FRIENDS FIDUCIARY℠

Financial Services for Quaker Organizations since 1898

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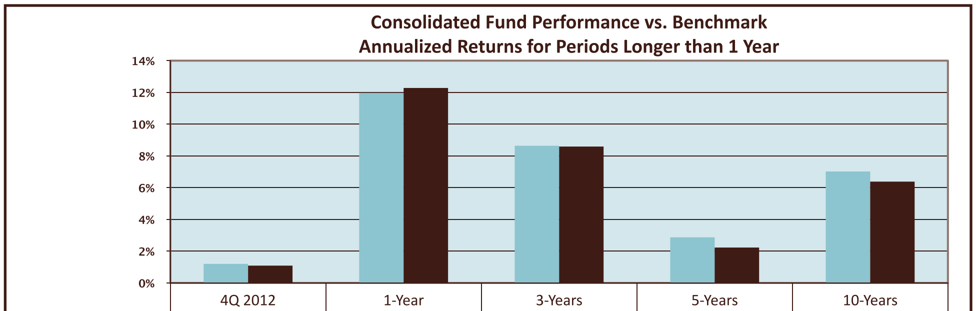
Consolidated Fund Update

December 31, 2012 Snapshot

Consolidated Fund Unit Value	12/31/12	$41.70
Next Per Unit Cash Distribution	6/20/13	$0.90
Asset Allocation		**12/31/2012**
Equities		62%
Fixed Income		32%
REITs		6%



	4Q 2012	1-Year	3-Years	5-Years	10-Years
Consolidated Fund	1.20%	11.97%	8.64%	2.87%	7.02%
Blended Benchmark	1.09%	12.28%	8.59%	2.23%	6.38%

Resilience – *(Merriam-Webster n: the capability of a strained body to recover its size and shape after deformation caused especially by compressive stress).* It is a word that comes to mind to describe the U.S. economy. Since the collapse of the real estate market in 2008 and the ensuing financial crisis, our economic system has endured a sharp recession, record home foreclosures, near record unemployment, the implosion of a few of our most fabled corporate institutions, a debt ceiling crisis last summer and most recently the so-called fiscal cliff. Make no mistake, there has been ample pain and distress suffered by many, but as we enter 2013 there are unmistakable undercurrents of strength and recovery.

On the jobs front, the number of employed individuals has grown slowly but steadily since the recession ended in September 2012. Data supplied by the Bureau of Labor Statistics for December showed the twenty-seventh consecutive month of positive employment growth and an unemployment rate of 7.8%, down from 8.5% one year ago. With homes accounting for the majority of a family's net worth, it is encouraging to see the recent rebound in the housing market. The well regarded Case-Shiller 20-city composite of home prices posted its fifth consecutive month of price increases in October, and as another indication of strength in the housing sector, the trend in household formations is showing positive growth. Importantly, inflation remains in check as reflected by the December Consumer Price Index which showed the general level of prices increasing by a manageable 1.7% over the past twelve months.

As for the capital markets, the Standard & Poor's 500 Index ended the year on somewhat of a glum note posting a negative -0.38% return in the fourth quarter. Concerns over the expiration of the the Bush era tax cuts, the end of the 2% payroll tax holiday, and automatic across-the-board cuts in domestic and defense programs weighed heavily on investor sentiment as year-end approached. With this as a backdrop investors headed for the relative safety of treasuries and high grade corporate bonds pushing the Barclay's Aggregate Bond Index up +0.21% in the quarter. Ignoring the turmoil within our borders, international equities bucked the trend with a +6.6% increase in the quarter. Emerging markets stocks were buoyed +5.6% on better economic data from China. For the full year, both domestic and international, large and small cap stocks posted double digit returns with emerging markets leading the pack with a +18.2% return for the year. Even though bond returns trailed equities in 2012, over five and seven year periods bond returns still exceeded stocks on an annualized basis.

The Consolidated Fund's diversified asset mix helped drive performance higher in the fourth quarter. The Fund posted a solid +1.2% gain compared to +1.1% for the blended benchmark. Both large cap domestic stocks and fixed income holdings exceeded their respective benchmarks, while small cap, international and REIT holdings trailed their benchmarks (see table on page 2). For the full year the Consolidated Fund ended with a 12.0% gain, slightly trailing its blended benchmark return of 12.3%. For the full year, the best performing managers relative to their benchmarks were our two fixed income managers, Payden & Rygel (domestic bonds) and Lazard Asset Management (global bonds). The hallmarks of our bond accounts are high credit quality and diversification. Our Payden portfolio maintains an average credit quality of A+ with over 90% of the account invested in corporates, mortgage-backed and taxable muni securities. Treasuries make up less than 5% of the account. Our global bond portfolio with Lazard is also of high quality with an average credit quality of AA- and is composed of foreign corporates, municipals and sovereign country debt instruments.

