

FRIENDS FIDUCIARYSM

Financial Services for Quaker Organizations since 1898

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Consolidated Fund Update

December 31 Snapshot

Consolidated Fund
Unit Value 12/31/10 \$40.90

Next Cash
Distribution 6/20/11 \$0.96

Asset Allocation 12/31/2010

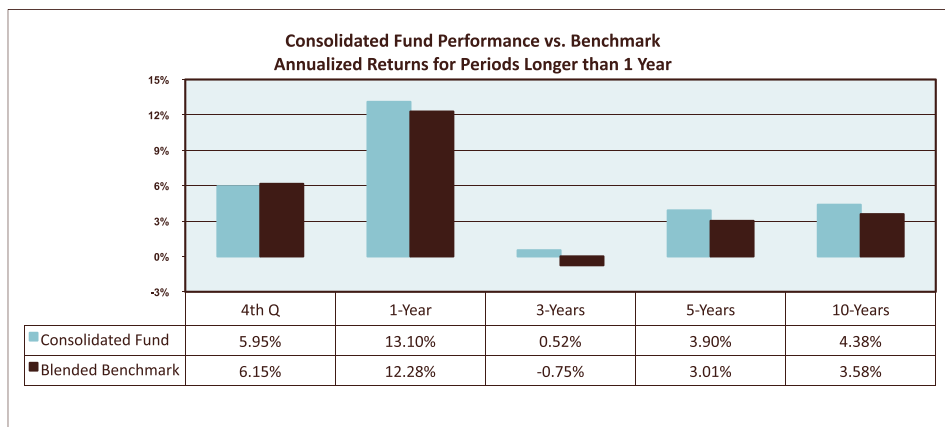
Equities 61%

Fixed Income 33%

REITs 6%

Earlier this month well known meteorological prognosticator, Punxsutawney Phil, emerged from his burrow and declared an early spring. For much of the country, the prospect of shaking off the deep chill and entering a period of thaw is a welcome relief, but for investors in the stock markets, the thaw came much earlier. Starting in September and continuing into 2011, the S&P 500 Index began an impressive run, capping off the year with fourth quarter performance up 10.76%. Small-cap stocks fared even better with the Russell 2000 returning 16.25%. Growth stocks (high price/earnings, price/book and price/sales ratios) outperformed value stocks across all capitalization categories. In fact, value stocks (low P/E, P/B and P/S ratios) produced the lowest returns across all categories.

With our tilt towards value stocks, it is of little surprise that the Consolidated Fund lagged its blended benchmark in the fourth quarter, 5.95% versus 6.15%. Our REIT holdings underperformed their benchmark (7.60% versus 8.19%), but our small cap allocation performed admirably, surging 18.16% versus 16.25% for its benchmark. Small cap manager, Columbia Management (formerly Radnor Small Cap), benefitted from overweights in technology and industrial/materials



sectors, from good stock picks in other sectors and from owning a couple of acquisition targets. Our bond holdings declined modestly with domestic bonds down 0.91% and international bonds down 0.98%. Pundits argue that the drop in prices is to be expected as the Fed's quantitative easing program (QE2) will ultimately lead to higher economic activity and higher inflation.

Despite fourth quarter underperformance, full year 2010 results for the Consolidated Fund were positive with a 13.10% return, surpassing the blended benchmark of 12.28%. While our large cap equity allocation underperformed, all other asset categories exceeded their benchmarks (details on page 2).

While many facets of the US economy are doing quite well, there are ample reasons for caution – growing inventory of foreclosed homes, stubbornly high unemployment, political strife in the Mid-East/Africa, shaky credit conditions for several European nations and the unrelenting federal debt crisis. In spite of the weak housing market and confusing employment data, consumers were willing to spend in the fourth quarter with “final sales” surging 7.1%. We are optimistic that economic activity is nearing a point of sustainability through the Fed's efforts to keep rates low, by a show of strong export demand and by hopeful trends in unemployment claims.

To update our SRI activity, the Investment Committee reviewed 43 purchase recommendations during the quarter for adherence to our investment guidelines. Fort-two were approved and one was rejected - KBR, Inc., was turned down due to its military involvement and questionable governance practices.

In January we reported December 31 unit value of \$40.90 and our June 2011 distribution of \$0.96 per unit. We remind investors that the payout rate is set at 5.0% this year, a 0.25% reduction from 2010. We will implement two more quarter-point decreases in coming years until 2013 when a payout rate of 4.5% is reached.

It is our privilege to serve as investment manager and steward of your funds. We continue to search for opportunities to improve and refine our services. As we enter 2011, we look forward to reporting on our efforts to hone our investment process, to expand our asset mix with new asset classes and to refine our ever evolving SRI practices.

