FRIENDS FIDUCIARY℠

Financial Services for Quaker Organizations since 1898

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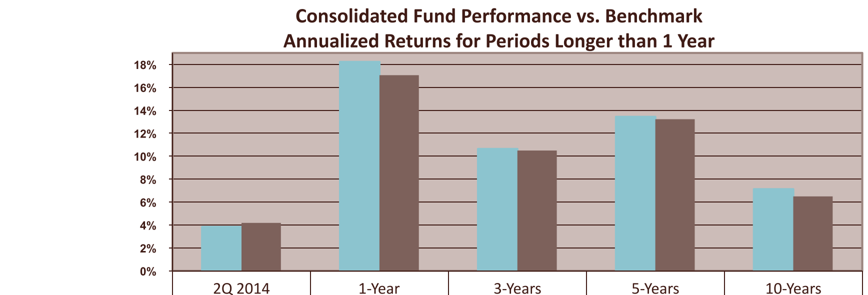
Consolidated Fund Update

June 30, 2014 Snapshot

Consolidated Fund Unit Value	6/30/14	$48.64
Next Per Unit Cash Distribution	12/19/14	$0.95
Asset Allocation		**6/31/2014**
Equities		71%
Fixed Income		24%
REITs		5%

After shaking off first quarter fears of a slowing economy, domestic equity markets resumed their upward move with a +5.2% increase in the S&P 500 Index in the second quarter. For the first six months of 2014 the index increased +7.1%, sharply higher than the +4.8% increase posted by large cap international stocks as measured by the EAFE Index, and supporting the notion that the U.S. economy continues to be the engine of worldwide growth. Stocks of companies in smaller, but faster growing international markets rebounded from a first quarter loss to post year-to-date returns of +6.2% (MSCI Emerging Markets Index). In a flight to quality, yields on 10-year Treasuries fell from around 3.0% in January to below 2.5% sending the Barclays Aggregate Bond Index up +3.9% YTD, surprising many investors. The downward trend in interest rates also bolstered the fortunes of securities with attractive yields most notably real estate investment trusts (REITS) with the North American REIT Index surging +17.6%.

While early 2014 featured a weather induced slowdown in economic activity (remember the polar vortex?), the outlook for the balance of 2014 remains positive. Following 36-months of average job growth of 188,000 per month, the pace of growth accelerated in 2Q14 with an average of 272,000 workers added per month. Other forward looking indicators, like the Conference Board's Employment Trend Index, point to future growth as well as the Leading Economic Index (LEI) which suggests a broad-based increase in second half activity.



	2Q 2014	1-Year	3-Years	5-Years	10-Years
Consolidated Fund	3.83%	18.22%	10.63%	13.43%	7.12%
Blended Benchmark	4.18%	17.06%	10.49%	13.22%	6.49%

Within these market conditions, the Consolidated Fund (CF) continued its string of quarterly gains with a +3.8% increase in 2Q14 marking its eighth consecutive year-over-year quarterly increase, just slightly behind the blended benchmark return of +4.2%. Year-to-date the fund was up +6.2% compared to +6.6% for the blended benchmark. The small relative underperformance was due in part to underperformance in active large cap equity and international allocations which was nearly offset by outperformance in fixed income, REITS, small cap equity and large cap indexed portfolios. Both our REIT manager, CenterSquare, and domestic bond manager, Payden & Rygel have beaten their benchmarks for the first two quarters.

The Quaker Green Fund (QGF), our newest fund option, was launched in January. The asset mix is designed to be similar to the Consolidated Fund but it excludes all fossil fuel companies and has a dedicated allocation to clean tech and alternative energy companies. Consolidated Fund has an inherently higher level of diversification with ten investment managers compared to five for QGF. We expect higher volatility with QGF due to less diversification and the allocation to clean tech and alternative energy investments which have been a fairly volatile asset class. Through June 30, QGF posted a +5.1% investment return, slightly behind its blended benchmark return of +5.3%. Similar to the Consolidated Fund, the small relative underperformance was due to underperformance in large cap equity and international allocations. The best performing asset class YTD was clean tech (Essex Asset Mgt.) with a +7.6% return compared to +6.2% for its primary benchmark (MSCI World Index). Small cap equities, managed by Great Lakes Advisors, also performed well with a +6.5% return versus +3.2% for Russell 2000 Index.