In April 2012, we launched the Short Term Investment Fund (STIF), a diversified fixed income investment option designed to provide returns in excess of those available in money market funds. The STIF is constructed for consistent, low volatility performance with an emphasis on

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high credit quality, low risk and liquidity and is invested in a manner consistent with our Quaker values and testimonies. The fund is well suited for a one to five year investment horizon providing a good return with low volatility. Since April 30, 2012, STIF has returned 0.57% net of fees compared to the Lipper Money Market universe return of 0.01% over this eight month period.

In 2012, the Investment Committee received requests to review 108 purchase recommendations. Of those reviewed, 98 were approved and 10 were rejected. The rejections were for military involvement (5), environmental issues (3) and labor and governance issues (2).

The next income distribution from the Consolidated Fund will occur on June 20, 2013. The planned distribution of $0.90 per unit was calculated using a 4.5% payout rate which represents a one quarter point decline from the 4.75% payout in 2012.

As our newsletter goes to print, the S&P 500 is nearing a five year high after completing the strongest January in over 15 years with an increase of 5%. The bond market has gotten off to a bit of a rocky start with interest rates across the yield curve inching up, driving down prices. We remain optimistic about the current recovery as employment and housing gains translate into improving household balance sheets and spending trends, but we remain cautious that consumer sentiment may be negatively impacted by higher taxes and the markets may be roiled by upcoming budget battles in Congress. We thank you for your support and look forward to serving your future investment needs.

Friends Fiduciary Corporation Consolidated Fund

Total Return for the Period Ending December 31, 2012

			Annualized Returns		
	4th Q	**1-Yr**	**3-Yrs**	**5-Yrs**	**10-Yrs**
Total Fund (gross)	1.2	12.0	8.6	2.9	7.0
Blended Benchmark[1]	1.1	12.3	8.6	2.2	6.4
Blended 65/35 Index[2]	-0.2	11.7	9.2	3.1	6.4
Large Cap Domestic Equity	0.5	14.6	10.0	1.6	7.5
Large Cap Domestic Equity Benchmark[3]	-0.4	16.0	10.9	1.7	7.1
Small Cap Domestic Equity	0.4	8.5	8.6	1.0	
Russell 2000	1.9	16.3	12.3	3.6	
International Equity	3.9	14.2	1.7	-2.8	
MSCI EAFE	6.6	17.3	3.6	-3.7	
REITs	2.5	17.2	19.8	9.0	
FTSE NAREIT	2.6	18.1	17.8	5.5	
Fixed Income	0.9	6.3	7.2	6.0	5.4
Barclays Capital Aggregate Bond Index	0.2	4.2	6.2	6.0	5.2

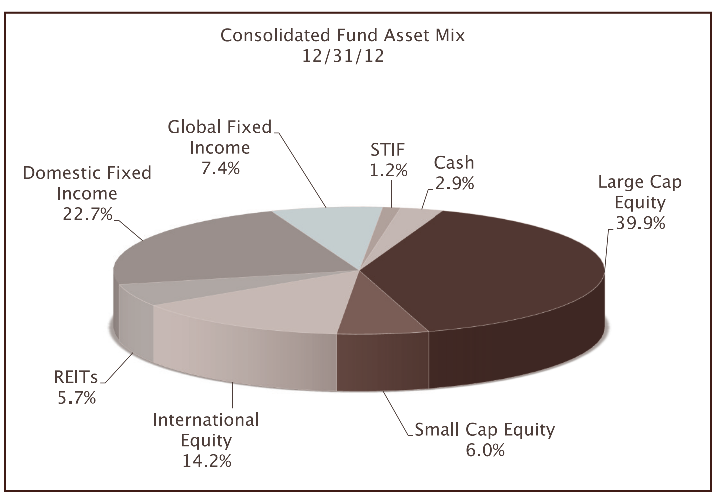
All returns are in percent. Returns for periods exceeding one year are annualized.

No predictions are made for the future and past returns are no guarantee of future results.

