

FRIENDS FIDUCIARY
CORPORATION

INVESTMENT PHILOSOPHY AND GUIDANCE

July 2008

FRIENDS FIDUCIARY CORPORATION
Investment Philosophy and Guidance

Table of Contents

| | |
|---|----|
| Investment Philosophy | 1 |
| Social Responsible Investing | 1 |
| Purposeful Investments and Actions | 2 |
| Investment Objectives and Measurements | 3 |
| Services | 4 |
| Costs..... | 5 |
| Investment and Loan Options..... | 5 |
| Responsibilities of Outside Investment Managers | 8 |
| Reports, Discretion, and Questions..... | 10 |

INVESTMENT PHILOSOPHY

Friends Fiduciary Corporation has been entrusted with the investment of funds that represent the work and efforts of Friends and Friends organizations of the present and past. Our investment philosophy is grounded in the beliefs of the Religious Society of Friends, among them the testimonies of peace, simplicity, integrity and justice.

Friends Fiduciary Corporation acknowledges this responsibility and recognizes, by its nature, investment activity is not passive. Working among real world constraints, our intentions are not only to “be” but also to “do” and, thus, make the world a better place.

SOCIAL RESPONSIBLE INVESTING: FRIENDS TESTAMENT OF VALUES AND ACTIONS

Our values and actions determine the focus of our investments.

1. Peace Testament

A unifying and consistent belief of Friends over the years has been the importance and value of the peace testament. Consequently, we will make no investment in weapons contractors or sub-contractors. *Off-the-shelf civilian products sold to the Department of Defense are not considered weapons components.*

2. Benefit to Society: Simplicity, Integrity and Justice

Friends embrace the widely held desire that investments should be made in businesses that serve a beneficial purpose to society. As in all our experiences, the judgment of what is beneficial to society changes over time in both degree of certainty and importance. Friends Fiduciary recognizes this challenge and honors this obligation by the following actions.

A. Companies that obtain their business from the production of alcohol, tobacco and firearms, or the operation of gambling casinos and lotteries will be excluded from investment.

B. We also do not favor companies where the major portion of their business is derived from:

- The manufacture of gaming equipment, software or other products that exclusively serve the gambling industry.
- Owning, operating or managing prisons.
- Entertainment companies that do not reflect Quaker values, such as those that manufacture violent video games or pornography.

There will be occasions, from time-to-time, where we will not invest in certain companies whose products or services, in our view, do not serve constructive purposes. The trend and nature of the products may have a bearing on our decision.

3. World Citizenship

Friends Fiduciary reviews a company's products, management, employment and personnel practices, and its respect for human rights, community relations, nuclear liability, and environmental commitment. While we strive to invest in most sectors of the economy, we especially seek companies that are above-average corporate citizens.

International companies face complex issues arising from the diverse cultures and political and economic settings in which they operate. These include: human rights, just wages and safe working conditions, child and forced labor, freedom of association, and the environment. In our investments we favor companies that have adopted codes of conduct to guide their policies, programs and operations.

PURPOSEFUL INVESTMENTS AND ACTIONS

In today's world the universe of investment options available to any individual or organization is quite broad. Friends Fiduciary invests in what is termed marketable securities, or more commonly called stocks and bonds. Over time, the Corporation may broaden its investment choices within the limits of tax law and its status as a commingled fund.

Friends Fiduciary has also chosen to limit its investment activities to marketable securities for several other reasons. First, the Corporation is quite cost and efficiency conscious. As a largely volunteer organization with a small paid staff, the more defined risks and rewards of marketable securities simplifies our investment choices. Likewise, we believe that our fiduciary status dictates a high level of prudence of safety and of expected rate of return from our investment options.

In addition, it should be recognized that Friends Fiduciary Corporation is not intended to be a program-determining organization. It is our belief that, at present, investment in socially beneficial projects of high fiduciary risk and less than market return should be made directly by our constituent organizations with the funds available for such purpose and with the management skill and time to facilitate such investments.

Notwithstanding our chosen investment options, Quaker testaments and values guide our security investment activity in three primary ways:

1. Screening

We actively screen for companies that meet our social responsibility investment criteria.