The FFC Short Term Investment Fund (STIF) posted good results in the first half of 2014 as short/intermediate interest rates nudged up slightly from 0.39% on January 1st to 0.46% on June 30th. The fund returned +0.43% over six months compared to +0.01% for the Lipper Money Market Index and +0.41% for the Merrill Lynch 1-3 Year US Treasury/Agency Index.

The next standard distribution from the Consolidated Fund will occur on December 19, 2014 and will be $0.95 per unit representing a 4.5% standard distribution rate. The Quaker Green Fund will also distribute in December with a $0.62 per unit standard distribution on December 9th representing a 3.5% distribution rate. Standard distribution rates are reviewed annually by the FFC Board of Directors and are designed to balance competing objectives of providing a current stream income with preservation of principal over time. The standard distribution rate is intended only as a guideline and constituents may take more or less than the announced standard distributions.

As we go to print with our summer 2014 edition, equities are near record high levels as investors

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

FFC Announces 2016 - 2017 Standard Distribution Rates for the Consolidated Fund

The Friends Fiduciary Board of Directors regularly reviews the standard distribution rate applicable to distributions paid out of the Consolidated Fund in June and December. The standard rate is intentionally conservative and depends upon long term capital market returns, volatility and inflation. The FFC Board of Directors has approved a reduction in the standard distribution rate effective with the 2016 semi-annual distributions. The standard rate will decrease from the current 2014 and 2015 level of 4.5% to 4.25% in 2016 and 4.00% in 2017.

In reaching the decision to adjust the standard rate effective in 2016 and 2017, the Board of Directors took into account concerns about inflation and projected capital market returns and the fact that the actual dollar amounts of recent "standard" distributions have been driven upward because of market performance in the years since March 2009. By reducing the standard distribution rate by a modest amount in quarter percentage point decreases, over time, the Board is attempting to provide constituents not only with a greater likelihood of long-term protection of capital against inflation, but also with the necessary time either to plan and budget or to override the standard rate and select a rate above or below the standard rate.

Each FFC constituent has different financial circumstances and needs that lead to different distribution requirements from their funds. Because of this, the standard distribution rate is intended only as a guideline for constituents who have invested their funds with FFC**. Constituents may, and some do, take more or less than the announced standard distribution rate. Each constituent group must decide the proper distribution levels for their meeting or organization based on their unique financial situation and spending needs. If we can be of assistance, please contact Rich Kent or Jeff Perkins at 215-241-7272.

**Funds left in trust to Friends Fiduciary Corporation, and for which FFC serves as trustee, will distribute "income" based upon the standard distribution rate as determined by FFC.

Friends Fiduciary Corporation Consolidated Fund

Total Return for the Period Ending June 30, 2014

Fund Results	YTD	1-Yr	3-Yr	5-Yr	10-Yr
Total Fund (gross)	6.2	18.2	10.6	13.4	7.1
Blended Benchmark[1]	6.6	17.1	10.5	13.2	6.5
Large Cap Domestic Equity	6.4	23.5	16.0	18.2	8.1
Lg Cap Domestic Eq Benchmark[2]	7.1	24.6	16.6	18.8	7.8
Small Cap Domestic Equity	7.8	29.3	12.3	18.8	
Russell 2000	3.2	23.6	14.6	20.2	
International Equity	5.6	20.5	6.0	10.2	
International Equity Benchmark[3]	5.6	21.8	6.5	10.8	
REITS	18.9	16.2	12.9	25.9	
FTSE NAREIT Index	17.6	13.2	11.8	23.5	
Fixed Income	4.3	6.4	3.9	5.5	5.1
Barclays Capital Agg Bond Index	3.9	4.4	3.7	4.9	4.9

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.

