

FRIENDS FIDUCIARYSM

Financial Services for Quaker Organizations since 1898

VOLUME 13, ISSUE 4

FALL 2011

www.friendsfiduciary.org

Consolidated Fund Update

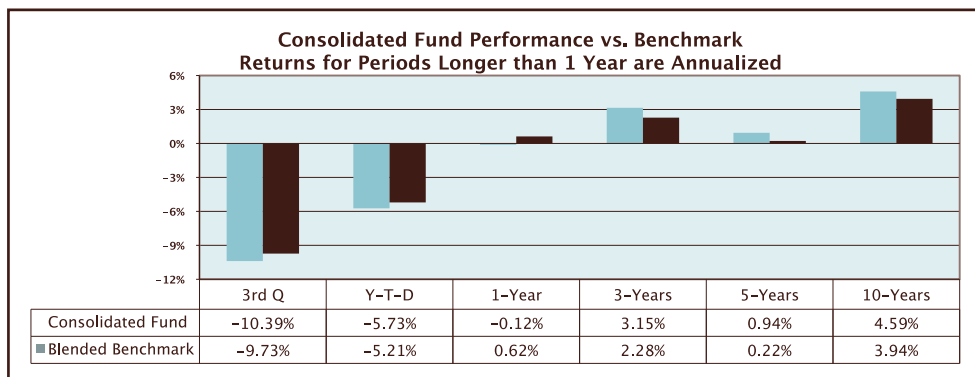
September 30, 2011 Snapshot

Consolidated Fund		
Unit Value	9/30/11	\$37.05
Next Cash		
Distribution	12/20/11	\$0.95

Asset Allocation		9/30/2011
Equities		58%
Fixed Income		36%
REITs		6%

The end of September closed a turbulent third quarter marked by increased stock market volatility and elevated uncertainty over the direction of the economy. One could simply pick up the newspaper on any day to find an abundance of discouraging headlines – low GDP, stagnant employment prospects, slowing growth in China, weak corporate earnings, debt crisis in Europe, and an ineffective White House and Congress. These are but some of the themes that placed downward pressure on stock prices. The litany of bad news, punctuated by moments of optimism, led to heightened volatility as seen by eighteen days of +200 point moves in the Dow Jones Industrial Average. During volatile periods it is helpful to remember two essential tenets of a successful investment management approach – adequate diversification and an appropriate investment horizon. While not immune to market downdrafts, the diverse character of Friends Fiduciary's portfolios protects us during difficult periods, and our long-term investment horizon allows us to reap the risk/reward benefits of capital market investing.

The Standard & Poor's 500 Index returned -13.9% in the quarter, its worst showing since the fourth quarter 2008, but this



widely followed benchmark still remains 62% above the recent trough in March of 2009. International stocks in developed markets dropped -19.0% as measured by the EAFE Index (Europe, Australasia and Far East). Poor performance was driven by concerns over a possible double dip recession in Europe and declining growth in Asian economies. Emerging markets also suffered, posting a decline of -22.6% as Chinese demand for imported goods waned in the quarter. One area of brightness was seen in the fixed income markets as the Federal Reserve Bank purchased longer dated securities in an effort to keep yields low, and as investors bolted for the safe haven of higher quality bonds. The Barclays Aggregate Bond Index finished the quarter up +3.8%.

The Consolidated Fund posted negative results with a -10.4% decline, slightly behind the blended benchmark return of -9.7%. Three of our eight managers outperformed their benchmarks while the remaining five underperformed. Good relative performance was delivered by Chicago Equity Partners (large cap equities), Great Lakes Advisors (large cap equities) and Urdang (REITS). The only managers that delivered positive results in the quarter were our two bond managers, Payden & Rygel and Lazard, who reported +3.09% and +0.10%, respectively. When viewed over a longer time horizon of three years or greater, Consolidated Fund returns are still ahead of the benchmark.

In the third quarter, the Investment Committee received requests to review 50 new purchase recommendations. Of those reviewed, 45 were approved and five were rejected for violations of our guidelines. Of the rejections, three were cited for their military involvement, one for its weak environmental record and one for its inadequate human rights policies.

