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Financial Services for Quaker Organizations since 1898

Friends Fiduciary

ADDING VALUES TO STRONG PERFORMANCE.

From Jeff Perkins, Executive Director

I couldn't help but smile while reading a recent Wall Street Journal ("WSJ") article* on sustainable investing. It seems the investment and business communities are finally catching up to the notion that investment managers that include environmental, social and governance considerations in their investment process can perform just as well as, or better than, those that don't screen for these factors.

Socially responsible investing ("SRI") is increasingly becoming mainstream. Of course Friends Fiduciary has been following our own unique, socially responsible investing consistent with Quaker values for a very long time. Going far beyond the traditional screening of "sin stocks" (alcohol, tobacco and gambling), Friends Fiduciary implements a full range of rigorous screens reflecting Friends values and concerns, including weapons, firearms, and for-profit prisons. Our deeper dive into company operations allows us to consider how a company performs against its peers on environmental, social and governance ("ESG") factors as well. We know experimentally what the WSJ article concluded, that "thanks to a growing body of data, there is evidence that those who want to invest in companies that pollute less, better manage resources or prioritize workers' rights can do just as well financially as those who don't."

The WSJ article cited a 2015 Morningstar, Inc. survey which demonstrated that sustainable or SRI mutual funds outperformed non-SRI funds, on an annualized basis, for all periods (1, 3, 5 and 10 years). As you'll see in this newsletter, our long term investment returns continue to demonstrate that our rigorously screened

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Consolidated Fund Update

Shrugging off weak third quarter 2015 performance that was triggered by China's currency devaluation, US stocks rebounded in the fourth quarter with the S&P 500 Index posting a +7.1% return. Even with this impressive move it barely eked out a gain for the full year as the index ended 2015 with a paltry total return (price + dividends) of +1.4%. Stock prices typically move in line with the direction of corporate earnings growth, and as the year progressed it became apparent that the strong dollar and uneven global demand were negatively impacting profit results of US corporations. At the same time, the 'real' US economy continues to chug along at an unexceptional pace with US GDP (gross domestic product) expected to come in between +2.0% and +2.5% for the year. Other indicators suggest fairly healthy underpinnings to the economy; e.g. the unemployment rate is down to 5.0%, 9 of 12 Federal Reserve Districts reported economic expansion in December, the price of crude oil has declined 37% in the last 12 months and employee wages are beginning to rise after four years of stagnation. Without a doubt there are headwinds to growth – export demand is slowing, the Institute for Supply Management reported a contraction in manufacturing activity in the fourth quarter and US industrial production turned negative in November 2015. On balance the economy should continue to expand, albeit at a moderate pace. Foreign markets fared much worse than their US counterparts in 2015 with the MSCI EAFE Index (Europe, Australia, Far East) dropping -6.4% and the MSCI Emerging Markets index plunging -14.9%. Well publicized concerns over slowing economic growth in China, the steep drop in commodity prices and higher emerging markets debt burdens are cited as culprits for the declines. There is reason for optimism, however, as recent news from Europe and Asia suggests that Central Banks in these regions will continue to pursue simulative policies to keep their economies on a growth trajectory.

December 31, 2015 Snapshot

Consolidated Fund Unit Value	12/31/15	$46.21
Next Per Unit Cash Distribution	6/20/16	$0.98
Asset Allocation		**12/31/15**
Equities		70%
Fixed Income		25%
REITs		5%

There has been much attention paid to interest rate sensitive sectors, such as REITs (real estate investment trusts) and fixed income, in the face of the recent interest rate increase by the Federal Reserve Bank. Undaunted by the rise in short term rates, both the NAREIT Index (National Association of Real Estate Investment Trusts) and the Barclays Aggregate Bond Index posted gains of +3.2% and +0.6%, respectively, for the full year. REITs continue to benefit from a growing economy and low borrowing costs while longer term bond valuations are helped by low inflation and relatively low long-term rates.

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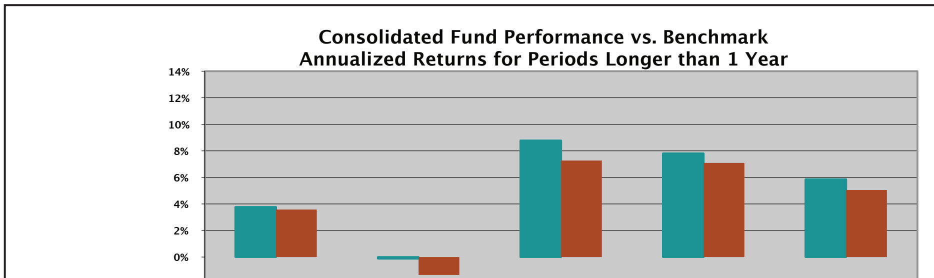

	4Q 2015	1-Year	3-Years	5-Years	10-Years
Consolidated Fund	3.77%	-0.12%	8.78%	7.81%	5.86%
Blended Benchmark	3.58%	-1.35%	7.27%	7.09%	5.05%

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

From Jeff Perkins, Executive Director

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portfolio has beaten the market as well. The Consolidated Fund's ten year net return of 5.10% (that's after all fees) exceeds the market benchmark of 5.05%; not only is outperformance possible, we've consistently done it!