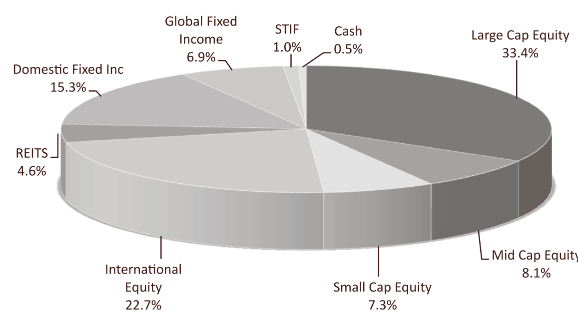
[1] 28% S&P 500, 9% Russell Mid-Cap, 8% Russell 2000, 25% MSCI ACWI ex-US, 5% FTSE NAREIT, 25% Barclays Agg. as of 2/1/14; formerly 42% S&P 500, 5% Russell 2000, 15% MSCI ACWI ex-US, 5% FTSE NAREIT, 33% Barclays Agg.

[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

Friends Fiduciary strives to provide its constituents with excellent customer service. Help us (and make sure you're receiving the latest in SRI activities and news!) by sending updated contact information and any personnel changes to info@friendsfiduciary.org.

Consolidated Fund Asset Mix
6/30/14



In January 2014 an asset restructuring program was completed in the Consolidated Fund which shifted the asset mix in favor of equities with a higher allocation to international. A core-satellite approach was implemented by adding a large cap index strategy and allocations to large cap growth and mid-cap equities. Exposure to fixed income securities was also reduced. The new target asset mix is 70% equities/25% fixed income/5% REITS.

Update *continued from page 1*

cheer good economic growth, low inflation, low interest rates and an improving labor market. On a valuation basis, stocks appear fairly valued with the S&P 500 trading at a forward P/E ratio (price-to-earnings) of 15.8x compared to its long-term average of 15.1x. Despite tapering its bond buying program, the Fed remains focused on long-term unemployment which suggests that rates will remain low into 2015. With the S&P 500 hovering near record levels and the second quarter earnings season producing lackluster results, the market may be set for a brief pause in the second half of the year; however, we believe our funds are well positioned for long-term growth and able to withstand short term market gyrations given our high level of diversification across asset classes and managers. We thank you for your support and look forward to serving your future investment needs.

From Jeff Perkins, Executive Director

In this newsletter we focus on our strategic approach to shareowner advocacy. Our Quaker values based, robust, shareowner advocacy is what makes Friends Fiduciary unique among all investment managers. We know of no other Quaker organization that is as actively, consistently and broadly representing Quaker values in their investing as Friends Fiduciary. I hope that explaining some of the strategy behind our work will inspire you to share your enthusiasm for FFC with Quaker colleges, schools or organizations with which you are associated. Too many Quaker organizations are not yet reflecting Quaker values in the management of their financial resources. If you would like to add yourself or another to the email list for our regular SRI E-Bulletins, which highlight this work, please sign up by sending your contact information to info@friendsfiduciary.org.

We are very pleased that our new Quaker Green Fund is generating interest and attracting new investments. Opened in January 2014, at this writing the fund has grown by over $7.4 Million from 20 new and existing constituent investors. This new fossil fuel free investment option with a positive allocation to clean tech and alternative energy companies was developed for those organizations wanting to witness to climate change concerns through divestment. We know that there is a range of opinions on fossil fuel divestment and we offer the Quaker Green Fund as an option so that we are able to serve all Friends meetings, churches, schools and organizations.

In the first two quarters of 2014, FFC welcomed nine new constituent investor organizations in the Consolidated, Quaker Green and Short Term Investment Funds. We are very proud of our work on behalf of our constituent investors and encourage you to urge other Quaker organizations and communities to consider better aligning their financial resources with their Quaker values by investing with Friends Fiduciary.

