Summer 2017 | Volume 19, Issue 2

Financial Services for Quaker Organizations Since 1898

Friends Fiduciary

ADDING VALUES TO STRONG PERFORMANCE.

From Jeff Perkins, Executive Director

It has been an exciting start to 2017! As noted in Rich's investment performance review, the markets have been strong the first half of the year and our funds have performed well. Our investors continue to benefit from our Quaker investing that provides excellent investment returns and ensures the funds are stewarded consistently with Quaker values.

Following the 2016 election we have engaged on a number of the policy changes coming out of the new administration. We do this with other faith based investors, and are often the only ones providing a different business perspective from that of the Chamber of Commerce and other corporate associations. As long term investors, our focus is on long term sustainability and value - rare commodities in today's short-term focused economy. It has been affirming to see more companies stepping up in support of the Paris Climate Accord and other efforts to mitigate climate change – efforts we have supported for years. When meeting with company CEOs and top management, we repeatedly hear that the market will continue to move towards a lower carbon future, driven by increasingly favorable economics of renewable energy and resource and energy conservation efforts.

As noted in Kate's review of the most recent proxy season, our shareholder engagement was the most active ever; we engaged 40 companies in dialogues and with resolutions. We were able to accomplish this work with the added capacity of Kate who has worked at FFC since last fall as a QVS Alumni Fellow. Kate's work has been excellent and I'm happy to report that we hired her as our new Shareholder Engagement Associate. In this role she will continue to work with companies, our non-profit partners, and other socially responsible investors.

I'm pleased to announce that we have hired Mimi Blackwell as our new Planned Giving Program Manager. This expansion of our planned giving program is part of a broader FFC initiative to more proactively and deliberately support the growth and stability of Quaker organizations and meetings through effective stewardship. I believe that

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Investment Review

As we hit the mid-point of 2017, global equity markets have enjoyed one of their best first-half performances in the past twenty years with 26 of the largest 30 world stock markets posting positive results. While the breadth of participation is notable, the magnitude of the moves is equally impressive. The S&P 500, gained +9.3% but was overshadowed by even stronger advances in the MSCI EAFE Index (Europe, Australia and Far East) and the MSCI Emerging Markets Index which surged +13.8% and +18.4%, respectively. Wall Street strategists have voiced concerns over the recent moves arguing that markets have appreciated too far, too fast and that valuations are now stretched with forward looking PE ratio (price-to-earnings) for the S&P 500 at 18.8x and the EAFE Index at 15.2x – both above their long-term averages; however, countering these high valuations and supporting high stock prices are positive trends in both domestic and foreign economies. Domestically, June ISM Manufacturing (formerly the Purchasing Managers Index) was reported at 57.8, indicating that the industrial side of the economy is strong while the ISM reading for Non-Manufacturing sector was reported at 57.4 – for both series, a reading above 50 suggests an expanding economy. Employment growth in US remains solid with 220,000 jobs added in June leaving the unemployment rate at 4.4%. From an international perspective, the top 20 developed world economies are all showing positive growth, and according to the International Monetary Fund are expected to achieve positive GDP growth for the entire year. Emerging economies are direct beneficiaries as export demand of raw materials and commodities to the rest of the world is on the rise.

June 30, 2017 Snapshot

		Consolidated Fund	Quaker Green Fund
Unit Value	6/30/17	$50.64	$37.32
Next Per Unit Distribution	12/20/17	$0.95	$0.62
Asset Allocation June 30, 2017			
Equities		73%	76%
Fixed Income		23%	24%
REITs		4%	0%

Actions by the US Federal Reserve Bank and other Central Banks continue to influence the pace and sustainability of economic growth. Last week Chairwoman Janet Yellen said she expects inflation to remain subdued allowing the Fed to gradually raise interest rates over the foreseeable future. In this "Goldilocks" scenario, inflationary pressures will neither be too strong nor too weak but will support a healthy, gradual rise in general prices. Foreign Central Banks have signaled that they too will begin to raise rates indicating that economies are generally healthy and the era of ultralow interest rates is coming to an end. Investors had expected bond yields to rise in 2017, but lower oil prices and President Trump's inability to implement pro-growth policies have driven yields down and prices up. Interest rate sensitive REITS and longer dated bonds posted modest increases in the first half with the Bloomberg Barclays Aggregate Bond and NAREIT (National Association of Real Estate Investment Trusts) Indices increasing +2.3% and +2.2%, respectively.

