

Friends Fiduciary

ADDING VALUES TO STRONG PERFORMANCE.

**From Jeff Perkins,
Executive Director**

At Friends Fiduciary we provide investment solutions that not only yield excellent investment results, but also strengthen the overall witness of Friends in the world through shared values reflected in the way in which we achieve those results. Many Quaker organizations are guided by Quaker values in their programs, activities and classrooms. At Friends Fiduciary we apply those same Quaker values to the stewardship of financial resources. I'm very pleased with the recent growth in investments at Friends Fiduciary by new and existing Quaker organizations. This means that more dollars are being invested consistent with Quaker values under our rigorous screening regimen and that more organizations are being represented through our shareholder advocacy work.

Our investment results prove that every Quaker organization can invest consistent with, rather than counter to, their Quaker values and not give up return. Increasingly this is being realized by traditional investment managers based on a number of empirical studies which show that considering environmental, social and governance factors does not result in lower returns.

Our socially responsible investing, including shareholder advocacy, is a critical part of our investment process and activities and is featured in this newsletter. As long term, values-based investors, we want the companies in which we invest to succeed. By encouraging them to consider the sustainability of their operations, to evaluate potential reputational risks and to assess climate risk in operations and their portfolios we are encouraging them to think beyond the current earnings quarter and towards building long term value. That's good for the company, FFC's investors and our world - and that is successful socially responsible investing at its best.

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Investment Review

Global events triggered sharp gyrations in stock and bond prices over the past few quarters, but through it all the U.S. economy posted solid gains in consumer spending, housing activity and the job market. The June 23 vote by British voters to exit the European Union after 23 years (the so called Brexit) created an immediate and sharp downturn in U.S. stock prices with the S&P 500 Index dropping -4.8% in two days, but the subsequent bounce-back in prices was equally impressive with the index hitting new all-time highs within three weeks of the historic vote. By the time the dust settled on June 30, the S&P 500 had posted modest gains of +2.5% for the second quarter and +3.8% year-to-date. Bond market moves were equally dramatic in the wake of Brexit with prices spiking as investors scrambled to the 'safe haven' of U.S. government and corporate bonds; as bond prices rise their yields decline and by quarter's end the yield on the 10-year bond was 1.47%, near its July 2012 historic low. The general decline in rates this year sent the Barclays Aggregate Bond Index up +2.2% for the quarter and +5.3% year-to-date. The brunt of the global turmoil was felt most sharply in developed foreign markets with the MSCI EAFE Index (Europe, Australia and Far East) declining -1.5% in the quarter and -4.4% YTD, while emerging markets experienced a rebound rising +0.7% in the quarter and +6.4% YTD.

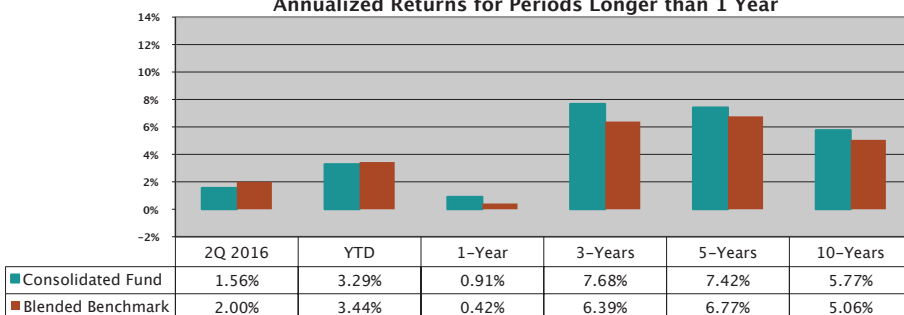
Recent reports show the U.S. economy picking up steam into the second half of the year. After posting declines in February and March, retail sales increased for three consecutive months with spending on big ticket items like autos and appliances being particularly strong. Following a sharp decline in February, sales of existing homes increased in April, May and June and are now are at an annual rate of 5.57 million units, the fastest pace since February 2007. Trends in employment remain positive with weekly initial claims for jobless benefits continuing to decline and June payroll data showing a big increase of +287,000 jobs following a disappointing May report of just +38,000. The unemployment rate stood at 4.9% in June, and while this is up from 4.7% in the prior month it is encouraging to see an increase in the workforce participation rate. In another sign of improvement, industrial production rose in June by +0.6% led by strong output from the factories and utilities. The interest rate environment remains constructive with the Federal Reserve content to hold rates at the current low level until convinced the overall economy is on firmer footing.