Thank you to all the constituent investors reading this newsletter. Without your faith and commitment to Quaker values in the stewardship of your financial resources, Friends Fiduciary would not exist. We take our responsibilities seriously and strive to earn your trust. The Consolidated Fund continues to accumulate strong performance, returning +6.2% year-to-date. This is on top of a very strong calendar 2013 during which it returned 18.6% against the benchmark of 16.4%. Both the short and long term returns demonstrate the value of our Quaker investing approach and demonstrate our ability to invest following our Quaker values and outperform the market.

Friends Fiduciary's Strategic Approach to Shareowner Advocacy

Friends Fiduciary is a small, non-profit, socially responsible investor. In order to maximize our impact as shareowner advocates, we have to take a targeted, strategic approach. During this proxy season, we've developed shareowner advocacy strategies to address climate change. We've influenced how corporate funds are used for political lobbying, taken a stand against predatory lending, and demonstrated how businesses can work with government to protect our environment. During the 2013-2014 proxy season, we co-filed nine shareowner resolutions reflecting our values as shareowners – and this year, for the first time ever, Friends Fiduciary was the lead filer on a shareowner resolution with Lincoln National Corporation.

You'll note that we are using the term shareowner, rather than shareholder. While the distinction may seem subtle, we believe that shareowner better represents our position and interest in dialoguing with companies. As "shareholders" in the companies in which we invest, we are actually "owners" of the company. Friends Fiduciary, in being faithful to our Quaker values, believes we should be active and responsible owners. In this newsletter we share some of the strategies we used this proxy season to reflect those values.

> We take a targeted, strategic approach to maximize our impact as shareowner advocates.

Targeting climate change risk assessment and mitigation

In 2010, the Securities and Exchange Commission released its "Guidance Regarding Disclosure Related to Climate Change." This interpretive guidance on climate provided a clear opening for shareowner proposals on climate change risk disclosure resolutions.

In response to the SEC's position, Friends Fiduciary has developed a strategy that focuses on two "leverage" sectors: banks and insurance companies. Most companies use bank financing. Because they have control over their lending portfolios, banks can have a broad impact on the companies with which they do business. Similarly, every business carries insurance. We encourage insurance companies to assess climate risk in their underwriting and investments. By encouraging banks and insurance companies to reflect climate risk in their lending and underwriting, we believe this will encourage their business clients to assess climate risk in their own operations.

In the last proxy season, we co-filed resolutions with PNC and Bank of America on the risks of financed greenhouse gas emissions. In addition, we asked PNC to consider the risk of financing coal mining companies who practice mountain-top removal mining. The PNC and Bank of America resolutions went to proxy, receiving 23.4% and 24.01%, respectively. These are very favorable results given that many mutual fund institutional shareholders vote in lockstep with company management.

Sustainability reporting is a key first step for companies on the road toward greater awareness of climate change risk. We chose to maximize our shareowner impact as lead-filer with Lincoln National Corporation (LNC), the insurance company known as Lincoln Financial, for three reasons. First, we knew there was room for improvement in their sustainability reporting as the insurance sector has generally lagged behind other sectors in this area. Secondly, Lincoln National Corporation is headquartered locally. Because they are right here in our own backyard and have developed a strong local brand presence, we believed LNC would be receptive to local engagement. Third, LNC has nearly $15 billion in invested assets that could be affected by extreme weather events and other consequences of climate change. For these reasons, we identified LNC as a good strategic focus for FFC.

Following some very constructive dialogue with the company, we were very pleased to be able to withdraw our proposal. Lincoln National Corporation has committed to meeting several specific requests relating to sustainability and to the assessment and reporting of climate risk. We believe these changes will support the company's long term success and reflect our shareowner interests.