The Consolidated Fund posted strong relative second quarter and year to date returns of +3.6% and +9.0% as compared to benchmark returns of +3.2% and +7.9%, respectively. Recent FFC moves to boost exposure to international equities helped drive YTD returns higher as the fund's foreign holdings led all sectors with a +16.6% return compared to the MSCI ACWI ex-US

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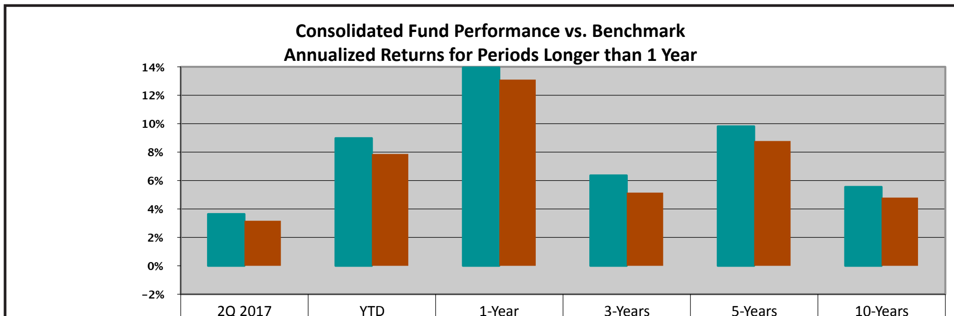


	2Q 2017	YTD	1-Year	3-Years	5-Years	10-Years
Consolidated Fund	3.64%	8.98%	13.95%	6.36%	9.81%	5.55%
Blended Benchmark	3.17%	7.87%	13.10%	5.15%	8.78%	4.80%

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*

Index return of +14.1%. The fund's active international manager posted an impressive +17.2% return over the period. The fund's domestic large cap allocation contributed to the outperformance as well with an +11.0% return, outpacing the +9.3% return posted by S&P 500. Mid-cap equities and fixed income were both positive contributors over the first six months. The sole areas of weakness came from the small cap and REITs which underperformed the NAREIT benchmark +2.2% versus +2.7%, respectively.

Results for the fossil fuel free Quaker Green Fund (QGF) matched those of the benchmark for both the quarter and YTD periods with returns of +3.4% and +8.2%, respectively. The fund has exposure to cleantech/alternative energy/resource conservation companies through its holdings in the GEOS portfolio (Global Environmental Opportunities Strategy) managed by Essex Asset Management. GEOS is invested across multiple themes which alleviate environmental degradation, improve economic growth, and mitigate climate change while improving quality of life. The technologies represented in this portfolio are disruptive by their nature and often add to the overall volatility of QGF. Second quarter and YTD returns for GEOS versus its benchmark were +6.0% vs. +4.0% and +10.1% vs. +10.7%, respectively. International and domestic stocks also contributed positively to performance over the quarter and YTD. As QGF has grown in scale over the past three years, we have increased diversification with the addition of a mid-cap manager this past June. This important addition should reduce the overall volatility of the fund while offering the potential for increased investment returns.

Following an increase in the Fed Funds Rate in December, short term bond yields continued their upward move rising from 1.19% to 1.38% over the first six months. In this rising rate environment, the Short Term Investment Fund (STIF) posted positive returns of +0.3% and +0.8% for the quarter and YTD period, exceeding benchmark return of +0.2% and +0.4%, respectively. The fund's short duration and maturity structure allows maturing bonds to be reinvested in progressively higher yielding bonds which helps counter the negative effects of declining bond prices.

