Quaker Investment Criteria
By Robert Howell, Northern Monthly Meeting, Te Haahi Tuhauwiri*, Aotearoa New Zealand

The November-December issue of *Befriending Creation* had the theme of divestment. While divestment is an important question, it raises the more fundamental issue of what are the Quaker principles and criteria that should be used to direct investment generally. This matter is one that I took to Canberra Regional Meeting in Australia and they have adopted the criteria I’m sharing in this article, and we recommend it to other Meetings.

Please note that there are choices about the range of investment types that can be excluded when answers are not right or wrong, but depend on tactical factors. *Negative and Positive Screening* is where investment types are excluded (for example, tobacco) or preferred (such as renewable energy). *Engagement* is where we as shareholders engage with companies to encourage positive change. Engagement uses ownership stakes to engage with those companies that are not meeting desirable standards, through dialogue and shareholder activism.¹

English Quakers started Friends Provident in 1832. In 1984, Friends Provident started the first ethical fund in the UK, the Stewardship Fund. It is a fund that excludes a lot of investment options. Christian Brothers Investment Services is the leader in Catholic socially responsible investing. It is an example of a fund that has minimal exclusion, considerable engagement, and very good reporting of its impact.

Michael Baldwin and Paul Hawken started Highwater Global Fund in 2005. Company selection is based on criteria drawn from the work of *Natural Capitalism* by Hawken. Portfolio21 is based in Oregon. They have developed criteria using the Natural Step framework. Both Portfolio21 and Highwater Global Fund are examples of Funds that have investment criteria based on strong sustainability; that is, the principle of living within the capacity of the Earth to support life.²

Possible Quaker Investment Guidelines

Core Values:

Our core values include simplicity, peace, integrity, community and environment, and equality.³

Definition of Ethical Organisation

If funds are to be invested in organisations, those organisations need to care for the ecological systems that support life here on our planet, and to promote a just distribution of our Earth’s benefits in accord with our testimonies. Organisations need to be financially, socially and environmentally sustainable and responsible, treating all stakeholders fairly. Stakeholders include...
owners, members of the governing body, management, staff, subsidiaries, contractors, suppliers and distributors, customers, clients, and the local communities.

From an environmental viewpoint, the organisation will respect and act in accord with nature and within the limits set by the ecological systems on which humans are dependent for life. This is a definition of a strong ecological sustainability.

The social component includes human rights, and companies' use of their labour force, including health and safety and fair employment practices, as well as the meaningful involvement of labour in decision making.

An ethical organisation maintains good governance. It acts with financial and ethical integrity and transparency. This includes working with financial institutions and agents that espouse these values. It includes providing accurate and accessible financial and performance reports, and truthful advertising and promotion.

No company is completely sustainable or ethical, but investment will be in those companies that are closest to this standard (subject to other investment factors described below). The application of any ethical criteria will require weighting the various components or qualities that make up an ethical company. Because of the severe ecological degradation to our world by such issues as climate warming, the environmental factor is critical, and strong ecological sustainability should take priority in the consideration of which companies to invest in.

Any agent or advisor when reporting or advising should take an account of how each company meets these ethical criteria and any engagement taken to encourage change.

**Strategic Risk**

A risk analysis is needed to take account of the factors that will significantly influence future conditions and events, both positive and negative, especially in the medium to longer term. The major global drivers will include population change, climate change, price increases for hydrocarbons, water, food, toxins, geopolitical shifts, wide swings in economic activity and technological advances. Ideally, companies have calculated their ecological impact, are living within it and have incorporated the major global drivers into their strategic planning. There will be complex interactions amongst all of these drivers that will cause abrupt and radical shifts in human living and work, creating risks and opportunities. Companies will have strategies to cope with this turbulence and the resulting volatility of returns. This may involve engagement with companies to encourage longer-term perspectives rather than the payment of dividends over the short term.

Preferred strategies to cope with this turbulence and volatility of returns will include investing in a smaller number of companies, taking a larger stake, and/or engagement where management is encouraged to take a longer-term perspective rather than a short term requirement to pay out regular or high dividends. The choice of company or fund will include how aware management is of the major global drivers and how they are incorporating these into their strategic plans. When reporting, there will be an account of how each company deals with strategic risk.

The universe of investments meeting these criteria may be smaller than would usually be the case and a narrower range of investments is considered acceptable.

