

# FRIENDS FIDUCIARY<sup>SM</sup>

Financial Services for Quaker Organizations since 1898

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## Consolidated Fund Update

### December 31 Snapshot

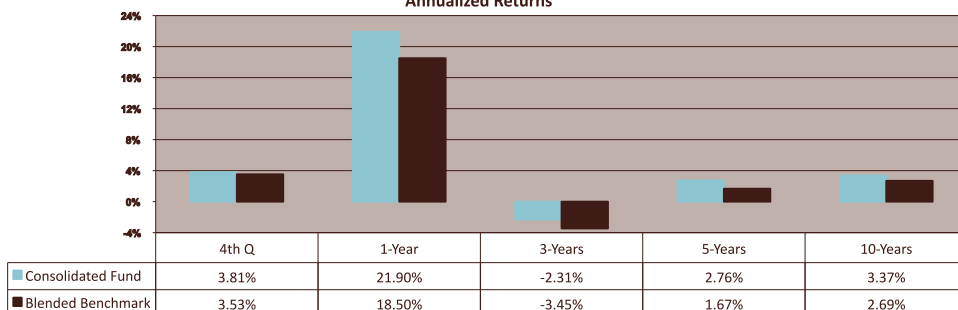
Consolidated Fund  
Unit Value 12/31/09 \$38.50

Next Cash  
Distribution 6/20/10 \$1.11

**Asset Allocation 12/31/09**  
Equities 61%  
Fixed Income 34%  
REITs 5%

After a tumultuous first quarter, the investment markets in the fourth quarter concluded with a modicum of calm. The Consolidated Fund mirrored this performance with a return of 3.81% in the fourth quarter and a full year return of 21.90%. Much of this can be attributed to the perception that the "Great Recession" is coming to an end. Job growth, industrial production and economic activity are all on a slow path to recovery. Although economists and analysts debate this view, various indicators do point to a recovery. Specifically, growth in the fourth quarter (GDP) surged at a 5.7% rate, the decline in housing prices continued to moderate and nearly 80% of the corporate earnings released have topped analysts' estimates. Despite these positives, nagging economic and political issues continue to trouble the investment markets. While credit conditions have improved, many businesses and individuals continue to find limited access to capital and individuals seem to be reducing credit card debt and rebuilding their reserves. Further, the official national unemployment rate remains at 10%.

Consolidated Fund Performance vs. Benchmark  
Annualized Returns



Chicago Equity Partners cites that "with the unemployment duration (20.1 weeks in November) at the highest reading since the survey began in 1967, these figures raise the specter of a 'jobless' recovery".

FFC's balanced, long-term-focused philosophy appears all the more prudent in light of what happened in late 2008 and early 2009. While many investors became discouraged and liquidated their securities as the market fell, Friends Fiduciary adhered to its long-term perspective and balanced exposure to socially responsible opportunities across a mix of asset categories. Had we overreacted and liquidated our investments in late 2008 or early 2009, the Consolidated Fund would have missed out on the stunning rally from the March 9 market bottom through to December 31 and performance would have greatly trailed the weighted benchmark.

The fourth quarter gains in stocks, along with a measured redeployment of fixed assets into equities, continued to move the Fund towards our long-term asset allocation goal of 62% equities, 33% bonds and 5% REITs. Our largest equity exposure, large cap stocks, returned 6% in the fourth quarter and 26.83% for the full year. The Fund's fixed income investments closed out the year with a robust 8.12% return despite slightly underperforming the benchmark in Q4. This outperformance can be attributed to improved liquidity in the capital markets as well as the nearly completed transition from our prior domestic fixed income manager to our two new managers (Payden & Rygel and Lazard Asset Management).

Other managers in the Consolidated Fund also posted strong showings against their respective benchmarks. For example, in the fourth quarter, Great Lakes Advisors returned 7.06% versus its Russell 1000 Value benchmark of 4.22%, Urdang (our REIT manager) posted a 10.03% return versus its benchmark of 8.94% and Boston Common (our international equity manager) yielded a stellar 6.6% return versus its global benchmark of 2.18%.

Although the road ahead will doubtless have potholes, Friends Fiduciary strongly believes in its long-term and diversified investment approach.

## Consolidated Fund

### Total Return for the Period Ending December 31, 2009

	Annualized Returns					
	4th Qtr	1-Year	3-Years	5-Years	7-Years	10-Years
Total Fund	3.81	21.90	-2.31	2.76	6.33	3.37
Blended Benchmark	3.53	18.50	-3.45	1.67	5.42	2.69
Blended 65/35 Index	3.96	18.84	-1.71	1.98	5.25	1.54
Large Cap Domestic Stocks	6.00	26.83	-5.93	1.29	6.79	0.88
Large Cap Benchmark	6.04	22.29	-7.50	-0.04	5.63	0.68
Fixed Income	-0.73	8.12	5.67	4.44	4.76	6.30
Barclays Capital Aggregate Bond Index	0.20	5.93	6.04	4.97	4.76	6.33

Performance by Manager	Annualized Returns					
	4th Qtr	1-Year	3-Years	5-Years	7-Years	10-Years
<b>Large Cap Domestic Stocks</b>						
Chicago Equity Partners	6.19	22.18	-6.36	1.19	5.84	-0.89
S&P 500	6.04	26.45	-5.64	0.41	5.52	-0.95
Brandywine Global	5.66	30.32	-4.46	1.65	7.29	3.65
Russell 1000	6.07	28.42	-5.36	0.79	6.01	-0.49
Great Lakes Advisors	7.06	22.03	-6.44	0.91	6.84	
Russell 1000 Value	4.22	19.69	-8.96	-0.26	5.92	
<b>Small Cap Domestic Stocks</b>						
Radnor Small Cap	3.71	37.32	-3.76			
Russell 2000	3.88	27.19	-6.06			
<b>International Stocks</b>						
Boston Common	6.60	49.12	-4.74			
MSCI EAFE	2.18	31.78	-6.04			
<b>REITs</b>						
Urdang	10.03	36.43	-8.34	3.68		
DJ Wilshire Real Estate	8.94	29.19	-13.82	-0.23		
<b>Fixed Income</b>						
Payden & Rygel*	-0.68	7.11	5.31	4.29	4.59	6.17
Barclays Capital Aggregate Bond Index	0.20	5.93	6.04	4.97	4.76	6.33
Lazard Asset Management	-0.73					
Barclays Capital Global Aggregate Index	-0.84					

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.

