This is a copy of what the Investment Committee of trustees presented to the trustees at their meeting on September 7. To be clear, this report ‘leans’ towards Option C - there is no approval contained in this document. We are sharing a committee report. Trustees will be bringing a recommendation to Fall Sessions.

Fossil Fuels Divestment for NYYM Invested Funds

By the Investment Committee of the Trustees of NYYM

Introduction

This document explores the impact of divesting from fossil fuels within NYYM's investable assets with Friends Fiduciary Corporation (FFC). It provides proposals for accomplishing this task.

The NYYM trustees passed "Minute 2019.07.26.1 - Trustees approve (re)forming an Investment Committee of the Trustees whose first charge is to bring to the Trustees a proposal for divestment from fossil fuels and investment in green technologies. We approve Peter Close, Jim Whitely, Spee Braun, and Albert Hsu (for his technical skills) to serve on the committee. Peter will serve as the convener of the committee and ask Albert Hsu if he is willing to serve."

The resulting proposals put forth at least two options for accomplishing this task. Several significant considerations exist that need to be addressed, they are:

- Distribution amount
- Performance
- Asset size
- Expenses

Currently, FFC manages $6 mm on behalf of NYYM, all of which is invested in the Quaker Growth and Income fund (QGI) which is a balanced fund consisting of roughly 70% equities and 30% bonds via a fund of funds approach overseen by FFC. The size of the fund is approximately $325 mm in assets, and the expense ratio is roughly 0.75%. NYYM receives a 4% distribution each calendar year. The energy component of the QGI is roughly 1.9% as of June 30, 2019, or approximately $114,000 of our portfolio managed by FFC.

Comparatively, the Quaker Green Fund (QGF), a similarly allocated balanced fund, holds 0% in domestic energy stocks. In addition to being fossil fuel-free, the QGF includes a dedicated allocation to "cleantech/alternative energy" companies. These cleantech investments are in nine positive environmental areas. Areas include advancements in sustainable use of agricultural resources, alternative and renewable energy, efficient transport, power technology, water conservation and filtration, environmental finance, and cutting-edge clean technologies.

Assets in the QGF approximately are $26 mm and the distribution rate is lower, at 3.5%. The expense ratio, 0.90% is higher than that of the QGI.

Fund performance as of 7/31/19:

Fund	YTD	1 year	3 year	5 year	Since Inception	Inception Date	Expense Ratio
Quaker Growth and Income (QGI)	15.09%	5.34%	9.20%	7.60%	6.41%	12/31/1998	0.75%
QGI Benchmark	14.61%	4.39%	7.98%	6.35%	5.53%		
Quaker Green Fund (QGF)	14.87%	4.53%	8.75%	6.56%	6.41%	12/31/2013	0.90%
QGF Benchmark	14.79%	3.99%	8.32%	6.47%	6.44%		

It should be noted that the performance of the QGF is not due to a 0% weighting in domestic energy stocks but rather to the difference in the amount of fixed-income funds held by each and in particular the real estate component.

As of June 30th, 2019, real estate holdings made up 8.8%of the QGI while in the QGF they had a weighting of 3.8% of the fund. These income-generating holdings directly impact the performance and distribution rate of the funds.

Examination and Conclusion

The committee examined three different scenarios:

- Do nothing – Scenario A
- Divest immediately and move all of our assets at once from the QGI to the QGF – Scenario B
- Divest slowly in $1 mm tranches over six years – Scenario C

Attachment A details the hypothetical results of each scenario. Several parameters are the same for each scenario. Fund performance is a very rough approximation of what each fund could potentially return. The main purpose is to illustrate the impact of immediate divestment vs. gradual divestment.

A gradual divestment in fossil fuels by moving into the QGF from the QGI results in:

- A slower, potential decline in performance
- A gradual decline in assets before distributions have occurred
- A slight increase in expenses

Scenario A is the only scenario that maintains the full 4% semi-annual distribution but does nothing to divest from fossil fuels, albeit just 1.9%.

Scenario B immediately divests, and we would immediately take both a performance and a distribution hit. The performance impact is unknown, but the distribution rate would go from 4% to 3.5% semi-annually.

Scenario C begins to divest and does so gradually over 6 years. The process is more gradual and hence, more forgiving in terms of performance and the semi-annual distribution. It also provides a series of checks and balances, allowing periodic monitoring to achieve the desired outcome.

Other options were discussed such as moving to an entirely new investment manager, but the Investment Committee is hesitant because doing so would result in the need for more oversight and management than is currently necessary and desirable. Additionally, FFC understands and manages itself based on Quaker principles and values, and the committee felt strongly that this was an important characteristic for any organization that managed our assets. That said, the Investment Committee will be conducting a deeper exploration of options outside of FFC as part of our ongoing monitoring to ensure that our current investment arrangements are the best use of our funds.

Addendum, 9/19/19

Further analysis was performed to determine what the impact on assets would be as the transition occurred from the QGI to the QGF.

Attachment B shows the impact on both Total Assets and the Distribution. The short-term impact of a full divestment would be felt immediately. The most dramatic effect would occur to the Distribution should a full divestment occur. Scenario C displays a more gradual decline, eventually stabilizing in 2024.

Scenario C also shows a slight increase in assets over Scenario B due to better performance during the implementation years.