2. Proxy Voting

We deliberately vote our shareholder ownership proxies in a manner that will communicate our Quaker values on financial and social issues to corporate management. Our specific intentions are stated in "Proxy Voting Policy Guidelines." These guidelines provide an overview of how Friends Fiduciary intends to vote its proxies on most issues and are reviewed on an annual basis in order to update them as new social and corporate governance issues arise.

3. Shareholder Resolutions

From time to time, we join or may file shareholder resolutions that voice our concerns and interests to corporate management.

INVESTMENT OBJECTIVES AND MEASUREMENTS

The Investment Committee sets investment guidance and tracks the performance of funds invested with us. The Consolidated Fund is the Corporation's main repository of these funds, although there are other funds invested alongside the Consolidated Fund with similar guidance.

1. Time Horizon

Friends Fiduciary's investment guidelines are based upon an investment horizon of at least five years. Interim fluctuations in market value should be viewed with that perspective.

2. Risk

The investment portfolio is exposed to a range of risks including market risk, interest rate risk, credit risk, and currency risk. These risks generate volatility in the value of the portfolio and in its returns over time. Friends Fiduciary invests in a diverse range of securities across several asset classes in order to minimize volatility in the portfolio as a whole. It monitors the risk of the portfolio regularly and seeks to maintain risk within the total, longer-term goals of Friends Fiduciary Corporation

3. Return Expectations

Based on long-term market data, the current asset allocation should over time provide an average annual total return that covers the 5.5% income distribution plus capital appreciation to counteract the effects of inflation. This goal reflects the needs of our constituents to maintain steady income and protect the purchasing power of their principal.

The Investment Committee expects our invested funds to participate in rising markets to the fullest extent permitted by our risk tolerance, cash flow requirements and social responsibility restrictions, and to provide dependable returns in flat-to-down markets. This goal reflects our constituents' desire to see capital appreciation in the value of their units over time, stable cash flows, and limited volatility.

Investment returns, relative to the overall market, are a function of asset allocation and security selection. Outside managers are selected based on their expected ability to generate superior risk-adjusted returns.

No predictions are made for the future and past returns are no guarantee of future results. The Investment Committee believes the Fund's investment policies and objectives are appropriate to and consistent with its goals. It is important to note that investment involves risk and fluctuations in market value are to be expected.

4. Measurement

The Investment Committee tracks the performance of the Consolidated Fund (and the other funds we manage) over various periods of time. The returns are compared to the weighted returns of published market indices, i.e. benchmarks, for the same periods. Each fund has a blended benchmark composed of common market indices appropriate to its asset allocation.

Common indices currently in use are the Standard and Poor's 500 Index, the Russell 1000 Value Index, the Russell 2000 Index, the Lehman Aggregate Bond Index, the Wilshire Real Estate Security Index, and, an international index, the MSCI-EAFE.

SERVICES

1. Expertise

Investment management of capital funds usually requires extensive financial knowledge and experience, which Friends Fiduciary can provide.

2. Managed Social Responsibility

Organizations that invest with Friends Fiduciary are relieved of burdensome financial work, while knowing that their funds are being managed in a manner consistent with long-standing Quaker values and concerns for social responsibility.

3. Reports

To aid in the proper stewardship of their funds, constituents receive an annual report and audit; quarterly newsletters; semi-annual income statements; and quarterly statements of unit holdings, market value and any participations or withdrawals.

4. Performance

Industry standard (AIMR compliant) performance is reported for the Consolidated Fund as a whole and for each individual manager's account on a quarterly basis. Performance is gross of fees. Unit value is net of all fees, both administrative and investment related.

COSTS

Friends Fiduciary is essentially a service organization. Despite the increasing complexity of the investment world, it endeavors to emphasize the twin principles of common sense and simplicity. As a Quaker non-profit and largely volunteer corporation, Friends Fiduciary believes that part of its mission includes the aim to operate simply, not incurring unnecessary costs for our constituents.