**Negative and Positive Screening and Engagement**

The strategies will include screening out, positive selection and/or promotion of various investments. Negative screens will include organisations involved in industries and behaviour like:
armaments and weapons systems
nuclear power
gambling
tobacco
animal exploitation and experimentation
irresponsible alcohol manufacture and distribution
significant human rights abuses
significant environment abuses
high carbon emissions
inappropriate behaviour towards indigenous peoples
On tactical grounds, there can be investment in some companies that would usually be screened out, when there is the scope for engagement.

Positive Screens will include organisations involved in industries and behaviour like:

energy efficiency improvements
environmentally sustainable goods and services
clean technologies
renewable energies
green business
progressive employment practices
local community activities
public goods such as public transport
sustainable housing
low carbon emissions

The principles of environmental sustainability and simplicity will favour investment in goods and services essential for simple and sustainable living with a focus on local resources and production regarding factors such as food, housing, water and energy systems and clothing. Investment will favour production and distribution systems that are resilient and able to cope with relatively rapid changes in temperature and weather. Also favoured will be transport and communication systems that are not dependent on unsustainable energy and resource use.

Other Policies and Implementation Issues

A financial advisor, if you engage one, will likely ask questions about your time horizon, and intergenerational equity, and diversification. Questions about time horizon deal with how old you are. If you are young and you want your investment for pension purposes, then you can take a longer view than someone who is elderly and wants short term returns. In the latter case liquidity of assets is more important.

Intergenerational equity is where capital is retained, in real terms, for future generations. A philanthropist may set up a fund to be ongoing over many years. The retention of capital (and the inflation rate) is therefore important. However, if a fund is established for a specific purpose (such as building up capital for a building project) then retention of capital at the end of the project is not required and a different investment approach will be taken.

Diversification deals with whether all asset classes will be used (cash, fixed interest, property and shares). Social/Community investments may be included in the portfolio.

Endnotes

1 This section draws on Your Faith Your Finance A Guide to Money, Faith and

2 See my article on UNPRI and Australian Banks which shows the problems of a weak definition of sustainability based on an ESG framework versus a strong definition of sustainability http://www.arrcc.org.au/images/stories/reports/Banks%20and%20UNPRI.pdf


4 These global drivers are based on an analysis of the foresight literature in Strong Sustainability for New Zealand Principles and Scenarios, http://www.nakedize.com/strong-sustainability.cfm

5 Carlos Jolly, one of the Co-Chairs of the Expert Group that drafted the UN Principles of Responsible Investment (UNPRI, 2012), has stated that the Responsible Investment community has not been more responsible than the investment community generally. In part this is because of funds that have a wide range of investments in many companies (large cap listed shares). "(T)he trillions of dollars controlled by RI asset owners, managers and consultants are not deployed consistent with long term investment strategies that would conduct our economies in a direction consistent with sustainable development, environmental protection, and greater economic justice – which would imply radical departures from what the market feels comfortable with and the valuation it puts on the large cap listed shares that dominate most global portfolios" See Why We Need To Change The Way We Invest https://d3n8a8pro7vhmx.cloudfront.net/accr/pages/36/attachments/original/1361872481/Why_We_Need_To_Change_The_Way_We_Invest.pdf?1361872481


This research shows only a handful of the global 2000 companies analysed have the policies, management systems and reporting mechanisms they need to adequately address the risks they face from water scarcity. The report concludes that the vast majority of companies and investors remain unaware of both current and future water risks and are therefore failing to protect company value. Because of this, investors should think twice about investing in such companies.

7 Nuclear power plants provide about 6% of the world’s energy and 13-14% of the world’s electricity. There are around 440 nuclear power reactors in operation in the world. Safety is an issue with the accidents at Three Mile Island (1979), Chernobyl (1986), and Fukushima (2011) being the most well known accidents. Building more plants create a greater possibility of accident or exposure to terrorist activity. Nuclear plants are very heavy users of water. Whatever the views about the merits of nuclear power, because of widespread public concern about them and the long time needed for planning and building new plants, nuclear energy will never be a significant solution to global warming. The more prudent investment would be in projects promoting energy efficiency and renewables.

8 Generally, social/community investment refers to direct investments in endeavours, which are outside the usual market-related activities. They may be aimed at achieving social good(s) whilst, ideally, offering an acceptable return at an acceptable level of risk. Examples are housing projects, job creation, environmental and educational projects or community building. These investments may be less liquid with pricing and risk assessment challenging. They may offer a lower financial return but have a discernible charitable component.
*Te Haahi Tuhauwiri is the name given to Friends by the indigenous peoples of Aotearoa New Zealand and means roughly, “the people who stand swinging in the wind of the Spirit.”