Friends Fiduciary Fund Performance

As of 7/31/2019:

Fund	YTD	1 year	3 year	5 year	Since Inception	Inception Date	Expense Ratio
Quaker Growth and Income	15.09%	5.34%	9.20%	7.60%	6.41%	12/31/1998	0.75%
QGI Benchmark	14.61%	4.39%	7.98%	6.35%	5.53%		
Quaker Green Fund (QGF)	14.87%	4.53%	8.75%	6.56%	6.41%	12/31/2013	0.90%
QGF Benchmark	14.79%	3.99%	8.32%	6.47%	6.44%		

Scenario A - Maintain Course

Impact: Distribution remains at 4%
QGI has over $320 mm in assets - less friction
1.9% in fossil fuels or $114,000

	Current	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Total Assets in QGI*	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000
Simulated performance**	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Total Assets in QGI*	$6,360,000	$6,360,000	$6,360,000	$6,360,000	$6,360,000	$6,360,000	$6,360,000
Expenses***	$45,000	$45,000	$45,000	$45,000	$45,000	$45,000	$45,000

Scenario B - Immediate Divestment

Impact: Distribution goes down to 3.5% immediately
Expense ratio goes up to 0.90% - roughly $9,000 increase
QGF has only about $26 mm in assets - more friction
Performance change is potentially most drastic

	Current	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Assets in QGI*	$6,000,000	$0	$0	$0	$0	$0	$0
Assets in QGF*		$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000
Total Assets	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000
Simulated performance**	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Total Assets	$6,360,000	$6,300,000	$6,300,000	$6,300,000	$6,300,000	$6,300,000	$6,300,000
Expenses***	$45,000	$54,000	$54,000	$54,000	$54,000	$54,000	$54,000

Scenario C - Phased Approach of $1 million/year out of Quaker Growth and Income into Quaker Green Fund

Impact: Expense ratio has potential to decline over 5 years as assets increase in QGF
Performance decline is less severe and more gradual
Smoother transition allowing for greater monitoring and oversight to ensure needs are being met
QGF has potential to increase in assets over longer period of time
Distribution gradually declines to 3.5% over 5 years

	Current	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Assets in QGI*	$6,000,000	$5,000,000	$4,000,000	$3,000,000	$2,000,000	$1,000,000	$0
Assets in QGF*		$1,000,000	$2,000,000	$3,000,000	$4,000,000	$5,000,000	$6,000,000
Total Assets	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000
Simulated performance**	6.0%	5.8%	5.7%	5.5%	5.3%	5.2%	5.0%
Total Assets	$6,360,000	$6,350,000	$6,340,000	$6,330,000	$6,320,000	$6,310,000	$6,300,000
Expenses***	$45,000	$46,500	$48,000	$49,500	$51,000	$52,500	$54,000

* Based on simulated performance. Assets would increase or decrease by the difference between actual performance and the Distribution.
** Estimates based on simulated performance - not indicative of future performance. Does not include distributions.
*** Assumes expenses stay the same for entire period and do not decline as assets increase in the QGF which would likely not be the case.

Distribution Change Effect

Scenario B - Immediate Divestment

	2019	2020	2021	2022	2023	2024	2025
Scenario B - Total Assets	$6,000,000	$6,105,600	$6,186,499	$6,268,470	$6,351,528	$6,435,685	$6,520,958
Simulated performance**	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Scenario B - Assets Before Distribution	$6,360,000	$6,410,880	$6,495,824	$6,581,894	$6,669,104	$6,757,470	$6,847,006
Distribution level	4.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Scenario B - Distribution	$254,400	$224,381	$227,354	$230,366	$233,419	$236,511	$239,645
Scenario B - Assets After Distribution	$6,105,600	$6,186,499	$6,268,470	$6,351,528	$6,435,685	$6,520,958	$6,607,361
Expenses***	$45,000	$54,950	$55,678	$56,416	$57,164	$57,921	$58,689

Scenario C - Phased Approach of $1 million/year out of Quaker Growth and Income into Quaker Green Fund

Impact:

	2019	2020	2021	2022	2023	2024	2025
Scenario C - Total Assets	$6,000,000	$6,105,600	$6,207,796	$6,312,298	$6,413,073	$6,509,859	$6,608,679
Simulated performance**	6.0%	5.8%	5.7%	5.5%	5.3%	5.2%	5.0%
Scenario C - Assets Before Distribution	$6,360,000	$6,459,725	$6,561,640	$6,659,474	$6,752,966	$6,848,372	$6,939,113
Distribution level	4.0%	3.9%	3.8%	3.7%	3.6%	3.5%	3.5%
Scenario C - Distribution	$254,400	$251,929	$249,342	$246,401	$243,107	$239,693	$242,869
Scenario C - Assets After Distribution	$6,105,600	$6,207,796	$6,312,298	$6,413,073	$6,509,859	$6,608,679	$6,696,244
Expenses***	$45,000	$54,950	$55,870	$56,811	$57,718	$58,589	$59,478

* Based on simulated performance. Assets would increase or decrease by the difference between actual performance and the Distribution.
** Estimates based on simulated performance - not indicative of future performance.
***Expenses would increase over time as more NYYM assets moved into the QGF.