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

#### 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

#### Blended 65/35 Index

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

#### Large Cap Domestic Stocks Benchmark

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

Calendar Year Returns	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Total Fund	21.90	-26.34	3.83	14.83	7.25	10.86	21.02	-10.87	0.13	3.40
Blended Benchmark	18.50	-26.51	3.35	14.79	5.19	11.09	19.89	-9.68	-2.66	3.44

## Investor Initiatives on Climate Risk – UN Summit

On January 14, as a member of INCR, FFC Executive Director Connie Brookes attended the UN Investor Summit on Climate Risk. INCR is the Investor Network on Climate Risk and promotes better understanding of the financial risks and investment opportunities posed by climate change. FFC is one of 80 members, which include asset managers, state and city treasurers and comptrollers, public and labor pension funds and foundations. Speakers included UN General Secretary Ban Ki-moon, Todd Stern, U.S. Special Envoy on Climate Change, George Soros, Chairman, Soros Fund Management, and keynote speaker Former Vice President Al Gore, who has attended every summit since they were initiated in 2004. Reports included several viewpoints on the results of December's UN Copenhagen Climate Summit. These reports ranged from the more positive (opened the door to real change) to the more negative (a failure without a legally binding accord). Other presentations addressed the need for: private and corporate investment to provide solutions; credible carbon pricing; and the continued growth of new technologies, such as LED lighting, which will be part of the solution.

This bi-annual investor summit is organized by Ceres, a national network of investors (Ceres sponsors INCR), environmental organizations and other public interest groups working with companies and investors to address sustainability challenges such as global climate change and working to integrate sustainability into capital markets for the health of the planet and its people. A high point of the Investor Summit was the release of a statement by investors, including FFC, calling on the U.S. and other governments to move quickly to adopt strong national climate policies that will spur low-carbon investments to reduce emissions causing climate change. The press release from Ceres noted comments from two conference attendees. Anne Aaraboll, CEO of the CA Public Employees Retirement system (CalPERS) noted that "Investors are poised and ready to scale up investments in building the low carbon economy, but without policies that create a stable investment environment our hands are tied. U.S. leadership is critical in this regard, including U.S. Senate action to limit and put a price on carbon emissions." Kevin Parker, global head of Deutsche Asset Management added that "What investors need most from national and state legislatures are transparency, longevity and certainty. Until the U.S. Congress passes climate regulation, America will be at a competitive disadvantage in the development of renewable energy and other climate change industries."

### SEC Announcement

Positive news came from the SEC on January 27, as SEC Commissioners approved the release of an interpretive release which provides guidance to companies on disclosing material climate risks in SEC filings. This publication (effective once published in the Federal Register and soon available on the SEC website) will be the first economy-wide climate risk disclosure guidance in the world. Thanks to the work of many INCR and CERES members, the guidance is likely to respond to key elements of the September 2007 investor climate risk petition to the SEC.

## Consolidated Fund Current Holdings

### By Manager and including the Income & Deposit Account

As of December 31, 2009

Manager	Asset	Investment Style	% Assets	\$
Chicago Equity Partners	Stocks	Growth at a Reasonable Price	19.3%	42,100,000
Brandywine Global	Stocks	Relative Value	13.7%	30,000,000
Great Lakes Advisors	Stocks	Value	7.2%	15,800,000
Radnor Small Cap	Stocks	Small Cap Core	5.6%	12,200,000
Boston Common	Stocks	International	14.3%	31,300,000
Urdang	REITs	Real Estate Investment Trusts	5.0%	10,800,000
Payden & Rygel	Bonds	Domestic Core	26.5%	58,000,000
Lazard Asset Management	Bonds	Global	7.7%	16,900,000
Income & Deposit Acct	Cash	Cash	0.7%	1,500,000
Total Fund	Balanced	Total Return	100.0%	218,600,000

## Consolidated Fund

### Unit Value History

	Previous Quarters Ending	Beginning Unit Value	Fund Value Before Distributions	One-half Distribution Accrued	Ending Unit Value	Semi-annual Distribution
March	2009	33.98	32.12	\$0.640	31.48	—
June	2009	31.48	34.93	\$0.640	34.29	\$1.28
Sept	2009	34.29	38.51	\$0.605	37.90	—
Dec	2009	37.90	39.11	\$0.605	38.50	\$1.21

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

The distribution for 2010 is based on a 5.25% payout ratio and a 12-quarter rolling average of unit value.

June 2010 distribution =  $(5.25\% \times \$42.26) / 2 = \$1.11$ .


## In this issue...

Quarterly Summary .....1

Cons Fund Performance .....2

Investor Initiatives .....3

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Friends Fiduciary is pleased to welcome

**Broadmead Residents Association** (MD)

**Mohawk Valley Monthly Meeting** (NY)

**Purchase Monthly Meeting** (NY)

**Raleigh Monthly Meeting** (NC)

as new constituents in the

Consolidated Fund

**Germantown Friends School** (PA)

new participant in the

Pooled Life Income Fund (PLIF)

Common Fund

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