The next Consolidated Fund income distribution of \$0.95 per unit will occur on or about December 20, 2011. As previously communicated, this amount was calculated using a 5.0% payout rate. The payout percentage in 2012 is set to decline ¼ percent to 4.75%.

As our newsletter goes to print, European leaders are dealing with debt problems across the Eurozone, and it appears that a double-dip recession in Europe is unavoidable. The more pressing debate is whether the U.S. will be dragged down by the financial woes of Europe, but so far we see enough evidence suggesting a continuation of modest domestic growth.

The Consolidated Fund maintains a socially responsible witness in its investments in harmony with Friends Testimonies.

Friends Fiduciary Corporation Consolidated Fund

Total Return for the Period Ending September 30, 2011

Fund Results	3rd Q	Y-T-D	1-Year	3-Years	5-Years	7-Years	10-Years
Total Fund	-10.39	-5.73	-0.12	3.15	0.94	4.00	4.59
Blended Benchmark	-9.73	-5.21	0.62	2.28	0.22	3.10	3.94
Blended 65/35 Index	-8.04	-3.56	2.60	3.54	1.45	3.43	3.81
Large Cap Domestic Stocks	-14.55	-9.16	-0.21	0.86	-1.61	2.89	3.66
Large Cap Domestic Benchmark	-13.86	-8.68	1.15	1.22	-1.19	2.29	2.81
Fixed Income	2.48	6.62	5.63	7.51	6.64	5.47	5.66
Barclays Aggregate Bond Index	3.83	6.67	5.29	7.99	6.53	5.58	5.67
Performance by Manager	3rd Q	Y-T-D	1-Year	3-Years	5-Years	7-Years	10-Years
Large Cap Domestic Stocks							
Chicago Equity Partners	-13.60	-5.95	3.88	1.00	-1.44	3.17	3.43
S&P 500	-13.86	-8.68	1.15	1.22	-1.19	2.29	2.81
Brandywine Global	-15.10	-13.36	-5.03	0.69	-1.83	2.37	3.22
Russell 1000	-14.68	-9.25	0.91	1.60	-0.91	2.68	3.28
Great Lakes Advisors	-15.11	-9.20	-2.28	-0.31	-1.47	2.87	
Russell 1000 Value	-16.21	-11.25	-1.90	-1.52	-3.53	1.59	
Small Cap Domestic Stocks							
Columbia Managemnet	-22.86	-23.82	-9.99	1.39	-1.28		
Russell 2000	-21.86	-17.02	-3.53	-0.37	-1.01		
International Stocks							
Boston Common	-20.23	-15.87	-10.31	1.25	-3.15		
MSCI EAFE	-19.01	-14.98	-9.36	-1.13	-3.46		
REITs							
Urdang	-14.20	-3.72	3.61	2.96	1.31		
DJ US Select RESI (float adj) Index	-15.07	-5.92	1.78	-2.20	-3.27		
Fixed Income							
Payden & Rygel*	3.09	6.86	5.89	7.14	6.41	5.34	5.53
Barclays Aggregate Bond Index	3.83	6.67	5.29	7.99	6.53	5.58	5.67
Lazard Asset Management	0.10	5.05	4.01				
Barclays Global Aggregate Index	0.97	5.39	4.00				

*Payden & Rygel's performance includes trailing performance for previous domestic fixed income portfolio manager.

All returns are in percent. Returns for periods exceeding one year are annualized.

No predictions are made for the future and past returns are no guarantee of future results.

Blended Benchmark

42% S&P 500, 5% Russell 2000, 15% MSCI EAFE (Europe, Australasia & Far East),
33% Barclays Aggregate Bond Index, 5% DJ US Select RESI

Blended 65/35 Index

65% S&P 500, 35% Barclays Aggregate Bond Index

Large Cap Domestic Blended Benchmark

100% S&P 500, as of April 1, 2009, formerly 50% S&P 500/50% Russell 1000 Value

From Jeff Perkins, Executive Director

It has been a very busy fall! Staff has been working towards completion of our conversion to a back-office outsourced provider which will allow us to provide more timely information to our constituents. We are currently in the testing and confirmation stage of striking a daily unit value. In December our constituents will be able to view their account information on-line through a link on our website.