With all the attention SRI funds are now getting, large mainstream financial firms are beginning to roll out their own versions of socially responsible investment products. We understand that BlackRock, Goldman Sachs and others, by jumping on the SRI bandwagon are making a savvy, opportunistic marketing decision. Regardless, we welcome their entry into the SRI space. We hope, as shareholders, they will support FFC's on-going efforts towards greater corporate disclosures and accountability on sustainability, greenhouse gas emissions, carbon asset risk, lobbying expenses and other critical issues. And we hope they will actively and thoughtfully vote their proxies with these values in mind. The greater the number of investment managers considering socially responsible criterion in their process, the better. Over the long term this should favor the companies in which we invest, boosting our shareholder value and in turn contributing even more to Friends Fiduciary's investment performance for our constituents.

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*"Do Good' Investing Turns Corner," The Wall Street Journal, Wednesday, January 13, 2016.

Consolidated Fund Update

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The Consolidated Fund posted a solid fourth quarter return of +3.8%, ahead of the blended benchmark return of +3.6%. Positive relative performance from international equity manager Boston Common Asset Management (+6.4% vs. +3.3% for the MSCI ACWI ex-US Index) and domestic bond manager Payden & Rygel (-0.1% vs. -0.6% for the Barclays Aggregate Index) were the biggest contributors to the outperformance. For the full year, Consolidated Fund outperformed the benchmark, posting a return of -0.12% compared to -1.35%. Large cap domestic equities were the biggest contributor to the outperformance led by Brown Advisory (+14.5%) and Chicago Equity Partners (+5.2%). Mid-cap equity manager, Walden Asset Management and international manager, Boston Common, were also significant contributors to the full year result. Detracting from the outperformance was weakness in the fund's small cap managers.

Fourth quarter 2015 results for the Quaker Green Fund were +3.3% versus +4.0% for its blended benchmark. The clean tech component of the fund, managed by Essex Investment Management, rebounded from a weak third quarter and posted a +6.8% return versus +5.5% for its primary benchmark (MSCI World Index). Small cap and fixed income were also positive contributors, but overall results were dragged down by underperformance from the fund's international equity allocation (Quaker ADR Fund) and large cap component. For the full year the fund was down -0.7%, slightly more than the benchmark return of -0.2%. The clean tech component, large cap equities and fixed income posted returns above their respective benchmarks while small cap and international equities were negative contributors.

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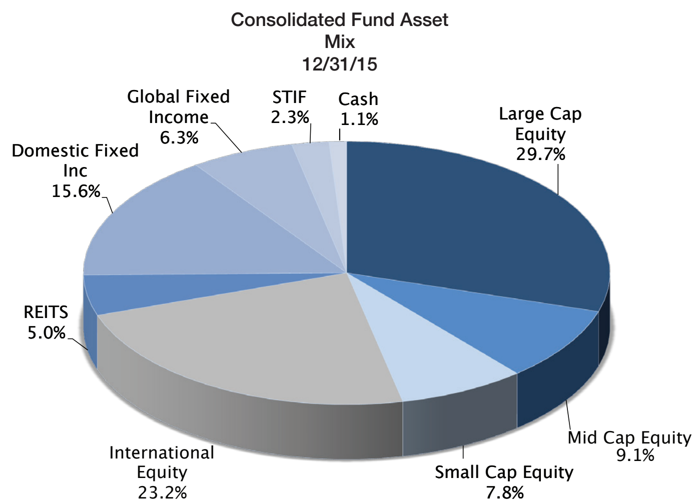
Friends Fidciary Corporation Consolidated Fund