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June 30, 2016 Snapshot

Consolidated Fund		
Unit Value	6/30/16	\$46.58
Next Per Unit Cash		
Distribution	2/30/16	\$0.99
Asset Allocation 6/30/16		
Equities		69%
Fixed Income		26%
REITs		5%

**Consolidated Fund Performance vs. Benchmark
Annualized Returns for Periods Longer than 1 Year**



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*

The Consolidated Fund's second quarter and year-to-date performance of +1.6% and +3.3% trailed the benchmark return of +2.0% and +3.4%, respectively. While the fund's allocations to domestic equities and fixed income underperformed benchmarks in the quarter, the fund's allocation to mid and small cap proved beneficial as both asset classes outperformed. On a year-to-date basis, REITs were the leading asset class with manager CenterSquare posting results of +14.1% versus +13.4% for the NAREIT (National Association of Real Estate Trusts) Index.

In the second quarter the Quaker Green Fund posted a return of +0.5% versus +1.5% for its benchmark. The fund's international equity exposure outperformed its MSCI EAFE benchmark while domestic large and small cap allocations both underperformed their respective benchmarks. Even though the fund's clean tech allocation underperformed the broader global markets due to weakness in solar and LED stocks, there has been significant progress in other areas like energy efficiency and resource management. We believe that ultimately these improving business fundamental will be reflected in higher stock valuations.

Relative returns for the Short Term Investment Fund (STIF) are strong with second quarter and year-to-date returns of +0.5% and +1.5% versus +0.4% and +1.1% for the blended benchmark (80% 1-3 Year US Treasury-Agency Index/20% Lipper Money Market Fund), respectively. After peaking in December 2015, short-term interest rates have declined which has pushed bond prices higher. While we do expect a reversal in the trend of higher bond prices at some

point in the future, the fund's short duration and maturity allows maturing bonds to be reinvested into higher yielding bonds which should help balance out some of the negative price movement caused by higher rates.

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. Withdrawals can occur at any time throughout the year to satisfy individual needs. The Consolidated Fund's December 2016 distribution of \$0.99 per unit represents a 4.25% distribution rate; the Quaker Green Fund will distribute \$0.62 per unit representing a 3.5% rate.

As we enter the second half of 2016, we are reminded that a broadly diversified portfolio of stocks and bonds is the best way to protect our funds from volatility and mitigate the sometimes unexpected moves in the markets. The US economy is in good shape and proving to be the model of stability and engine for global growth. We believe these trends will continue into the third and fourth quarters. Thank you for your confidence in Friends Fiduciary - we look forward to serving your future investment needs.

Friends Fiduciary Corporation Consolidated Fund

Total Return for the Period Ending June 30, 2016

	Annualized Returns					
	2nd Q	YTD	1-Yr	3-Yr	5-Yr	10-Yr
Total Fund (gross)	1.6	3.3	0.9	7.7	7.4	5.8
Blended Benchmark ¹	2.0	3.4	0.4	6.4	6.8	5.1
Large Cap Domestic Equity	1.7	2.0	3.2	12.5	12.5	7.5
Large Cap Domestic Equity Benchmark ²	2.5	3.8	4.0	11.7	12.1	6.9
Mid Cap Domestic Equity	2.9	7.8	4.6			
Russell Midcap	3.2	5.5	0.6			
Small Cap Domestic Equity	2.4	5.4	-4.0	8.2	6.7	5.5
Russell 2000	3.8	2.2	-6.7	7.1	8.4	6.2
International Equity	-0.5	-1.1	-10.1	1.9	1.0	1.7
International Equity Benchmark ³	-0.7	-1.0	-10.2	1.2	0.6	1.0
REITs	7.4	14.0	26.4	15.9	14.1	10.1
FTSE NAREIT Index	7.0	13.4	24.1	13.6	12.6	7.4
Fixed Income	1.4	4.7	5.3	3.8	3.4	5.1
Barclays Capital Aggregate Bond Index	2.2	5.3	6.0	4.1	3.8	5.1

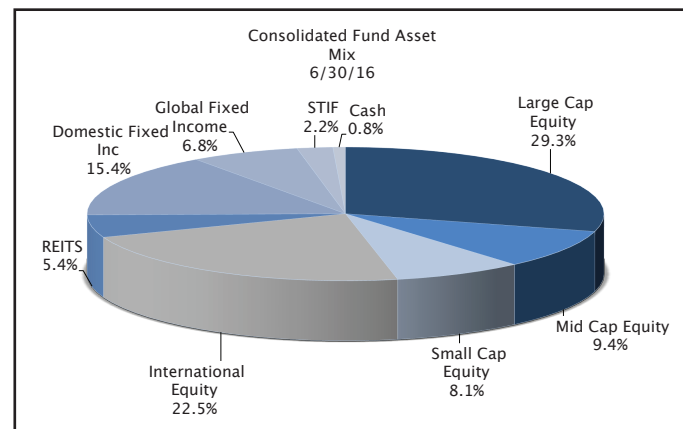
All returns are in percent. Returns for periods exceeding one year are annualized.

