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Financial Services for Quaker Organizations since 1898

Friends Fiduciary

ADDING VALUES TO STRONG PERFORMANCE.

From Jeff Perkins, Executive Director

Friends Fiduciary had a very strong 2016! We added $34 Million in new assets, including $13 Million in the Quaker Index Fund. We continue to believe that our excellent investment performance and our rigorous Quaker investing approach represent a compelling and unique value add for Quaker organizations – and more organizations agree! Consolidated Fund posted a net gain of 7.2% for the year; Quaker Green Fund 5.8%; Quaker Index Fund 10.0% and Short Term Investment Fund 0.83%.

Our shareholder work has increased significantly through the work of Kate Monahan, our Quaker Voluntary Service Alumni Fellow, who joined us in September. She has done an outstanding job engaging companies and coordinating our shareholder advocacy effort. You can read more about our shareholder and policy advocacy work in Kate's article in this newsletter. Friends Fiduciary continues to be an important alternate voice on business issues. We believe this will be even more important under the new administration. While we are likely to face additional challenges, particularly in working with companies and the SEC on climate risk related issues, we will remain thoughtful, dedicated and faithful in our work.

Our primary objective is to earn an excellent investment return for our constituent investors while investing consistent with Quaker values. We thank all of our constituent Quaker meetings, churches, schools and organizations that have invested with us – we truly value your confidence in Friends Fiduciary as we work to serve you.

www.friendsfiduciary.org

Investment Review

It's hard to imagine that just twelve months ago global stock markets were experiencing their worst January in seven years with the S&P 500 Index dropping -5.0% and the EAFE Index (Europe, Australia and Far East) declining -7.2%. Concerns over a sharp slowdown in China's economy and a deceleration in U.S. corporate earnings gripped the markets and led some to speculate that we were on the verge of recession. While it is true that a handful of economic indicators pointed to an uneven start to 2016 – such as the Employment Trends Index and the Index of Industrial Production - domestic stocks shrugged off the weak start as the Federal Reserve Bank decided to keep rates low for much of the year. In late February stocks began to move higher and then largely ignored the June vote by British citizens to exit the European Union after 23 years. With monthly U.S. payrolls continuing to expand and the unemployment rate hovering just below 5%, retail sales and the housing market remained in good shape throughout the year with retailers reporting positive growth in 6 of the past 8 months and existing home sales averaging 5.4 MM units per month, 8% above the 5-year average. In October, corporate third quarter earnings reports showed a positive swing after three consecutive negative quarters, and coupled with Donald Trump winning the election the stock market surged through the balance of the year anticipating the President-elect's business friendly policies. By year-end, earlier signs of distress were erased as the S&P 500 Index of large cap stocks moved up +11.9%, mid cap stocks rose by +13.8% and small cap stocks finished up +21.3%. Bond markets did not fare as well in 2016 as the FOMC (Federal Open Market Committee) raised its benchmark fed funds rate in December from 0.50% to 0.75% and suggested additional increases in 2017 and beyond. Loose monetary policies around the globe and a more positive outlook for economic growth in 2016 sent emerging market stocks higher, gaining +11.3% for the year while developed country stocks eked out a modest gain of +1.0% as measured by the MSCI EAFE Index.

December 31, 2016 Snapshot

Consolidated Fund Unit Value	12/31/16	$47.47
Next Per Unit Cash Distribution	6/20/17	$0.98
Asset Allocation		**12/31/16**
Equities		72%
Fixed Income		4%
REITs		24%

For the full year the Consolidated Fund posted an +8.0% gain versus +8.4% for the blended benchmark which is composed of standard industry indices in the following proportions: 28% S&P 500, 9% Russell Mid Cap, 8% Russell 2000, 25% MSCI ACWI ex-US (All Country World Index ex-US), 25% Barclays Aggregate Bond Index and 5% FTSE NAREIT Index. While the fund's allocations to large cap domestic and international equities underperformed their respective benchmarks, the fund's mid and small cap allocations outperformed