For the Consolidated Fund, Friends Fiduciary does not charge its constituents any fees as such, only the costs required to operate. These costs are deducted before any income earned per unit is calculated. Actual costs are listed each year in the annual report.

Other funds invested by Friends Fiduciary have varying fee structures in place apart from the Consolidated Fund.

The Investment Committee aims to keep equity trading costs within the range of commissions paid by other actively managed, institutional funds of comparable size. The Audit Committee has been given the responsibility of formally reviewing these costs every two years.

INVESTMENT AND LOAN OPTIONS

1. Consolidated Fund

For the benefit of all constituents Friends Fiduciary has established the Consolidated Fund, a pooled fund, to make possible adequate diversification, economy of operation, and the application of sound accounting and investment procedures. The Fund's strategic asset allocation is based on our long-term investment perspective.

A. Co-mingling of investments

Investment of an individual organization's funds is through units in the Consolidated Fund.

B. Total Return

The Consolidated Fund is a balanced fund invested for long-term total return. A balanced fund has both growth and income objectives. The Consolidated Fund is diversified among equity, bond, real estate investment trusts (REIT), and international securities. The total return is the sum of income received from dividends and interest, plus the appreciation or depreciation in the market value of the securities held.

C. Asset Allocation

The Investment Committee is responsible for setting a policy asset allocation objective that, it believes, will enable the portfolio to achieve the investment objective over time.

Currently, the Investment Committee has an asset allocation of 47% domestic equity, 33% bonds, and 5% REITs, and 15% international securities. This mix is expected to provide optimum total returns over many market cycles given the Fund's risk tolerance and a range of economic conditions.

The Investment Committee reviews asset allocation at each quarterly meeting and uses its judgment to decide when and how to adjust the Fund's investment mix. Due to changing market conditions and/or valuations, as well as routine operating cycles of the Consolidated Fund, the actual asset allocation level may vary slightly from the long-term 47/33/5/15 benchmark.

D. Income Distribution Policy

Consistent, better than average, predictable income is a policy by which constituent organizations can be assisted in the furtherance of their programs. In support of this goal, Friends Fiduciary Corporation has adopted an income distribution policy based on total return.

- Income distributions are currently set at 5.5% of the rolling three-year average of the market value of a unit, paid on a semi-annually basis.
- While the Board reviews the percentage distribution rate each year, the desire is to maintain a stable income stream and to aid organizations in their planning. For this reason, the income distribution percentage is expected to change infrequently.
- It is important to recognize that any fixed rate of distribution will undoubtedly vary either above or below the Fund's actual earned income from interest and dividends. The distributions paid out will, therefore, either increase or reduce the market value of a unit.

- Organizations will have the option of receiving the semi-annual distribution or reinvesting all or any part. Income statements, sent with semi-annual distribution checks, list all accounts belonging to a constituent organization and the respective income paid out or reinvested.
- Constituents are reminded that fluctuations in market value are to be expected.

2. Separate Account Management

In addition to the Consolidated Fund, constituent organizations may invest \$500,000 or more with any one of the Consolidated Fund's managers. The separate accounts will be invested alongside Consolidated Fund assets and managed in the same fashion.

Separate accounts are open to qualifying organizations that do not invest in the Consolidated Fund, as well to Consolidated Fund constituents who want to add money to a particular asset class.

As with the Consolidated Fund, separately invested organizations will receive a payout, currently set at 5.5% of the rolling three-year average of the market value of a unit within the particular manager's account in which they are invested, paid on a semi-annual basis. *The payout may be determined by the average value over a shorter period of time if we do not yet have a three-year history with a particular manager.*

- While the Board reviews the percentage distribution rate each year, the desire is to maintain a stable income stream and to aid organizations in their planning. For this reason, the income distribution percentage is expected to change infrequently.
- It is important to recognize that any fixed rate of distribution will vary either above or below the account's actual earned income from interest and/or dividends. The distributions paid out will, therefore, either increase or reduce the market value of a unit.
- Organizations invested in separately managed accounts will have the option of receiving the semi-annual distribution or reinvesting all or any part.
- Fluctuations in market value are to be expected.