[1] 42% S&P 500, 5% Russell 2000, 15% MSCI EAFE (Europe, Australasia & Far East), 33% Barclays Aggregate Bond, 5% FTSE NAREIT

[2] 65% S&P 500, 35% Barclays Capital Aggregate Bond Index

[3] 100% S&P 500 as of April 1, 2009 formerly 50% S&P 500 and 50% Russell 1000 Value



Explanation of the Semi-annual Income Distribution Policy

It is important for our constituent investors to recognize that Friends Fiduciary uses a 'total return' policy in determining the semi-annual income distributions. This means that the semi-annual distribution includes capital appreciation as well as the actual income earned by investments in the form of interest and dividends. During years when the Fund's total investment return is greater than the distribution rate, the principal value will grow by that difference. Conversely, during years in which the Fund's performance is less than the distribution rate, the difference reduces the principal portion of the investment. Under a total return spending policy, prior years' accumulated capital appreciation in excess of distributions is considered principal.

The annual percentage payout rate or spending rate (4.5% for 2013), is reviewed by Friends Fiduciary's Investment Committee and approved by the Board of Directors. It is set at a level that is intended to balance competing priorities of providing a consistent and reasonable income payment while keeping pace with inflation. For example, with a payout rate of 4.5% and an inflation rate of 2.5%, the portfolio must increase in value (through a combination of dividends and interest plus price appreciation) by 7.0% in order not to invade principal. In its review of future spending rates, the Committee assesses various asset classes and the growth potential of the capital markets. Given concerns that emerged in late 2008 about domestic and international economic conditions and the ability of capital markets to rebound from the financial crisis, the Board agreed to a gradual reduction of the annual payout rate from 5.5% in 2009 to 4.5% in 2013.

In early January, the Consolidated Fund's June 2013 distribution was set at $0.90 per unit. Friends Fiduciary establishes its semi-annual income distribution six months in advance based on a percentage payout of the three year rolling average of the Consolidated Fund unit value. Using a three year rolling average is a smoothing technique that evens out large market swings and results in a more stable and predictable distribution pattern.

If you have any questions about the semi-annual income distribution policy or process, please do not hesitate to contact us at 215-241-7272 or info@friendsfiduciary.org.

From Jeff Perkins, Executive Director

Our work at Friends Fiduciary continues to evolve as we experienced significant change in 2012. Some of this change involved the integration of the system conversion work implemented in December 2011. We also welcomed two new staff members: Tim McElroy and Bob Fogal joined FFC as Accountant and Planned Giving Associate, respectively, and we are currently searching for a new Finance Director. I have learned in my eighteen months as Executive Director that our efforts to faithfully reflect Quaker values in our socially responsible investing on behalf of constituents is an ever changing landscape which requires flexibility, creativity and continual refinement of processes and strategies.

There are a number of important accomplishments to report for 2012. We rolled out our first new product in over 10 years, the Short Term Investment Fund. With three calendar quarters' experience to date, this product is yielding exactly what we hoped: a consistent, stable return in excess of money market funds.

> Our process and actions with these companies...exhibited our forthright approach, our persistence and our careful discernment.

We revised and updated our custody and investment agreement to encompass new products as they are developed and a number of other updates favoring constituents. This new agreement was rolled out in the fall. In April 2012, we began offering quarterly investment performance webinars, which continued through the year, analyzing current general economic trends as well as the Consolidated Fund's investment performance. We increased the amount of electronic communication to you, our constituents, to provide more timely information. All of these efforts better position Friends Fiduciary to continue delivering competitive investment returns, a disciplined Quaker SRI approach with professional investment management, and excellent customer service to our constituents.

In this newsletter, we have added a new section covering some of our shareholder advocacy and socially responsible investment activities this past year. You may have noticed that we have been more diligent in posting information about these activities on our website. If you haven't checked out our website recently, I encourage you to do so. The "News and Resources" section now summarizes many of our activities, with links to additional information.

In 2012, Friends Fiduciary engaged directly with several companies in the Consolidated Fund portfolio that some groups had identified as supporting the Israeli occupation. Our process and actions with these companies around this issue exhibited our forthright approach, our persistence and our careful discernment. I believe this was an important example of responding to specific constituent concerns while consistently applying a coherent and effective investment strategy for a diverse group of constituents.

Much of our work in socially responsible investing involves gathering facts, understanding the issues and concerns raised across the spectrum on an issue, engaging directly with stakeholders on all sides of the issue and then, with discernment, seeking a path forward while communicating the outcomes to stakeholders. We will not please every constituent on every issue. However, we approach our work with integrity, forthrightness and humility. These attributes can be difficult to find in the business world and therefore are a critical aspect of the Friends Fiduciary witness on behalf of our constituents.