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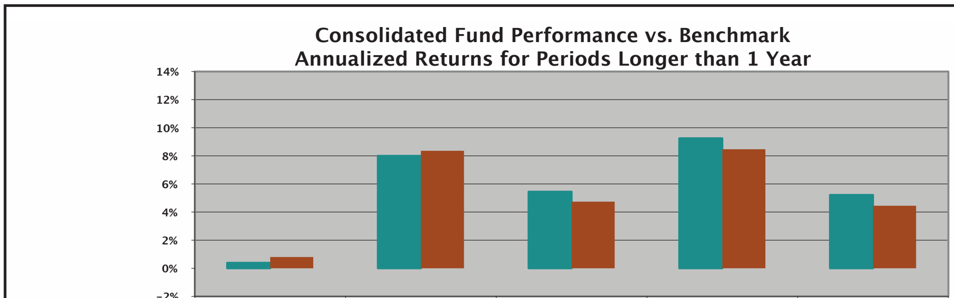


	4Q 2016	1-Year	3-Years	5-Years	10-Years
Consolidated Fund	0.39%	8.00%	5.45%	9.25%	5.22%
Blended Benchmark	0.80%	8.36%	4.74%	8.47%	4.45%

Friends Fiduciary delivers excellent investment returns, institutional investment management, a disciplined Quaker SRI approach and excellent customer service... at cost.

Investment Review *continued from page 1*

their benchmarks providing an important boost to total fund performance and highlighting the importance of having adequate diversification within the fund. The fund experienced mixed results from the interest rate sensitive sectors of REITS (Real Estate Investment Trusts) and fixed income with REITS outperforming their benchmark +8.6 versus +8.5% and total bond exposure underperforming their benchmark +2.1% versus +2.7% (Barclays Aggregate Bond Index).

Full year returns for the Quaker Green Fund came in slightly below benchmark with the fund posting a return of +6.8% versus +7.4% for its benchmark. The fund's small cap and international equity allocations both posted positive contributions to total fund returns while large cap equity, fixed income and cleantech exposures underperformed their respective benchmarks. Even though cleantech and clean energy stocks performed poorly in the fourth quarter we believe that ultimately improving business fundamentals will be reflected in higher stock valuations.

Notwithstanding a rise in short-term interest rates during the second half of the year, the Short Term Investment Fund (STIF) posted strong full year investment returns of +1.3% versus +0.7% for the benchmark (80% 1-3 Year US Treasury-Agency Index/20% Lipper Money Market Fund). While we do expect a slow and gradual rise in rates in 2017 the fund's short duration will allow maturing bonds to be reinvested into higher yielding positions which should help balance out some of the negative price movement caused by higher rates.

As a reminder, the Consolidated and Quaker Green Funds have semi-annual distribution policies with distributions occurring in June and December. The distribution rates are reviewed annually and based on a percentage payout rate that represents our outlook on future market returns and long-term inflation. Our goal is to balance competing objectives of providing current income while preserving the purchasing power of the account's principal over the long term. The announced distribution rate is intended as a guideline, and as such, constituents may take more or less than the announced rate, and withdrawals can occur at any time throughout the year. The Consolidated Fund's June 2017 distribution of $0.94 per unit represents a 4.0% distribution rate, down from the 2016 rate of 4.25%. The Quaker Green Fund will distribute $0.62 per unit in June 2017 representing a 3.5% rate, unchanged from the 2016 rate.

