

# FRIENDS FIDUCIARY<sup>SM</sup>

Financial Services for Quaker Organizations since 1898

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## Consolidated Fund Update

### June 30 Snapshot

Consolidated Fund Unit Value	6/30/09	\$34.29
Next Cash Distribution	12/20/09	\$1.21

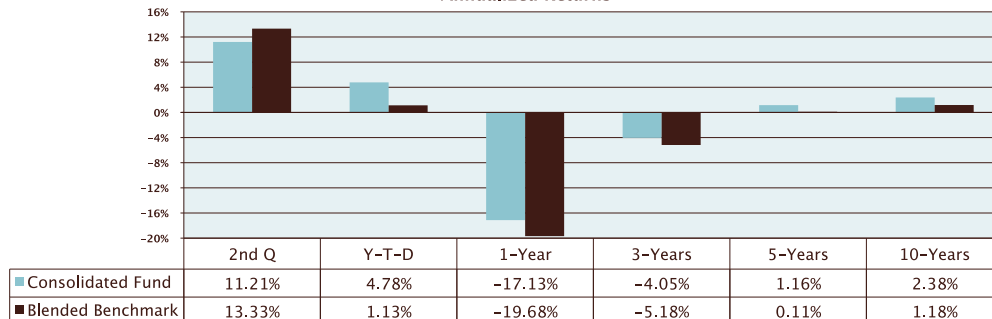
### Asset Allocation 6/30/09

Equities	53%
Fixed Income	43%
REITs	4%

Stocks continued to rally in the second quarter. Both the Dow Jones Industrial Average and the S&P 500 ended six-quarter losing streaks, posting their best quarterly returns since 2003 and 1998, respectively. At this writing, the Dow is up more than 2500 points from its 12-year low of 6440, made on March 9. The S&P 500 has gained over 300 points since its March 9 close of 676.53. Small cap stocks, international stocks and REITs – among the weakest areas of 2008 and early 2009 – staged strong comebacks in the quarter.

Small cap, international and REITs also led Consolidated Fund returns. But good results from individual managers did not completely offset the Fund's underweighting to stocks. After last year's market turmoil, asset allocation remains a larger-than-usual factor in performance. The current below-average allocation to stocks accounted for the lag between second-quarter Fund returns and the blended benchmark. Conversely, it helped our year-to-date and one-year returns. The Investment Committee continues to selectively reallocate funds away from bonds and into stocks and REITs. During the quarter, asset allocation moved closer to our long-term goal.

Consolidated Fund Performance vs. Benchmark Annualized Returns



The Board of Directors has approved a series of gradual reductions over the next few years in our payout rate. In setting the payout rate, we focus on "real returns," the difference between reported investment returns and the rate of inflation. The extraordinary conditions in financial markets over the past year have compelled all fiduciaries to undertake fundamental reassessments. Although no one has a crystal ball, we attempt to set the payout rate conservatively enough to protect constituents' principal against inflation over time.

The Board has set a 5.25% rate for 2010, down slightly from the current 5.5%. The Board normally approves the next year's payout rate each fall, but set the 2010 rate six months earlier than usual to give constituents as much notice of the pending change as possible. We recognize its impact on your future budgets. With that in mind, we try to dampen the volatility of our payouts by applying the payout rate to a 12-quarter rolling-average unit value. We currently expect to make three additional quarter-point decreases in following years so that the payout rate will be 4.5% in 2013.

June's unit value of \$34.29 finalized the December 2009 distribution at \$1.21. We will look at income projections for June 2010 in the Fall newsletter.

On April 1, we dropped the Russell 1000 Value Index from our benchmarks and replaced it with the S&P 500. Our performance measurement firm has linked the new benchmarks seamlessly to prior historical benchmarks, assuring continuous and accurate comparisons across all periods. The Investment Committee believes the S&P 500 more accurately reflects and measures our domestic equity portfolio. Broadly diversified, the S&P 500 covers all sectors of the economy and would be described as Core, rather than Growth or Value. In late March, we dropped a large-cap domestic manager with a Value style and reallocated the assets among our other managers, effectively shifting the equity portfolio to a predominately Core style. The benchmark change acknowledges that. We still adhere to the principles of the Consolidated Fund's founder, S. Francis Nicholson, to avoid speculation and invest in "useful goods and services." Sometimes the labels may change, but our commitment to meet our constituents' long-term needs does not.

Asset Allocation	Goal	June 2009	March 2009
Equities	62%	53%	48%
Bonds	33%	43%	49%
REITs	5%	4%	3%

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

## Consolidated Fund

### Total Return for the Period Ending June 30, 2009

Fund Results	1st Qtr	YTD	Annualized Returns				
			1-Year	3-Years	5-Years	7-Years	10-Years
Total Fund	11.21	4.78	-17.13	-4.05	1.16	3.28	2.38
Blended Benchmark	13.33	1.13	-19.68	-5.18	0.11	2.28	1.18
Large Cap Domestic Stocks	16.16	3.46	-26.39	-8.72	-1.16	1.85	-0.31
Large Cap Benchmark	15.93	-0.23	-27.88	-9.78	-2.25	0.94	-1.23
Fixed Income	2.24	4.07	3.96	5.98	4.60	4.81	5.94
Barclays Capital Aggregate Bond Index	1.79	1.91	6.06	6.43	5.02	5.08	5.98