3. Other Investment Accounts

Friends Fiduciary also provides investment management for the Friends Pension Fund, our planned giving assets, and the pooled life income commingled fund. Our primary investment principles, including our socially responsible investment guidelines, are followed for these funds. The asset allocation and income distribution policies vary somewhat among the funds depending on the investment objectives and governing regulations for each particular fund.

4. Consolidated Fund Share Loans

This service was previously called Direct Loans. It is basically a cash loan collateralized with the balance of constituent's holdings, or units. The specific requirements of a share loan are stated in the "Share Loan Policy" found as a supplement to this Investment Philosophy and Guidance. In brief, a constituent's permissible loan is initially limited to 60% of the value of Consolidated Fund holdings at the time the loan is made. The term is limited to a maximum of five years, and the interest rate will vary with the prime rate.

RESPONSIBILITIES OF OUTSIDE INVESTMENT MANAGERS

All outside managers must manage the assets under their care according to the guidelines stated in this investment policy statement with particular emphasis on Quaker values and Friends Fiduciary's social responsibility objectives

In addition, the Small Investment Committee will closely monitor the managers' adherence to the investment styles for which they were hired. Outside managers must inform Friends Fiduciary Corporation in writing of any significant change that might affect Friends Fiduciary's portfolios, such as changes in investment strategy, organizational structure, professional staff, ownership, financial condition and SEC or other agency regulations issues.

Additional specific requirements relative to Friends Fiduciary's operations and portfolios are noted below:

1. Unauthorized Securities and Transactions

- A. Letter stock and other unregistered securities; commodities contracts; short sales and margin transactions are not permitted.
- B. Lending, pledging or hypothecating of securities is not permitted
- C. Investments for the purpose of exercising control over management are not permitted.

2. Domestic Equity Portfolios

- A. Individual holdings must be in entities whose shares have ready liquidity in the markets.
- B. Holdings in any one company should not exceed 5% (at cost) of the value of each advisor's assets under management.
- C. Allocation to any one economic sector should not be excessive and should be consistent with the advisors' investment style, as described in their written materials.

- D. Managers may hold a portion of the assets in cash reserves, but they will be measured on the performance of the total funds under their management.
- E. Managers will use suitable socially responsible investment research and analysis. This must include reviews from Kinder, Lydenberg, Domini & Co. or other approved sources.

3. Bond Portfolios

- A. All securities must be rated investment grade ('BBB-'/'Baa3' or better) by one of the major rating agencies. Ninety percent must be rated 'A-'/'A3' or better. Bond managers may invest in unrated securities they deem to be of equivalent quality, but unrated bonds must not exceed 10% of the fixed income portfolio.
- B. The average duration of the portfolio will be within 12 months of the duration of the Lehman Aggregate Bond Index.

4. REIT Portfolio

The REIT manager should look at the underlying use of real estate, particularly avoiding prisons, casinos and uses that might conflict with Friends Fiduciary's socially responsibility concerns.

5. International Equity

It is recognized that international investing is wrought with numerous challenges. In many cases, incorporating Friends Fiduciary's social responsibility interest magnifies these difficulties. For example, investing in what has been termed "emerging markets" is particularly difficult especially when one weighs the potential social positives against what is often less than ideal information and subsequent higher risk.

The Investment Committee monitors international investment for a prudent balance between developed and emerging market exposure.

6. Cash

Any idle cash shall be invested daily through an automatic interest-bearing sweep vehicle managed by the custodian.

REPORTS, DISCRETION, AND QUESTIONS

Period end statements are prepared as of the last day of each quarter and list current balances in cash, the number of units held with their book value and current market value, and any participation or withdrawal of units during the three-month period.

Constituents receive the annual report and audit and are invited to the Corporation's annual meeting.

For purposes of completeness and humility, any item not specifically covered in this policy resides in the discretion of the Investment Committee and the Board of Directors.

Questions and concerns may be directed to:

Executive Director
Friends Fiduciary Corporation
Telephone: (215) 241-7272
Email: connie@friendsfiduciary.org
www.friendsfiduciary.org