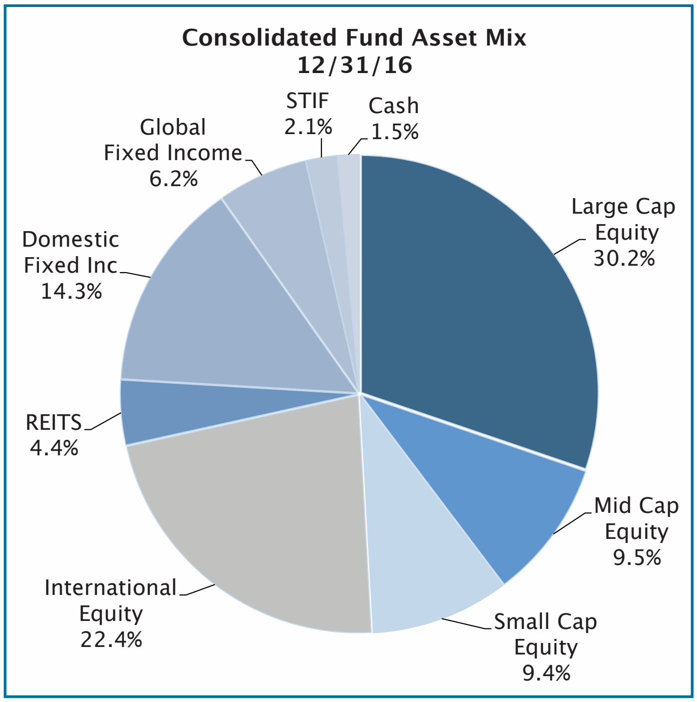
Entering 2017 we are encouraged that the economy's positive growth trajectory under the new presidential administration will continue as Donald Trump moves to enact policies that are deemed to be pro-business. His plan to lower corporate taxes, boost infrastructure spending, reduce regulations and focus on domestic production should translate to positive corporate profitability and an increase in investment spending over the forseeable future. Our broadly diversified approach to fund management should ensure strong participation in market moves while protecting against unexpected volatility in the markets. Thank you for your confidence in Friends Fiduciary - we value our constituent relationships and look forward to serving your future investment needs.

Richard Kent, CFA, Chief Investment Officer

Friends Fidciary Corporation Consolidated Fund

Total Return for the Period Ending December 31, 2016

		Annualized Returns			
	4th Q	1-Yr	3-Yr	5-Yr	10-Yr
Total Fund (gross)	0.4	8.0	5.5	9.3	5.2
Blended Benchmark[1]	0.8	8.4	4.7	8.5	4.5
Large Cap Domestic Equity	2.9	10.5	10.0	15.3	7.1
Large Cap Domestic Equity Benchmark[2]	3.8	12.0	8.9	14.7	6.3
Mid Cap Domestic Equity	3.1	14.1			
Russell Midcap	3.2	13.8			
Small Cap Domestic Equity	13.5	29.2	9.0	13.7	7.2
Russell 2000	8.8	21.3	6.7	14.5	7.1
International Equity	-3.8	1.4	-1.7	5.3	0.6
International Equity Benchmark[3]	-1.3	4.5	-1.8	5.3	0.2
REITs	-3.2	8.6	14.9	13.2	7.7
FTSE NAREIT Index	-2.9	8.5	13.4	12.0	5.1
Fixed Income	-3.6	2.1	2.3	2.2	4.3
Barclays Capital Aggregate Bond Index	-3.0	2.7	3.0	2.2	4.4



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.

[1]As of February 1, 2014: 28% S&P 500, 9% Russell Mid-Cap, 8% Russell 2000, 25% MSCI ACWI ex-US, 5% FTSE NAREIT, 25% Barclays Agg.; formerly 42% S&P 500, 5% Russell 2000, 15% MSCI ACWI ex-US, 5% FTSE NAREIT, 33% Barclays Agg.

[2]100% S&P 500 as of April 1, 2009; formerly 50% S&P 500 and 50% Russell 1000 Value

[3]100% MSCI ACWI ex-US Index as of February 1, 2013; formerly 100% MSCI EAFE Index.