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 December 31, 2010

Fund Results	4th Q	1-Year	3-Years	5-Years	7-Years	10-Years
Total Fund	5.95	13.10	0.52	3.90	5.31	4.38
Blended Benchmark	6.15	12.28	-0.75	3.01	4.44	3.58
Blended 65/35 Index	6.39	12.01	0.11	3.50	4.28	2.94
Large Cap Domestic Stocks	9.86	14.26	-2.56	2.52	4.66	2.54
Large Cap Benchmark	10.76	15.07	-3.90	1.62	3.88	2.25
Fixed Income	-0.93	7.85	5.57	5.29	5.10	5.85
Barclays Aggregate Bond Index	-1.29	6.56	5.91	5.80	5.10	5.84

Performance by Manager	4th Q	1-Year	3-Years	5-Years	7-Years	10-Years
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Large Cap Domestic Stocks

Chicago Equity Partners	10.45	13.39	-3.40	2.14	4.60	1.41
S&P 500	10.76	15.07	-2.86	2.29	3.84	1.41
Brandywine Global	9.61	13.56	-1.00	3.49	4.34	3.75
Russell 1000	11.20	16.10	-2.38	2.59	4.32	1.83
Great Lakes Advisors	7.61	15.97	-3.25	1.93	5.54	
Russell 1000 Value	10.54	15.51	-4.42	1.27	4.14	

Small Cap Domestic Stocks

Columbia Management	18.16	33.83	3.17	6.70		
Russell 2000	16.25	26.85	2.22	4.47		

International Stocks

Boston Common	6.60	9.12	-4.22			
MSCI EAFE	6.61	7.75	-7.02			

REITs

Urdang	7.60	32.24	5.71	6.60		
DJ US Select RESI (float adj)	8.19	29.12	0.13	2.32		

Fixed Income

Payden & Rygel*	-0.91	7.35	5.04	5.03	4.91	5.67
Barclays Aggregate Bond Index	-1.29	6.56	5.91	5.80	5.10	5.84
Lazard Asset Management	-0.98	7.92				
Barclays Global Aggregate Index	-1.32	5.55				

*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

Calendar Year Returns	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Total Fund	13.10	21.90	-26.34	3.83	14.83	7.25	10.86	21.02	-10.87	0.13
Blended Benchmark	12.28	18.50	-26.51	3.35	14.79	5.19	11.09	19.89	-9.68	-2.66

Socially Responsible Investing Activities

Interfaith Center for Corporate Responsibility (ICCR) - As the newsletter goes to press, FFC Executive Director Connie Brookes is preparing for February's week of meetings at ICCR in NYC. As ICCR treasurer and a member of its board, Connie will be attending board, finance and investment committee meetings. Her main focus at these meetings will be discussions with other ICCR members on the priority issues that were identified during ICCR's annual meeting in June. Individual session topics include corporate political spending, prior and informed consent for all stakeholders (a key topic with oil companies, for example, when attempting to build facilities both here and abroad), global and domestic health care and environmental health issues, sustainable food and water, human trafficking, supply chain monitoring, and financial practices and risks. In addition, Connie will participate in a dialogue with representatives of Conoco Phillips and will attend sessions to work on issues specific to Coke and WalMart. These companies receive special attention as improvements in the corporate practices of these giants have significant impact across their industries.

Proxy Voting - On the proxy voting front, the 2011 annual meeting season is in full gear. A major change in proxy statements for this year was mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The SEC has adopted new rules for implementing that mandate. Under the rules, public companies must provide their shareholders with an advisory vote on executive compensation. In 2011, shareholders will also vote on the frequency of their "say-on-pay", whether it will occur on a 1, 2 or every 3 year basis. Shareholders must also have an advisory vote on compensation arrangements or "golden parachutes" in connection with merger transactions. The rules apply to any meetings held on or after January 21, 2011 for the say-on-pay issues and after April 25, 2011 for golden parachute arrangements. Say-on-pay has been a major advocacy issue for ICCR members for some years now, so this is seen as a major victory.

Consolidated Fund Current Holdings

**By Manager and including the Income & Deposit Account
As of December 31, 2010**

Manager	Asset	Investment Style	% Assets	\$
Chicago Equity Partners	Stocks	Growth at a Reasonable Price	19.1%	46,000,000
Brandywine Global	Stocks	Relative Value	13.6%	32,700,000
Great Lakes Advisors	Stocks	Value	7.3%	17,500,000
Columbia Management	Stocks	Small Cap Core	6.7%	16,200,000
Boston Common	Stocks	International	14.2%	34,200,000
Urdang	REITs	Real Estate Investment Trusts	5.7%	13,600,000
Payden & Rygel	Bonds	Domestic Core	24.3%	58,500,000
Lazard Asset Mgmt.	Bonds	Global	7.6%	18,200,000
Income & Deposit Acct	Cash	Cash	1.5%	3,700,000
Total Fund	Balanced	Total Return	100.0%	240,600,000

Consolidated Fund

Unit Value History

Quarter Ending	Beginning Unit Value	Unit Value Before Distributions	One-half Distribution Accrued	Ending Unit Value	Semi-annual Distribution
Mar 2010	38.50	40.07	\$0.555	39.51	—
June 2010	39.51	36.98	\$0.555	36.42	\$1.11
Sept 2010	36.42	39.72	\$0.530	39.19	—
Dec 2010	39.19	41.43	\$0.530	40.90	\$1.06

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

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

June 2011 distribution = $(5.0\% \times \$38.59) / 2 = \0.96 .


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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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Friends Fiduciary is pleased to welcome

Cincinnati Friends Meeting (OH)

Harrisburg Friends Meeting (PA)

and

Third Haven Scholarship Committee (MD)

as new constituents in the Consolidated Fund

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