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



STRONG RETURNS WITH SOCIAL RESPONSIBILITY

Friends Fiduciary delivers more than just strong investment performance – we achieve this performance while thoughtfully and carefully reflecting Quaker values in our investment process. All of our constituent investors can take pride in the fact that through their investments with Friends Fiduciary, they are helping to create a better world.

While the levers for change available to Friends Fiduciary in its screening and shareholder advocacy are limited, we believe that they are nonetheless essential in investing with integrity guided by Quaker values. Many of the issues and challenges that concern us are systemic societal and economic issues and our challenge is to work to address those concerns in the context of the corporate world. One way we do this is through our policy advocacy work. That is, Friends Fiduciary joins with other investors, in sharing our views on specific policy and regulatory issues within the business sphere when we believe we have a unique view, which is often counter to what might be considered corporate or “mainstream business” positions (e.g. those positions often taken by the Chamber of Commerce which purports to represent American “business”).

We tend to view our work in annual cycles corresponding to the corporate proxy seasons. The proxy season typically runs from mid-August to the end of June.

I'd like to recap our shareholder advocacy work in the 2015 – 2016 proxy season.

SHAREHOLDER ADVOCACY

Our shareholder advocacy work ranges from sending letters of inquiry to companies, to engaging in direct dialogue with company management, to filing shareholder resolutions for inclusion on company proxies, which are then voted on by all shareholders at the company's annual meeting. At any point in time, we are interacting with 15 - 25 companies at various points along this continuum of engagement. With the addition of a second year Fellow from the Quaker Voluntary Service program in September 2016, we expect to increase our shareholder advocacy engagements in the 2016 - 2017 proxy season.

In the latest proxy season (2015-2016), Friends Fiduciary filed fourteen shareholder proposals. We were lead filer on two proposals. As lead filer we are 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 and/or the Securities and Exchange Commission, and for determining whether to take the proposal all the way to the proxy. Friends Fiduciary co-filed an additional twelve proposals, meaning another socially responsible shareholder was the lead filer and our filing was in support of their resolution. In this work, when the company assents to our request (either in whole or in part) and the filers agree to withdraw the proposal, this is deemed to be a successful result. This often involves give and take negotiations with the company and is more an art than a science. The goal is to progressively move the company towards the desired action, whether that is greater disclosures, formulating and implementing new policies or addressing reputational risk by eschewing past practices.

TAKING THE LEAD

Friends Fiduciary was lead filer on two proposals in the proxy season just ended. We filed as lead with Comcast Corporation on a lobbying disclosure proposal. Comcast, headquartered in Philadelphia, is a media and cable television conglomerate and one the largest corporate lobbyists. In 2014 – 2015 they spent

more than \$32.7 Million at the federal level. Unfortunately there is incomplete information available for lobbying expenditures at the state level – which was part of the thrust of our proposal. The Benedictine Sisters of Mount St. Scholastica and Everence co-filed our proposal with Comcast. Our proposal also asked that the company disclose its trade association memberships, payments and the portions of these payments used for lobbying as well as payments to tax-exempt organizations that write model legislation, which includes the American Legislative Exchange Council, or ALEC. ALEC convenes state lawmakers and corporations to promote model laws written by corporations; ALEC has attracted negative attention

for its role their promoting anti-immigration bills and blocking EPA regulation on climate change.

In the United States, businesses such as Comcast have a legitimate interest in lobbying on regulations and legislation that it believes important to its business. As shareowners we believe it is critical that Comcast's Board and its shareowners have complete disclosure of these expenditures to be able to evaluate the use of corporate assets for lobbying and any risks this spending can pose.

One of the largest corporate proxy advisory services, Institutional Shareholder Services (“ISS”) supported our proposal, noting that Comcast fails to provide information on

its lobbying expenditures and does not identify its trade associations. This proposal went to proxy and received 16.7% of the vote, which was higher than the prior year. If one accounts for the large number of shares held by insiders, the proposal received approximately 28.6% of the outside shareholder votes. We expect to file again as lead in the 2016-2017 season if company management is unwilling to address our concerns.