Total Return for the Period Ending December 31, 2015

		Annualized Returns			
	4th Q	**1-Yr**	**3-Yr**	**5-Yr**	**10-Yr**
Total Fund (gross)	3.8	-0.1	8.8	7.8	5.9
Blended Benchmark[1]	3.6	-1.4	7.3	7.1	5.1
Large Cap Domestic Equity	6.2	4.8	17.1	13.4	7.9
Large Cap Domestic Equity Benchmark[2]	7.1	1.4	15.1	12.6	7.0
Mid Cap Domestic Equity	2.5	0.4			
Russell Midcap	3.6	-2.5			
Small Cap Domestic Equity	2.4	-8.7	10.7	5.4	6.0
Russell 2000	3.6	-4.4	11.7	9.2	6.8
International Equity	5.3	-4.7	3.1	1.7	
International Equity Benchmark[3]	3.3	-5.7	1.9	1.7	
REITs	7.6	5.4	13.4	13.7	10.1
FTSE NAREIT Index	7.3	3.2	11.2	12.0	7.4
Fixed Income	-0.3	-0.1	1.0	3.2	4.3
Barclays Capital Aggregate Bond Index	-1.6	0.6	1.4	3.3	4.5



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 2/1/14: 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.

Investing for strong positive financial returns is a priority at Friends Fiduciary. We have achieved our strong returns in part by investing in companies that operate efficiently and sustainably, effectively manage their business risks and value their workers. In addition, as a faith based investor, FFC actively advocates for clean power, fresh water, reduction of greenhouse gases, human rights, and more. Our shareholder and policy advocacy is guided by Quaker values and concerns. Mitigating the devastating effects of climate change is the most important advocacy priority for FFC. There have been some significant developments regarding climate change over the past six months and our recent advocacy efforts have extended across a variety of fronts.

Working with companies to mitigate climate change.

On August 3, 2015, President Obama and the Environmental Protection Agency (EPA) announced the Clean Power Plan, a historic step toward reducing carbon pollution from power plants that will have a real impact on climate change.

Power plants are the largest single source of carbon pollution accounting for roughly one-third of greenhouse gas emissions in the U.S. By 2030, the Plan will cut carbon pollution from the power sector by nearly a third and additional benefits will accrue from reductions in pollutants that can create dangerous soot and smog, translating to significant health benefits for the American people. Specifically, emissions of sulfur dioxide from power plants will be 90 percent lower and emissions of nitrogen oxides will be 72 percent lower compared to 2005 levels. The EPA states the Plan will lead to public health and climate benefits worth an estimated $55 billion to $93 billion in 2030.

The Plan is designed with customized goals for states to reduce carbon pollution and to support the fast-growing trend toward cleaner energy. Today, the United States uses three times more wind and 20 times more solar energy than it did in 2009, and the solar industry added jobs 10 times faster than the rest of the economy. The Plan is expected to accelerate this positive trend.

Friends Fiduciary and many of our peer socially responsible investors believe the Plan provides critical guidance and regulatory parameters that will enable utilities to efficiently plan for the future and more effectively and sustainably deploy capital. The guidelines are sufficiently flexible, allowing states to develop and implement their own plans to comply with the new regulations. While this Plan targets carbon pollution in the U.S. that's fueling climate change, the hope is that U.S. leadership on reducing emissions will spark broad international discussions that will lead to meaningful global actions.

To further support the Plan and push for quick implementation at the state level, FFC joined with 365 other companies and investors from all 50 states in an unprecedented show of support, delivering letters to state governors encouraging them to meet the new standards. Friends Fiduciary has also supported power plant regulations and renewable power by writing op-ed pieces for the Pittsburgh Post-Gazette and the Philadelphia Inquirer and testifying at EPA listening sessions. Investor and business support for meaningful regulation that moves us toward a lower carbon economy is critical not only for our economy but for our world.

Another important development was the 2015 United Nations Climate Change Conference held in Paris, France from November 30 to December 12, 2015. Also known as COP21, (21st Conference of the Parties) its objective was to achieve a binding and universal agreement on climate for the first time in more than 20 years of UN negotiations. Leading up to the conference, Friends Fiduciary was one of many investors signing the Paris Pledge for Action affirming our commitment to a safe and stable climate and expressing support for a new, universal climate agreement.

After two weeks of fierce negotiations among 196 represented countries, the Paris Agreement was unanimously adopted. It is an historic agreement to combat climate change and unleash actions and investment towards a low-carbon, resilient and sustainable future. It recognizes that climate change represents an urgent and potentially irreversible threat to the planet and requires the widest possible cooperation by all countries with a view to accelerating the reduction of global greenhouse gas emissions.

Importantly, the Paris Agreement brings all nations into a common cause for the first time. The universal agreement's main aim is to keep a global temperature rise this century below 2 degrees Celsius above pre-industrial levels. Additionally, the agreement aims to strengthen the ability to deal with the impacts of climate change.