Performance by Manager	2nd Qtr	YTD	Annualized Returns				
			1-Year	3-Years	5-Years	7-Years	10-Years
<b>Large Cap Domestic Stocks</b>							
Chicago Equity Partners	14.09	0.73	-27.71	-8.91	-1.04	1.46	-1.80
S&P 500	15.93	3.16	-26.23	-8.23	-2.25	0.91	-2.23
Brandywine Global	17.10	6.01	-23.03	-6.74	-1.23	2.19	2.30
Russell 1000	16.49	4.31	-26.69	-8.20	-1.85	1.35	-1.75
Great Lakes Advisors	16.53	0.02	-25.82	-9.86	-0.75	2.01	
Russell 1000 Value	16.69	-2.87	-29.03	-11.11	-2.13	1.06	
<b>Small Cap Domestic Stocks</b>							
Radnor Small Cap	23.87	8.53	-23.97	-9.79			
Russell 2000	20.68	2.65	-25.01	-9.88			
<b>International Stocks</b>							
Boston Common	27.74	17.98	-27.38	-8.24			
MSCI EAFE	25.43	7.95	-31.36	-7.98			
<b>REITs</b>							
Urdang	30.40	-7.85	-38.70	-14.78			
DJ Wilshire Real Estate	31.93	-12.73	-45.63	-19.91			
<b>Fixed Income</b>							
Payden & Rygel	1.60	3.39	3.30	5.73	4.48	4.69	5.84
Barclays Capital Aggregate Bond Index	1.79	1.91	6.06	6.43	5.02	5.08	5.98
Lazard Asset Management	4.93						
Barclays Capital Global Aggregate Index	4.93						

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 Value, 15% MSCI EAFE (Europe, Australasia & Far East), 33% Barclays Capital Aggregate Bond Index, 5% DJ Wilshire Real Estate Securities Index

#### Large Cap Domestic Stocks Benchmark

100% S&P 500

## 2009 Proxy Season Report

This year Friends Fiduciary has continued to be active in collaborating with like-minded investors on a wide range of Environmental, Social, and Governance (ESG) issues. Whether filing shareholder resolutions, dialoging with companies, or acting as a signatory on a letter, FFC is working towards raising standards for corporate behavior. Our shared goal is to create and increase long-term shareholder value by pushing companies toward business practices that are sustainable and reduce exposure to risk and litigation.

FFC is a member of the Interfaith Center for Corporate Responsibility (ICCR), an organization whose members are religious investors from across a wide spectrum of faiths, who share Friends concerns for the environment, social justice and good corporate governance. We also work with our international equity manager, Boston Common Asset Management, on a number of SRI initiatives. On the environmental front, we recently joined the Investor Network on Climate Risk (INCR), a network of institutional investors and financial institutions promoting improved disclosure requirements and corporate governance practices regarding business risks and opportunities posed by climate change.

The 2009 proxy season has been an active one for FFC, as we signed on to resolutions concerning predatory credit card practices (Bank of America, Citigroup and JPMorgan Chase), advisory votes on executive compensation (Exxon Mobil, Intel, State Street, McDonalds and Wal-Mart), in support of healthcare reform (Kroger) and reductions in greenhouse gas emissions (Chevron). A fuller report on these activities was given by Executive Director, Connie Brookes, at our annual meeting on May 7. Copies are available if you contact the office.

Much of this SRI work was supported by our intern, Matt Smith, who will be leaving us as of July 31, after a year term of dedicated service. We will miss Matt. I know that many of you had the chance to meet and talk with him and therefore will join us in wishing him happiness and fulfillment as he moves on.

## Consolidated Fund Current Holdings

By Manager and including the Income & Deposit Account  
As of June 30, 2009

Manager	Asset	Investment Style	% Assets	\$
Chicago Equity Partners	Stocks	Growth at a Reasonable Price	16.8%	32,675,000
Brandywine Global	Stocks	Relative Value	11.7%	22,800,000
Great Lakes Advisors	Stocks	Value	6.2%	12,000,000
Radnor Small Cap	Stocks	Small Cap Core	5.0%	9,750,000
Boston Common	Stocks	International	12.8%	24,800,000
Urdang	REITs	Real Estate Investment Trusts	3.5%	6,775,000
Payden & Rygel	Bonds	Domestic Core	34.7%	67,250,000
Lazard Asset Management	Bonds	Global	8.3%	16,100,000
Income & Deposit Acct	Cash	Cash	1.0%	1,850,000
Total Fund	Balanced	Total Return	100.0%	194,000,000

## Consolidated Fund

### Unit Value History

	Previous Four Quarters Ending	Beginning Unit Value	Fund Value Before Distributions	One-half Distribution Accrued	Ending Unit Value	Semi-annual Distribution
Sept	2008	44.38	41.46	\$0.660	40.80	—
Dec	2008	40.80	34.64	\$0.660	33.98	\$1.32
March	2009	33.98	32.12	\$0.640	31.48	—
June	2009	31.48	34.93	\$0.640	34.29	\$1.28

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

The distribution is based on a 5.5% payout ratio and a 12-quarter rolling average of unit value.

December 2009 distribution =  $(5.5\% \times \$44.06)/2 = \$1.21$ .

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Friends Fiduciary's sole mission is to assist Friends organizations in the stewardship of their financial resources.

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## New Format for Newsletter

The newsletter has a new, shorter format and will now be devoted to the Consolidated Fund, its performance and other investment issues. Our goal is to get this newsletter into your hands as soon as we can after the end of the quarter. In furtherance of that effort, we will also offer the newsletter in electronic format. Please complete and return the enclosed form in order to receive the Fall newsletter and other information in your email in-box. Later this year, we will introduce a new semi-annual newsletter that will focus on charitable giving and our planned giving services.

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