In the first quarter of 2012, we will offer constituents a short term investment fund option. This new investment pool is targeted for funds that our constituents expect to spend down over a one to three year timeframe. For example, if your organization has a building and repair fund and expects to spend it down in eighteen months, this new short term investment fund will be a good option to increase your return above a money market account. Also, by consolidating your accounts at Friends Fiduciary your organization has the convenience of receiving one statement from Friends Fiduciary instead of multiple statements from different investment companies.

What excites me about our work here is the important witness that our constituents are making when they invest with Friends Fiduciary – stewardship of their financial resources consistent with their Quaker values. Our office is near the site of Occupy Philadelphia. I had the opportunity to visit the site and talk with some of the people there and was struck by their commitment. Much has been written in the media about this phenomenon, either disparaging the occupiers or supporting their protest. Regardless of what one may think about the occupiers or their aims, this protest seems to be impacting the public debate on fairness and economic justice.

Friends Fiduciary seeks to reflect Quaker values, including Friends' testimonies of simplicity, integrity and justice, in the realm of business, finance and investments. In this way we support our constituents' work in the world by garnering a market return on their assets without sacrificing their Quaker values. We have a unique opportunity to address some of the systemic accountability issues that contributed to the recent financial collapse with our approach to socially responsible investing.

Some of the activities engaged in by financial and investment banking firms were ultimately unsound business practices; their risks were clearly not understood or effectively monitored by the corporate boards, whose job it is to do just that. Friends Fiduciary works for greater corporate accountability through our active approach as shareholders. We do this by: voting proxies in a way that supports independent oversight and protects shareholder interests; joining with other faith based investors to dialogue directly with corporate leaders; and joining shareholder resolutions to increase transparency and improve corporate governance.

Friends Fiduciary is proud to partner with our many constituents and to support the integrity of their work through aligning stewardship of their financial resources with their mission and values. I believe our approach to socially responsible investing is an important contribution towards Friends' testimonies of peace, simplicity, integrity and justice. This is our work in the world.

Consolidated Fund Current Holdings

By Manager including the Cash Account As of September 30, 2011

Manager	Asset	Investment Style	% Assets	\$
Chicago Equity Partners	Stocks	Growth at a Reasonable Price	18.1%	43,900,000
Brandywine Global	Stocks	Relative Value	12.7%	28,500,000
Great Lakes Advisors	Stocks	Value	7.0%	16,200,000
Columbia Management	Stocks	Small Cap Core	5.7%	12,700,000
Boston Common	Stocks	International Core	13.3%	30,100,000
Urdang	REITs	Real Estate Investment Trusts	5.4%	13,200,000
Payden & Rygel	Bonds	Domestic Core	28.1%	62,000,000
Lazard Asset Mgmt.	Bonds	Global	8.0%	18,500,000
Cash Account	Cash	Cash	1.7%	1,900,000
Total Fund	Balanced	Total Return	100.0 %	227,000,000

Consolidated Fund

Unit Value History

Quarter Ending	Beginning Unit Value	Ending Fund Value Before Distributions	One-half Distribution Accrued	Ending Unit Value	Semi-annual Distribution
Dec 2010	39.19	41.43	\$0.530	40.90	\$1.06
Mar 2011	40.90	42.58	\$0.480	42.10	—
June 2011	42.10	42.36	\$0.480	41.88	\$0.96
Sept 2011	41.88	37.53	\$0.475	37.05	—

The Consolidated Fund pays out a total return distribution each June and December.

The distribution for 2011 is based on a 5.0% payout of the 12-quarter rolling average of the unit value.

December 2011 distribution = (5.0% X \$38.08)/2 = \$0.95.


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Guided by Quaker principles, values and testimonies, Friends Fiduciary provides prudent, cost-effective management of financial assets for Friends organizations.

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Friends Fiduciary is pleased to welcome

Haverford Quarterly Meeting (PA)

Saratoga Monthly Meeting (NY)

And

Wellesley Monthly Meeting (MA)

as new constituents in the Consolidated Fund

Friends Fiduciary can process stock gifts from donors wishing to support your Meeting or organization. Please contact our office for updated instructions and year-end timing information for gifts of stock.

Friends Fiduciary Corporation

1650 Arch Street, Suite 1904
Philadelphia, PA 19103
(215) 241-7272

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