The Consolidated and Quaker Green Funds operate with semi-annual total return distributions which are paid out in June and December. The distribution rates are reviewed annually to balance the dual objectives of providing current income while preserving the purchasing power of the principal investment over the long term. The announced distribution rate is intended as a guideline; constituents may take more or less than the announced rate and can withdrawal funds at any time throughout the year. The December 2017 distribution for the Consolidated Fund is set at $0.95 per unit representing a 4.0% distribution rate, and the Quaker Green Fund December distribution of $0.62 per unit represents a 3.5% rate.

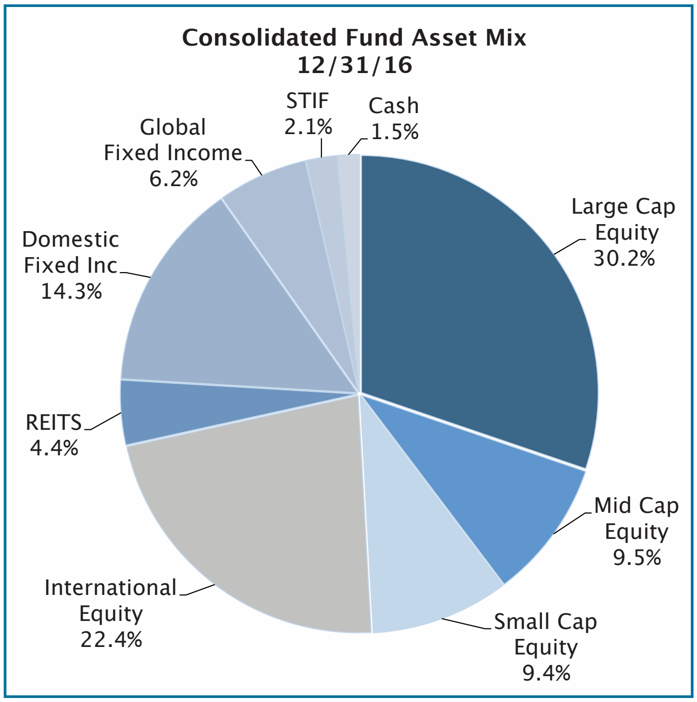
Fundamental indicators point to continued growth for the global economy. With domestic markets at or near all-time highs, stock prices have captured improving economic conditions. It would not be surprising and, in fact, it would be healthy to see markets pause in the second half of 2017 to consolidate their gains. The significant level of diversification in our funds – by asset class (stocks, bonds, REITS), sectors (large cap, mid cap, small cap), geographic regions (domestic and international), investment approach (active and passive), and styles (growth and value) – is designed to curb the inherent volatility in the capital markets while protecting the long-term purchasing power of the fund. We have a strong level of conviction in our time-tested approach and look forward to continuing to serve your organization's investment needs through our line-up of unique Quaker-screened funds and customized solutions. Thank you for your support.

Richard Kent, CFA, Chief Investment Officer

Friends Fiduciary Corporation Consolidated Fund

Total Return for the Period Ending June 30, 2017

			Annualized Returns			
	2nd Q	**YTD**	**1-Yr**	**3-Yr**	**5-Yr**	**10-Yr**
Total Fund (gross)	3.6	9.0	14.0	6.4	9.8	5.6
Blended Benchmark[1]	3.2	7.9	13.0	5.2	8.8	4.8
Large Cap Domestic Equity	3.8	11.0	20.2	11.5	15.9	7.5
Large Cap Domestic Equity Benchmark[2]	3.1	9.3	17.9	9.6	14.6	6.6
Mid Cap Domestic Equity	3.5	8.9	15.3	10.0		
Russell Midcap	2.7	8.0	16.5	7.7		
Small Cap Domestic Equity	0.2	0.6	23.4	6.5	12.8	5.7
Russell 2000	2.5	5.0	24.6	7.4	13.7	6.9
International Equity	6.7	16.6	19.5	1.7	7.6	1.1
International Equity Benchmark[3]	5.8	14.1	20.5	0.8	7.5	0.5
REITs	1.0	2.2	-2.7	9.3	10.6	8.5
FTSE NAREIT Index	1.5	2.7	-1.7	8.4	9.5	6.0
Fixed Income	2.0	3.3	0.8	2.0	2.3	4.4
Barclays Capital Aggregate Bond Index	1.5	2.3	-0.3	2.5	2.2	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 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.