The Paris Agreement and the Clean Power Plan are helping mobilize private capital all over the world toward low-carbon investments. However, Friends Fiduciary recognizes that supporting well-designed environmental regulations, committing to a safe environment, and investing in environmentally responsible companies isn't enough. The fight against climate change also involves challenging organizations and companies that may impede progress.

In particular, the U.S. Chamber of Commerce filed a lawsuit on the day the rule was published. While the Chamber claims to represent the interests of more than three million U.S. businesses, it is considered by many to be a conservative lobbying group often setting its sights only on short-term business impacts and overlooking longer-term economic and social benefits and sustainability.

In response, FFC and a group of investors and organizations representing over $324 billion in invested assets, reached out to nearly 50 environmentally responsible companies representing Chamber Board members or large members of the Chamber paying sizeable fees and urged them to express their disapproval of the Chamber's actions and intentions. These companies and their executives were made aware of the benefits of the Clean Power Plan and asked to address any misalignment between their companies' own positions and actions on climate change and their funding support of the Chamber's actions against the Clean Power Plan.

Friends Fiduciary was one of many investors signing the Paris Pledge for Action in the lead up to COP21.

Unfortunately, the Chamber is not alone in opposing regulatory changes. The American Legislative Exchange Council (ALEC) is a conservative group of state legislators and corporate representatives that drafts and shares model legislation, state and federal, on a broad range of issues, including loosening environmental regulations. Much of their activity occurs behind closed doors with little to no transparency and has in the past drawn negative attention from the media and public scrutiny. Frequently, the lobbying activity of ALEC directly contradicts the public positions of environmentally responsible companies.

In an effort to raise concerns about the potential reputational risk of companies that are members of ALEC, FFC has worked for several years urging companies to provide greater disclosure on lobbying and membership expenses and has asked companies how these risks are being managed. We have particularly pressed companies that have taken a public position on renewable energy or climate change that is directly contradicted by the activities of organizations like the Chamber and ALEC. FFC has filed 15 shareholder proposals in the past three proxy seasons on this issue – which we believe speaks to the Quaker testimony on integrity.

As an investor and shareholder, FFC is uniquely positioned to serve as an "early warning" system on certain risks for corporations that may have been overlooked or underestimated. Our long term approach towards investing and our steadfast view on advocacy for change give us a unique vantage point and one that companies often respect, even if they don't always agree. Our advocacy work requires patience, commitment and persistence. While the change is often incremental and sometimes slow in coming, that is often the case with change that makes a difference in the world!

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Consolidated Fund Update *continued from page 2*

FFC's Short Term Investment Fund (STIF) posted a -0.1% return for the quarter as the Federal Reserve Bank moved to raise short term interest rates in December. The fund's performance compares favorably to the blended benchmark (80% 1-3 Year US Treasury-Agency Index/20% Lipper Money Market Fund) which declined -0.3%, and was slightly below the Lipper Money Market Index return of +0.01%. Full year 2015 results were strong with STIF showing a return of +0.95% compared to +0.45% for the benchmark and +0.01% for Lipper MMF.

As many who work with us know, the Consolidated and Quaker Green Funds operate with semi-annual distribution policies whereby 'total return' distributions occur in June and December. The distribution is based on a 'payout rate' (i.e. a percentage of market value) that represents our best thinking about balancing competing objectives of providing stable, current income while preserving the purchasing power of principal over the long term. It is important to know that the distribution rate is intended as a guideline. Constituents may (and many do) take more or less than the announced rate, and withdrawals from accounts can occur at any time throughout the year to satisfy individual needs. The Consolidated Fund's June 2016 distribution of $0.98 per unit represents a 4.25% distribution rate; the Quaker Green Fund will distribute $0.62 per unit representing a 3.5% rate. Distribution rates are reviewed annually by the FFC Board of Directors.

As we go to print in late January with our winter 2016 edition, the S&P 500 is off to one its worst starts ever, down -8.6% in the first thirteen days of trading. The proximate causes for the sell-off are the continuing slowdown in the Chinese economy, a steep drop in the price of crude oil and what this might indicate about global demand, and reaction to the Federal Reserve Bank's intention to move towards a more 'normal' interest rate regime. As noted above, on balance the US economy is in fundamentally good shape, and in our view we are in a market correction not the early stages of an economic recession. While down drafts in the capital markets are by their nature uncomfortable, academic and practical research studies show that the best defense against market volatility is a broadly diversified portfolio of stocks and bonds. Diversity of asset type and manager strategies is a key value-add of the Consolidated Fund for our constituent investors. We are committed to this long term strategic approach towards asset management. Thank you for your support - we wish you well in 2016.