ADDING VALUES TO STRONG PERFORMANCE

At Friends Fiduciary, we live our motto of "Adding Values to Strong Performance" not only by working with the best asset managers and applying our rigorous screens, but also by being active owners in the companies we hold. We believe that with ownership comes a responsibility to address specific and systemic issues with the companies we own, reflecting our strong Quaker values in the process. We want companies we invest in to succeed and believe that equitable and sustainable practices position companies to do just that. Although shareholder engagement is at times slow, and often imperfect, the relationships we build ensure that our voice is heard on important environmental, social, and governance issues.

Our shareholder advocacy work is founded in Quaker values and grounded in sound business principles and social good. We seek to develop long-term relationships with companies and engage in productive dialogues that will lead to concrete changes in company policies and practices. We usually begin by sending a letter of inquiry to a company, attempting to start a dialogue. If the company does not respond or has not been adequately receptive to our concerns, we may escalate the concern by filing a shareholder resolution. At this stage the company may respond to the resolution or negotiate concessions, but absent their willingness to engage, the proposal could appear on their annual proxy statement and be voted on by all shareholders. In some instances a resolution prompts the company into dialogue where concessions can be reached. If we are satisfied with the outcomes of negotiation, the proposal can be withdrawn. This is a win/win for all and is the positive outcome we seek. Often we will continue to dialogue with companies over many years, periodically receiving updates and serving as a resource by providing an external stakeholder view and raising emerging concerns.

Each proxy season Friends Fiduciary identifies areas where we feel our voice as a Quaker investor can be most effective in improving company policies and practices. Because shareholder resolutions cannot infringe upon a company's "ordinary business" as defined by the SEC, the areas where we can be most effective often relate to company disclosures as well as evaluations and reports of practices which pose reputational and/or regulatory risk. We join with other socially responsible, faith-based investors through coalitions, such as the Interfaith Center on Corporate Responsibility (ICCR) and Ceres' Investor Network on Climate Risk (INCR), to increase our impact by bringing more investor dollars in support our work.

EXPANDED LEADERSHIP

Friends Fiduciary is currently in the middle of the 2016-2017 proxy season. We are awaiting company responses and shareholder votes for proposals we have filed. We have significantly expanded the number of companies with which we are engaging via resolution or dialogue from 17 last year to 40 this year—an increase of over 130%! We are also taking more of a leadership role in filing resolutions and organizing dialogues. As lead filer, one is responsible for writing the proposal, initiating dialogue, setting strategy for the engagement, enlisting the support of co-filers, defending the proposal in the event of a challenge by the company to the Securities and Exchange Commission, and for determining whether to take the proposal to proxy. This year Friends Fiduciary filed 6 resolutions as lead, up from 2 last year. We filed as lead in areas where we feel ready to take on an expanded leadership role and on issues where we feel Quaker values can have a positive impact.

One such leadership area is lobbying and political spending disclosure. This year Friends Fiduciary filed 2 lobbying resolutions as lead, asking companies to publish reports outlining their lobbying and political spending, and provide a thorough policy outlining the procedures and level of board oversight for such expenditures. This year we filed as lead for the third time with Comcast Corporation regarding their lobbying and for the first time the company agreed to engage in dialogue. Friends Fiduciary met with top management at their Philadelphia headquarters to discuss their disclosures. However, given their reluctance to make any additional disclosures, we filed a resolution with the company, which has been co-filed by four peer socially responsible investors.

Another area where Friends Fiduciary has taken a leadership role is in asking insurance companies to produce sustainability reports. We have filed proposals as lead with two life and annuity companies, Torchmark Corporation and Ameriprise Financial Inc., began a dialogue with Primerica, Inc., and continued for a third year our successful dialogues with Lincoln National Corporation. The resolutions ask the companies to provide sustainability reports with a particular focus on climate change risk in their investments. Climate change represents both significant risks and exciting opportunities for investment portfolios, and as investors we want to ensure that insurance companies have adequately considered the long-term viability of their invested assets given global warming's potential disruption to their business model.