A QUAKER VOICE ON WALL STREET

At Friends Fiduciary, we bear witness to Quaker testimonies by rigorously screening the companies we hold and by our active ownership of those companies. We take our responsibilities as shareowners very seriously, and believe that it is in the long-term financial interest of companies to take environmental, social, and governance factors into consideration in their business operations.

Active ownership goes beyond just voting proxies at a company's annual meeting—it means raising issues that we see as important to our company's long-term health and sustainability. We do that by engaging companies in dialogue, and if companies are unresponsive or unwilling to address our concerns, by filing shareholder resolutions. Shareholder resolutions are voted on by all company shareholders at its annual meeting, and serve as an important barometer of shareholder perspective and emerging risks.

2016-2017 SHAREHOLDER ADVOCACY SEASON

We are happy to report a very successful shareholder advocacy season this year, and additional staff capacity allowed us to raise the number of engagements to its highest-ever level. We filed resolutions with 29 companies, and out of those 29 resolutions were able to withdraw 14. We see those withdrawals as wins—it means the company was willing to sufficiently address the issues we raised. We are very happy to have a 48% withdrawal rate for the 2016-17 season, a 19% increase from last year. We also engaged 11 companies in dialogue. These dialogues ranged in subject matter from drug pricing transparency to food waste, and included companies with whom we have long-term, established relationships as well as companies who we engaged for the first time. Figure 1 shows the number of resolutions that went to a proxy vote, resolutions that were withdrawn, and company dialogues over three years. For resolutions in 2017 that went to a vote, the average vote was 23%, the same as last year, with the high vote being 42.79% (as compared to 34% last year) and the low vote 6.52% (versus 5% last year). Figure 2 illustrates the number of engagements per year 2015-2017, broken down by environmental, social, or governance category.

INCREASING LEADERSHIP

Friends Fiduciary was able to significantly increase our leadership in the shareholder advocacy space this season. We work closely with our investor networks, including Ceres and the Interfaith Center on Corporate Responsibility (ICCR), to strategize and build support with like-minded investors. Investors who lead company engagements are responsible for coordinating and setting priorities for dialogues, serve as the first point of contact with companies, and require a significant amount of time and expertise. Friends Fiduciary has taken on expanded leadership, filing resolutions as lead with six companies on issues such as lobbying transparency and sustainability reporting.

Friends Fiduciary filed as lead with Comcast Corporation. The company agreed to dialogue for the first time this year; however, they were not willing to increase disclosure, and so we filed a shareholder resolution that appeared on their 2017 proxy statement. Our resolution asked the company to prepare a report on its lobbying spending, making such information easily and readily available to shareholders. We also asked Comcast to disclose its trade association memberships and payments made to trade associations used for lobbying, as well as how such spending and memberships are evaluated at the board level. For the first time, Friends Fiduciary published an exempt solicitation with the SEC supporting our resolution. The resolution attracted some press coverage, most notably in the Philadelphia Inquirer. The proposal received nearly the same vote percentage as last year—16.6%, or 27.5% excluding shares held by Comcast insiders.

Friends Fiduciary also filed as lead for the first time with Vertex Pharmaceuticals, a pharmaceutical company that produces cystic fibrosis treatments, on lobbying transparency. Our resolution asked the company for increased lobbying disclosure, especially relevant given the reputational risks posed by lobbying related to the company's very highly priced cystic fibrosis drugs. Shareholder Engagement Associate Kate Monahan presented the resolution in person in Boston, and was able to highlight our concern that the company successfully petitioned the SEC to throw out a resolution asking for drug pricing transparency. We are very pleased that our lobbying resolution received a 27% vote.