An opportunistic proxy season to advocate for political spending disclosure

Climate-related advocacy, like our engagement with LNC, has been a major pursuit by shareowners the last few proxy seasons. One of our new focuses this season has been corporate political spending and lobbying disclosure. Following the Citizens United decision, there has been an explosion of political spending and lobbying, both directly and indirectly,

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Advocacy *continued from page 3*

by businesses. Oftentimes, the spending and lobbying is at odds with a company's public position on issues like climate change and renewable energy. Following our concern for integrity, we believe it is important for companies to carefully monitor this type of spending and stay aware of the lobbying efforts made on their behalf by industry or business organizations. We believe that companies face reputational risk when their direct or indirect lobbying conflicts with their public position on issues. For many shareowners, corporations' membership in the American Legislative Exchange Council (ALEC) has been a particular concern due to public outrage directed at ALEC over misdeeds exposed in leaked documents and unpopular positions taken by the organization.

Strategically, the disclosure of political contributions, lobbying, and memberships enables us to encourage closer monitoring and assessment of these expenditures and diminish the influence of organizations that undermine social responsibility through climate change denial, lobbying for gun ownership deregulation, and other positions contrary to our Quaker values.

One company that was affiliated with ALEC was VISA. This proxy season, we co-filed a proposal with VISA asking them to disclose their lobbying and memberships. Fortunately, VISA agreed, withdrew their membership from ALEC, and agreed to greater lobbying disclosures on their website. We believe this type of shareowner advocacy is important work both for the long term success of the companies and for our interests as Quaker investors.

Advocating across a wide range of issues to reflect the many concerns of our Quaker constituency base

While FFC will continue to advocate for climate change and lobbying disclosure reforms, we have also turned our attention to pressing issues that directly and adversely impact the disadvantaged. One of these issues was a lending product offered by mainstream banks that was very similar to predatory lending.

The product was a short term loan, targeted to lower income customers, which carried limited credit risk for the bank yet had annual percentage rate interest charges of up to 350% for the customer. FFC has worked with other faith based investors and the Center for Responsible Lending on this issue by filing resolutions with Wells Fargo in the past two proxy seasons. This past January, following dialogue with concerned investors including Friends Fiduciary, Wells Fargo announced the company would discontinue the product.

The case for policy advocacy in the public sphere

FFC believes that socially responsible business practices are also good for business. Unfortunately, too often, business interests are narrowly represented by those advancing the false choice between jobs or the environment. The voices arguing that environmental concerns are bad for business can be so vocal that policy implementation is delayed or defeated. Friends Fiduciary as a business and institutional investor has worked strategically to counter this skew by contributing an alternative understanding of business based on our long-term approach and Quaker values.

At a November EPA public listening session in Philadelphia, our Executive Director, Jeff Perkins, urged the EPA to pursue ambitious standards for existing power plants that will enable new investments in cleaner and more sustainable energy. In an Op-Ed published by the Philadelphia Inquirer following the EPA's release of carbon pollution standards for existing power plants, Perkins advanced a business perspective that focused on clean energy opportunities that can result from these stronger standards. FFC believes that a more sustainable future will be achieved through clear policy guidance and a commitment to protecting the environment and creating jobs.

Faith through advocacy

As Friends Fiduciary looks forward to the next proxy season, we will continue to identify advocacy opportunities when we believe there is a compelling business reason for our action. We will continue to work strategically because targeted, purposeful strategies are necessary for our work advocating for forward thinking regulation, sustainable investment, and innovation.

For example, a coalition of global investors including Friends Fiduciary representing $3 trillion, recently called upon forty-five of the world's largest public oil and gas, coal and electric power companies to assess fossil fuel risk in light of increasing regulation.

Momentum like this adds inspiration to our belief that socially responsible business strategy is indeed a good and proactive way of doing business. At the same time, Friends Fiduciary must actively contribute to this momentum so that it continues to move forward. Strategic and persistent advocacy like ours works to ensure that social responsibility is – and will progressively become – the norm within the corporate sphere. We think that's just good business!

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