Looking to 2013, we will be finishing a proxy season in which our advocacy efforts have been focused on several oil and gas companies in our portfolio. We are also further refining our screening process, both for new securities being considered for the portfolio as well as existing securities, to ensure that they remain consistent with our values. We continue to look for ways to partner with other faith based investors to further enhance our shareholder advocacy work on issues of importance to our constituents.

Shareholder Advocacy

Friends Fiduciary has always been dedicated to reflecting the values of our Quaker constituency. In this past year, Friends Fiduciary has engaged in shareholder advocacy across a range of social and environmental issues.

In 2012, Friends Fiduciary co-filed shareholder resolutions with Regions Financial and Wells Fargo seeking change in their payday lending practices. Payday loans are short-term, high-interest loans and, though these loans rely on the consumer having a consistent source of income, the high interest rates can accumulate so quickly that often low-income borrowers are unable to repay both the principal and interest. Unlike traditional bank or credit union loans, payday loans do not require credit checks. Payday lenders claim to be a convenient pathway to credit for low and medium-income families in a budget crisis. However this lending practice, without strict regulations, can too easily become predatory by exploiting the customer's financial hardship for the bank's profit and by draining critical resources from low-income communities. Research from the Center for Responsible Lending demonstrates that the typical user of this type of loan pays 365% APR on a 10-day loan and remains in debt for 175 days out of the year. Regions and Wells Fargo are two of four major national banks offering this product and have provided little information to shareholders about the product, revenues, and how they are assisting their payday lending customers to greater financial stability through education and credit counseling. FFC joined with other shareholders to request that Regions Financial and Wells Fargo provide information detailing the adequacy of the company's policies in addressing the social and financial impacts of their payday lending products. As a faith-based investor, we have moral capital that we can bring to certain issues that other NGOs and asset managers cannot.

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In addition to social concerns, Friends Fiduciary is working to further refine our environmental review and screening of companies. An important part of this process is incorporating feedback from our constituents into our screening process. In the 2012-2013 proxy session, Friends Fiduciary has co-filed shareholder resolutions on greenhouse gas and fugitive methane emissions, shale energy operations, and sustainable energy. In November, FFC publicly advocated for the extension of the Production Tax Credit (PTC) for wind energy in both a letter to the House and Senate, as well as a published Op-ed article by our Executive Director, Jeff Perkins. The wind power industry and its supply chain has been a bright spot for

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Advocacy *continued from page 3*

employment and has, despite the recession, created one of America's fastest-growing manufacturing sectors. The PTC is critical to driving the cost of wind energy towards parity with traditional carbon-based energy generation resources and we were pleased to see Congress extend that credit.

Friends Fiduciary also engages in shareholder advocacy with companies that we believe can do better in environmental, social and governance areas. We work with a host of other SRI investors representing over $100 billion in assets to affect change in those companies through direct dialogues with the companies and through shareholder proposals. Recent shareholder advocacy has included co-filing shareholder resolutions with ConocoPhillips and ExxonMobil on greenhouse gas emissions and greenhouse gas reduction goals; with Spectra Energy requesting reporting on fugitive methane emissions; with Chevron Corporation on shale energy operations; and with PNC Financial on an assessment of greenhouse gas emissions resulting from their lending portfolios. FFC also became an investor signatory to the Carbon Disclosure Project (CDP). The CDP is a coalition of over 655 investors representing in excess of $78 trillion in assets encouraging thousands of companies around the globe to begin to disclose information on their strategies for managing climate change and water risks. FFC will be able to use the information gleaned by the CDP in our dialogues with companies with which we engage in shareholder advocacy. Data about companies' greenhouse gas emissions, water usage and strategies for managing climate change and water risks is invaluable and essential in successfully engaging companies to create change through our shareholder advocacy.

Friends Fiduciary is pleased to welcome:

Alfred Monthly Meeting
Boise Valley Society of Friends
Doylestown Friends Meeting
Friends School of Atlanta
George Fox Friends School
Hopewell Centre Friends Meeting
Jamestown Friends Meeting
La Jolla MM Scholarship Comm
Lake Erie Yearly Meeting
Little Red Schoolhouse
Menallen Monthly Meeting
Milwaukee Monthly Meeting
Rochester Friends Meeting
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