Friends Fiduciary has been active for several years in asking insurance companies to examine their portfolios for carbon asset risk and produce sustainability reports. This year, we led successful engagements with companies Torchmark and Ameriprise Financial in addition to our annual dialogue with Lincoln National Corporation. When we first contacted Torchmark and Ameriprise about their lack of sustainability reporting, they were unresponsive. After we filed shareholder resolutions, however, the companies were willing to set up dialogues. We had productive conversations with both companies, particularly Ameriprise, touching on sustainability reporting frameworks and greater disclosures. Both companies agreed to produce a sustainability report, and we received positive feedback from Ameriprise's board regarding the engagement.

LEVERAGING IMPACT

For several years, Friends Fiduciary has been involved in pushing large asset holders to vote their proxies in line with their public statements. We are happy to report that the initiative bore fruit this season. Many large asset holders vote according to company management's recommendation on shareholder resolutions addressing climate change, but simultaneously make public statements underscoring the potential risk of global warming's impact on businesses. Along with other investors, we co-filed a resolution with BlackRock, the largest asset owner in the world. BlackRock is a signatory to the Principles of Responsible Investment, which requires them to vote their proxies on climate change resolutions, and BlackRock CEO had publicly spoken several times about the significance of climate change to a company's business model.

In our initial dialogue, the company committed to reviewing its proxy voting policy and published a public list of engagement priorities for the next year. Although BlackRock didn't explicitly commit to start voting on climate change related resolutions, we felt that they were making moves in the right direction and withdrew the resolution with the expectation of further dialogue to come. We were very pleased this past May when BlackRock, along with some other large asset owners, voted for climate change resolutions at ExxonMobil and Occidental Petroleum, tipping the vote. These historic majority votes marked the first time climate change-related resolutions passed without management support. BlackRock was undoubtedly already moving in this direction, but we believe we provided the shareholder pressure needed to lend the issue urgency. We are proud to have been part of what looks to be a major shift in the proxy voting practices of large asset holders, and are hopeful that companies will continue the work of aligning their practices with their public statements.

POLICY ADVOCACY

As long-term, Quaker values-based investors, we have a unique perspective, which we share when policy issues arise that impact the business world. These issues have included methane regulation, the proposed Financial CHOICE Act, and pay ratio disclosure, among

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Figure 1: Resolutions, Dialogues, and Withdrawals 2015-2017

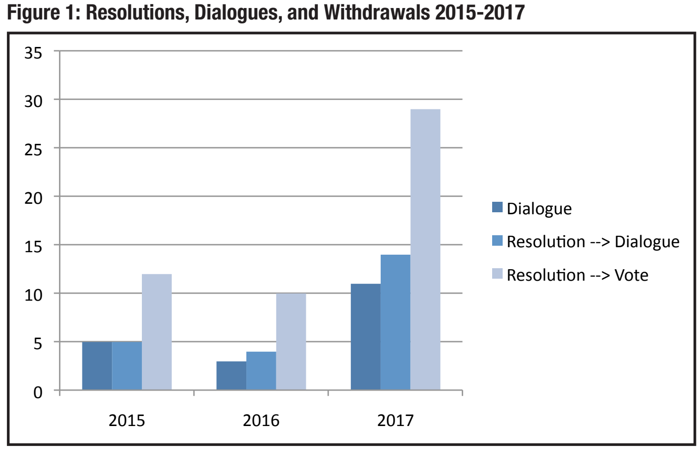
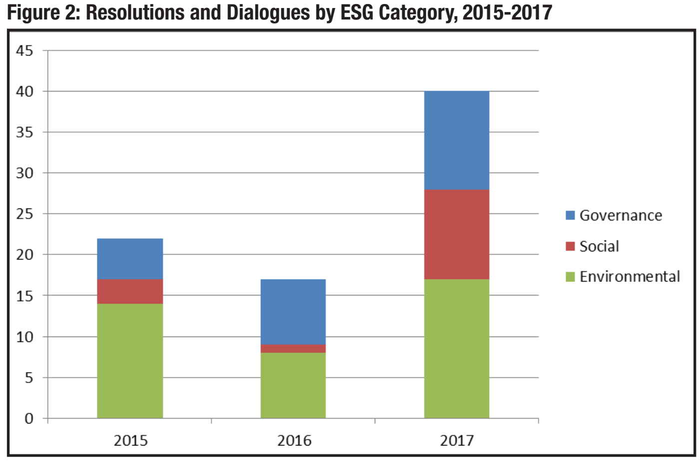