Also on our list of engagement issues are the following: water use and risk, deforestation, and human rights in company supply chains; reporting on employee diversity; banks' Indigenous rights and due diligence policies when financing projects, especially as related to the Dakota Access Pipeline; food waste; separating the Board Chair and CEO positions; safety in transportation of crude oil by rail; environmental impacts of fracking; use of lead in industrial coatings; greenhouse gas emission goals; and general sustainability reporting.

NEW FOCUS AREAS

Friends Fiduciary is also looking to address emerging issues related to mass incarceration through dialogues on prison phone call pricing and fair chance hiring. These are difficult issues to address via shareholder resolutions, as they are considered "ordinary business" and thus are open to challenge by companies with the SEC. However, we are committed to pursuing these issues, especially with companies with which we have had productive dialogues in the past. We are encouraging companies to look at their hiring procedures to ensure that they are not biased against people with prior convictions and to proactively build support systems into the workplace to ensure their success. Studies show that formerly incarcerated employees can excel when given the chance and exhibit strong dedication. We filed a lobbying disclosure resolution with CenturyLink, an inmate calling services provider, to bring them into dialogue about their prison phone call pricing practices. Phone companies charge the families of incarcerated individuals exorbitant rates, often on top of other exploitative fees, to supplement profits eaten into by large paumments back to government agencies written into their contracts.

CONTINUED ADVOCACY

This year we co-filed 23 proposals and are currently in dialogue with 12 of those companies. We also participated in 11 dialogues that did not result in a filing. This is an overall threefold increase from last year.

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ADDING VALUES TO STRONG PERFORMANCE *continued from page 3*

This proxy season, we joined an ICCR campaign to increase pricing transparency and end price-gouging in the pharmaceutical industry by co-filing 3 resolutions on drug pricing with Bristol-Myers Squibb, Gilead Sciences, Inc., and Eli Lilly. In addition to the co-filings, we filed as lead with Vertex Pharmaceuticals Inc. on lobbying and political spending to supplement other ICCR members' drug pricing resolution by increasing pressure on the company to address the high price of its cystic fibrosis drug. By influencing legislators who might impose regulation, pharmaceutical companies are permitted to continue charging exorbitant prices for life-saving drugs, severely impacting people who are economically disadvantaged. As investors, we believe that transparency around both pricing and lobbying would reduce the significant reputational and regulatory risks to the pharmaceutical industry, and benefit society.

Another focus area is urging large asset managers to actively vote their proxies on shareholder proposals related to climate change. We co-filed resolutions with BlackRock, T. Rowe Price, Bank of New York Mellon, and JP Morgan Chase. The majority of these companies have spoken out publicly about the need for businesses to take climate change seriously, yet continue to vote against climate-related shareholder resolutions. As major investors, if they aligned voting practices with their public statements (as Friends Fiduciary does) they could substantially impact the way businesses approach climate change related risks and opportunities.

POLICY WORK

Beyond shareholder proposals, we engage in policy advocacy with the help of networks like ICCR and Ceres' INCR, joining other investors in expressing our views on policy issues that affect business. This year we signed onto a variety of investor letters to leaders, legislators, and industries. Most recently we supported a letter from businesses and investors urging President-elect Trump to honor the Paris Agreement and consider the economic risks and opportunities related to climate change. The "News" section of our website provides a detailed record of our policy advocacy activities.

COMMITTED TO QUAKER VALUES

We eagerly await the results of this season's advocacy work and will share them in our summer issue. Friends Fiduciary is thoughtfully and faithfully exercising its ownership rights on behalf of our constituent investors in service of a more equitable and sustainable world economy. As we broaden our approach to include more companies and address a wider range of issues, we remain grounded in Quaker values, approaching the work with respect, integrity, humility, and honesty. Now more than ever, given our current political climate, it is imperative that investors present the case that what is good for society can also be good for business. We are committed to engaging on behalf of our constituent investors—thank you for your support.

Kate Monahan, Program Associate