Friends Fiduciary also ascended to lead filer on a proposal we initially co-filed when the lead was unable to continue in that role. We filed with Franklin Resources – a mutual fund company – requesting disclosure of their proxy voting practices on resolutions related to climate change. It appears that many of their subsidiary funds routinely vote against all climate change related resolutions despite the fact that Franklin Resources publicly states that it “works to improve the company's framework for consistently incorporating the consideration of material ESG risks.” Their actual practices appear counter to this claim. We believe that such incongruities could pose reputational risk to the company, especially given that some of their competing mutual fund firms have fewer incongruities. A similar proposal co-filed by Friends Fiduciary with T. Rowe Price withstood a challenge request by the company seeking relief from the SEC. The SEC's ruling was a significant endorsement of the importance of climate change related issues and their potential impacts to businesses and investors.

If mutual fund families begin to more consistently vote proxies of the companies in which they are invested, support for important sustainability and climate change proposals could grow, thereby, encouraging more and better disclosures on climate change risks and mitigation efforts in these companies.

SHAREHOLDER ADVOCACY RESULTS

Of the 14 resolutions, four were withdrawn due to the company meeting some or all of the requests in the resolutions (see Exhibit I). That compares to five withdrawals (or instances where we achieved our objective) from a total of seventeen filed in the 2014-2015 proxy season.

Exhibit I – Positive Results from 2015-2016 Proxy Season

Company	Issue	Result
Fresh Del Monte	Assess Water Related Risks	Company agreed to complete water risk assessment report and disclose results.
CenterPoint Energy	Lobbying & Political Spending Disclosures	Company agreed to disclose policy and board oversight process on lobbying and will disclose trade association memberships.
PPG Industries	Linking Executive Pay and Sustainability	Company agreed to some incremental disclosures on compensation. Company also announced elimination of lead in all coatings (focus of earlier share holder proposals and dialogue).
American Express	Lobbying & Political Contributions	Company agreed to greater disclosure.



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STRONG RETURNS WITH SOCIAL RESPONSIBILITY *continued from page 3*

Friends Fiduciary co-files resolutions when we have a shared concern on a particular issue and when the lead filer seeks co-filers. This past proxy season we co-filed with California State Teachers' Retirement System, or CalSTRS, the second largest pension fund in the United States, on their resolution with Energen regarding methane emissions risk. We also co-filed with Calvert Investments, a \$12 Billion socially responsible investment management company, on their resolution with Fresh Del Monte regarding water risk assessment in their operations. Our work with other socially responsible investors and large pension funds increases our impact, in that we participate in the strategy and dialogue sessions and are able to bring our unique perspective as a faith based investor with our Quaker values.

Proxy voting results for the 2015-2016 season are shown in Exhibit II, below. It is important to remember that because the majority of commercial mutual fund companies either do not vote proxies, or vote in lock-step with management recommendations, proxy voting results greater than 20% typically get management's attention. It is also common for "new" proposals – those addressing an emerging issue or risk – to receive fewer votes in the early years of such filings. This was the case with our resolution with Franklin Resources, in that it received just 5% of the vote. However, as concerned investors learn more about the potential risk to the company we would expect that support to build over time.

OUR WORK SUPPORTED BY QUAKER VALUES

Shareholder advocacy work requires strategy, patience and persistence. Dialogues with companies can span years and are enhanced when relationships with company management are built on mutual respect and trust. Friends Fiduciary enters into this work with grounding in Quaker values of respect, integrity, forthrightness, honesty and humility. We believe that this enhances not only our work but our results as we build relationships over time with companies. All of our constituent investors can be proud of the work we do on their behalf.

Exhibit II

Proxy Voting Recap for 2015 - 2016 Season with Comparison to 2014 - 2015 Season

Issue	Number of Proposals Filed	
	2015-2016	2014-2015
Lobbying & Political Spending	8	4
Methane Emissions	1	-
Assess Water Related Risks	1	-
Climate Change and proxy voting	2	-
Assess Human Rights	1	1
Linking Executive Comp & Sustainability	1	1
Sustainability Reporting	-	6
GHG Emissions	-	2
Oil by Rail	-	1
Separate CEO & Chair	-	1
Hazard in lead paint	-	1
Total Proposals	14	17
Proposals Withdrawn due to Successful Result	4	5
Withdrawals as % of total	29%	29%
Resolutions that went to proxy:	10	12
Proxy Voting Results on Resolutions		
High Vote	34%	40%
Low Vote	5%	6%
Average Vote	23%	19%