Figure 2: Resolutions and Dialogues by ESG Category, 2015-2017



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A QUAKER VOICE ON WALL STREET *continued from page 3*

others. As shareholders who take active ownership seriously, we believe that shaping public dialogue around issues that affect the long-term sustainability of companies we own is essential to responsible ownership and pays off in higher returns over time.

In recent months, the shareholder proposal process has been threatened by legislation passed by the House and currently in the Senate. The Financial CHOICE Act, which would weaken many Dodd Frank regulations, would also make it virtually impossible for all but the largest shareholders to file shareholder proposals. The shareholder proposal process is an essential mechanism that provides companies with external stakeholder feedback and raises material risks for company consideration. To file a proposal at a company, a shareholder would have to own 1% of the company for three years or more—at a company like Wells Fargo, for example, a shareholder would have to hold $2.5 billion worth of shares.

Long-term shareholders use resolutions to raise awareness of emerging issues, and although they may not initially receive broad support, we have seen that in many cases shareholders proactively raise issues representing material risks years before they are widely acknowledged. We shared our concerns with members of both the House Financial Services Committee and the Senate Banking Committee in order to raise awareness of the value of the shareholder proposal process, and lobbied on Capitol Hill with other members of Ceres, one of our non-profit partners.

Our Executive Director Jeff Perkins and Shareholder Engagement Associate Kate Monahan also went to Harrisburg, Pennsylvania in March to present the business case for methane regulations to state legislators. Methane leaks are harmful to the environment and to the health of local communities, and also represent significant loss of company revenue. A regulatory floor is needed in order for companies to appropriately and efficiently deploy capital. We also submitted comments to the EPA, urging against a proposed methane regulation stay on the national level.

LOOKING FORWARD

We are currently working to identify areas of focus for our shareholder advocacy work in the upcoming proxy season. Strategically leveraging our impact will remain a top priority, and as we discern which issues are emerging among Friends we will explore opportunities to most effectively address them with the tools available to us. We value the support of our constituent investors as we seek to faithfully reflect Quaker values in all we do.

Kate Monahan, Shareholder Engagement Associate

From the Executive Director

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these services will prove especially valuable for monthly, quarterly, and yearly meetings as well as smaller schools and non-profits. Mimi's skill set and leadership will not only help grow FFC's Planned Giving Program, but also help many Quaker faith communities and non-profits increase their financial stability through garnering additional resources and support.

Having just completed six years as executive director I continue to believe in the importance of our work and the importance of Quaker organizations stewarding their assets consistently with Quaker values. By providing excellent investment returns we are helping Friends meetings, schools, and organizations invested with us to continue and expand their work in the world, whether supporting the programs and vitality of monthly meetings, funding scholarships, or supporting a Quaker witness in North Philadelphia, like that of Historic Fair Hill.

As I look ahead, I am excited by FFC's potential to play an important role in the future vitality of the Religious Society of Friends and in witnessing to Quaker values in the broader world. We have assembled a terrific team that is committed to excellent investment management, customer service, and robust shareholder engagement on behalf of our constituent investors. Thank you for your continued confidence in our work.