserving the Foundation’s real (inflation adjusted) capital base and, over time, modestly increasing it.

The specific objective for the account is to achieve an average annual real total rate of return (net of investment fees) of at least 6% over the rate of inflation, over a rolling three-year period.

Constraints

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

International investing - companies with international market exposure are desirable as a way to participate in international investing. We suggest at least 25% of the aggregate revenues of companies in the account come from outside the United States.

Income - Fixed income investments shall be in investment grade bonds only, which meet the Foundation's Social Justice Concerns. Government Agency Bonds are acceptable. No Treasury bonds. Bonds should be laddered and have maturity dates of less than 15 years.

Time Horizon - The time horizon is long term, which for planning purposes, means in excess of 3-5 years.

Social Justice Concerns

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

- derivation of more than 5% of revenues from alcohol production and distribution
- any involvement in tobacco production processing and distribution
- derivation of more than 3% of revenues from the sale of tobacco products
- gambling services, and production and manufacture of gambling equipment
- genetic engineering and genetically modified products
- 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.

Environmental Concerns

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

- disregard for a clean, healthy and sustainable environment; i.e. polluting, not disclosing information, substantially or repeatedly violating air water, hazardous waste management, or other environmental regulations
- refusing to change harmful production methods or practices when alternative technologies or practices are available.
- high toxic emissions levels in relation to their peer group
- production of ozone-depleting and agricultural chemicals
- derivation of revenues from the sale or combustion of coal or oil and their derivative fuel products
- extractive fossil fuel companies, except for natural gas

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 indigenous peoples
- use of chemicals, pesticides, drugs, or environmental abuse which would be banned in the United States
- operational support of the government in Burma

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:

- pro-active environmental policies
- a focus on alternative energy
- a focus on sustainable agriculture
- pro-active employment policies
- commitment to community affairs and charitable giving
- signing the CERES Principles
- a diverse board of directors with regard to gender and race
- reasonable compensation packages for CEOs relative to other employees

Program Related Investing

The Foundation considers Program Related Investing to be an additional way to align our assets with our mission, and to leverage our grant making activity. Therefore, we will designate a percentage of the average annual market value of the portfolio to PRI. This is currently set at 1%.

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.

Proxies shall be voted in opposition of the following corporate board characteristics and actions:

- incentive payments unrelated to financial performance
- increasing salaries and options for executives that far exceed salary increases for average company employees
- boards composed mostly of "inside directors"
- nominating and compensation committees that are not composed exclusively of independent directors
- board nominees who serve on multiple (more than 3) boards, when the boards have many of the same people
- lack of diversity by gender, race and age
- golden parachutes for executives
- pension plans for non-employee directors

Guidelines

1. 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 provides for modest growth.
2. The specific objective for the account is to achieve an average annual real total rate of return (net of investment fees) of at least 6% over the rate of inflation, over a rolling three-year period.
3. Annual portfolio turnover should be low (less than 40%), unless market conditions demand a prudent manager take more aggressive action.
4. Investments shall be diversified both by asset class (equities, and fixed income and cash equivalents) and within asset class (e.g. within equities by economic sector, industry and size).
5. Equities will represent 50-75% of the total portfolio, with a long-term target of 60-75%. Bonds will represent 20-45% of the total portfolio, with a long-term target of 25-40%. Cash levels will range between 4-10%. At no time will cash and cash equivalent levels fall beneath $180,000, or approximately 4% of the portfolio value. This level shall be reviewed annually and adjusted as necessary.
6. No more than 10% of the Account's assets may be invested in any single stock, and no more than 15% of the Account's assets may be invested in any single bond. The stock portfolio should have reasonable exposure to different stock market sectors, with no more than a 10 basis point over or under exposure to any one sector.
7. Cash distributions of approximately 2.5 % will occur in January and June each year.

Performance Measurement and Reporting

The Account manager is expected to generate returns that match or surpass the following performance guidelines:

1. The equity portfolio goal is to out-perform the S&P 500 Index by 100 basis points per annum (net of fees), and will also be compared to the Domini Social Index.
2. The bond portfolio goal is to match the Lehman government corporate bond Index (net of fees).

3. The Account manager will be measured against the index and against the appropriate equity and bond manager indexes, and evaluated over rolling 3-year periods. Any significant deviation from appropriate benchmarks will require a reevaluation of the investment program.
4. The manager shall create an appropriate index using a socially responsible equity fund (like the Domini Social Equity Fund), a socially responsible bond fund or bond index, and a socially responsible money market fund (like Calvert). The weightings of the asset classes in the index should match the asset class weightings in the portfolio, and should be adjusted on a quarterly basis. The index should be used as a benchmark for fund performance and should be presented to the investment committee as described under 5 below.
5. The Account will be monitored on a quarterly basis for consistency with investment philosophy and return relative to objectives, but results will be evaluated over rolling three-year periods.
6. The Account manager is expected to report the following quarterly:

- Current holdings at cost and market value, plus percent of assets, percent of class, P/E ratio of stocks, and current yield
- Purchases and sales for the quarter
- Realized and unrealized gains/losses
- Performance history by asset class: graph
- Industry weightings compared to the S&P 500: graph
- income and expenses detailing interest, dividends and expenses as well as fees for the quarter.
- rate of return (net of fees) for the quarter compared to appropriate benchmarks.

7. The Account manager is expected to report the following on an annual basis:

- current holdings at cost and market value, plus percent of assets, percent of class, P/E ratio of stocks, and current yield
- average annual portfolio turnover
- a graph of sector weighting compared to the S&P 500 index
- a performance by asset class report detailing how each asset class (equities, fixed-income, cash) performed during the year
- a date to date performance history
- realized and unrealized gains and losses
- percentage of small, medium, large market cap stocks
- performance comparison to appropriate indexes. Include S&P 500, Domini Social Equity Fund, PAX World Fund, Lehman bond index, inflation, Vanguard balanced index, 60% S&P 40% Lehgovtcorp index, in graph form as well as written
- fundamental data (P/E, beta, dividend, yield, price to book, PEG)
- report of equity holdings by company description and long-term growth rate
- Morningstar report

8. Regular communication (written or verbal at least quarterly) concerning investment strategy and outlook is expected. A meeting to review investment progress and client goals, either in person or by conference call, shall be held at least annually.

Investment Policy Review

All goals, objectives and policies will be in effect until modified by the Investment Committee.

The Committee shall review the Investment Policy at least once every three years.

If, at any time, the Investment Manager believes that any policy guideline prevents him/her from meeting the performance objectives, or if he/she believes changing market conditions warrant consideration of revisions, it is the manager's responsibility to communicate those concerns clearly to the Committee.

Revised August 2001