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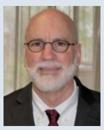
Financial Services for Quaker Organizations Since 1898

Friends Fiduciary

ADDING VALUES TO STRONG PERFORMANCE.

From Jeff Perkins, Executive Director



We ended 2017 with another year of excellent investment performance. On a net basis, the Consolidated Fund returned 17.4% compared to the benchmark of 16.51%. Annualized net returns exceeded the benchmark for the latest 3, 5, and 10 years for the periods ending December 31, 2017. Rich Kent, our Chief Investment Officer provides more analysis in his investment review.

During the calendar year we received new investments of $44 Million from new and existing constituents. We are very grateful that more and more Quaker organizations are realizing they don't have to give up excellent investment performance to invest consistently with Quaker values – our results continue to prove it! In our shareholder engagement we reached another first for FFC: we were lead filer on six shareholder proposals in the 2017-18 proxy season. This success reflects our focus and commitment to our mission while striving for excellence in our operations.

Our hire of Mimi Blackwell as Planned Giving Manager broadens our commitment as a service organization to the life and vitality of the Religious Society of Friends. Mimi is receiving an enthusiastic response from meetings, organizations, and individuals seeking assistance with planned gifts and other ways of giving to support Quaker institutions.

Our staff travelled extensively during the year, meeting with over 140 meetings, churches, schools and organizations across the country. These meetings included groups we would like to see invest with Friends Fiduciary as well as existing constituent investors. All of our investors are important to us and we are making a concerted effort to meet with as many Friends organizations as possible. We expect 2018's travel schedule to be equally ambitious.

Travelling among Friends has also given me direct insight into the range of opinions that Friends hold and how Friends Fiduciary and other national

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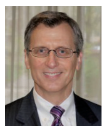
Investment Review



Equity markets around the globe ended the year in impressive fashion with strong gains on the heels of positive economic activity and accelerating earnings growth. As 2017 unfolded, foreign stocks led the charge with emerging markets surging +37.3% as measured by the MSCI Emerging Markets Index and developed markets moved higher +25.0%, as measured by the EAFE Index (Europe, Australia and Far East). Domestic markets did not disappoint with the S&P 500 Index increasing +21.8%, followed mid-cap +18.5% (Russell Mid-Cap Index) and small cap +14.7% (Russell 2000 Index). The Federal Reserve Bank raised short term borrowing rates three times during the calendar year – March, June, and December – with the Fed Funds rate ending the year at 1.50%. Short dated bonds eked out a modest gain of +0.4% during the year while longer term, 10-year bonds posted a respectable gain of +3.5%.

December 31, 2018 Snapshot

		Consolidated Fund	Quaker Green Fund	Quaker Index Fund	Short Term Investment Fund
Unit Value	12/31/17	$53.73	$37.32	$38.15	$10.31
Next Per Unit Distribution	6/20/17	$0.95	$0.62	N/A	N/A
Asset Allocation December 31, 2017					
Equities		74%	76%	100%	0%
Fixed Income		22%	24%	0%	100%
REITs		4%	0%	0%	0%

Measures of growth continue to point to an expanding economy. In December, third quarter GDP (gross domestic product) was revised upwards to +3.3% following a second quarter GDP reading of +3.1%. Economists are estimating fourth quarter growth at +3.0%. The employment picture is strong with weekly claims for unemployment benefits near record lows and the unemployment rate holding steady at 4.1% for the past three months. Institute of Supply Side Management Indices that measure US manufacturing and services industries are in an uptrend and the Leading Economic Indicators continue to hit all-time highs. With this as a backdrop, consumer confidence moved progressively higher throughout the year. The Conferences Board Consumer Confidence Index finished 2017 with its eighth consecutive year of improvement.

The Consolidated Fund posted a fourth quarter gain of +4.4% bringing the full year gain up to +18.3%. This compares very favorably to the blended benchmark returns of +4.1%, and +16.5% respectively. The composition of the blended benchmark is listed in the footnote on page 2. The fund's allocations to international equities, large and mid-cap stocks, REITS and bonds all outperformed their respective benchmarks, with just small cap stocks underperforming the benchmarks. Consolidated Fund investment returns for the trailing three, five and ten year periods are all above the benchmark returns.

Fourth quarter results for the Quaker Green Fund came in slightly below benchmark with the fund posting a return of +3.9% versus +4.1% for its blended benchmark. For the full year the fund posted a return of +16.4% versus +16.9% for the

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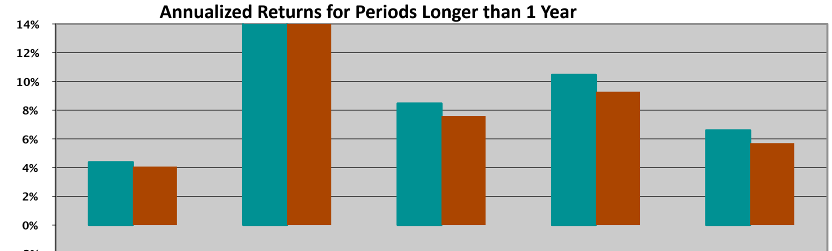
Consolidated Fund Performance vs. Benchmark
Annualized Returns for Periods Longer than 1 Year



	4Q 2017	1-Year	3-Years	5-Years	10-Years
Consolidated Fund	4.38%	18.31%	8.47%	10.46%	6.60%
Blended Benchmark	4.07%	16.52%	7.59%	9.28%	5.70%

Investment Review *continued from page 1*

benchmark. Large and mid-cap stocks and bonds were positive contributors, while small cap, international and cleantech/clean energy stocks were a drag on performance. While investment returns from cleantech/clean energy stocks continue to be volatile, we remain confident that improvements in underlying business fundamentals will be rewarded with higher stock prices.

FFC's large cap equity fund, the Quaker Index Fund, outperformed the S&P 500 Index for the fourth quarter and full year, posting returns of +7.0% and +22.4% versus +6.6% and +21.8%, respectively. Full year results benefitted from sector underweights to energy and industrial names which were under-represented due to our rigorous Quaker screens. Consumer Staples and Real Estate holdings were negative contributors to performance versus the S&P 500 Index.

Although the Short Term Investment Fund (STIF) posted a modestly down quarter of -0.04%, the full year investment return of +1.2% exceed the fund's blended benchmark of +0.48% (benchmark is composed of 80% 1-3 Year US Treasury-Agency Index/20% Lipper Money Market Fund). We will likely see an increase in short-term bond price volatility in 2018 as the Fed has signaled three or four rate increases; however, the fund's short duration profile should help to mitigate any price swings.

The Consolidated and Quaker Green Funds operate with semi-annual distributions that occur in June and December. Distribution rates are designed to balance competing objectives of providing current income while preserving the purchasing power of the account's principal over the long term. Payout rates are reviewed annually and are intended as a guideline. Constituents are free to take more or less than the announced rate, and withdrawals can occur at any time throughout the year. In June 2018, the Consolidated Fund will distribute $0.96 per unit representing a 4.0% distribution rate, up from $0.94 last June. The Quaker Green Fund will distribute $0.62 per unit in June 2018 representing a 3.5% rate, unchanged from the $0.62 last year.

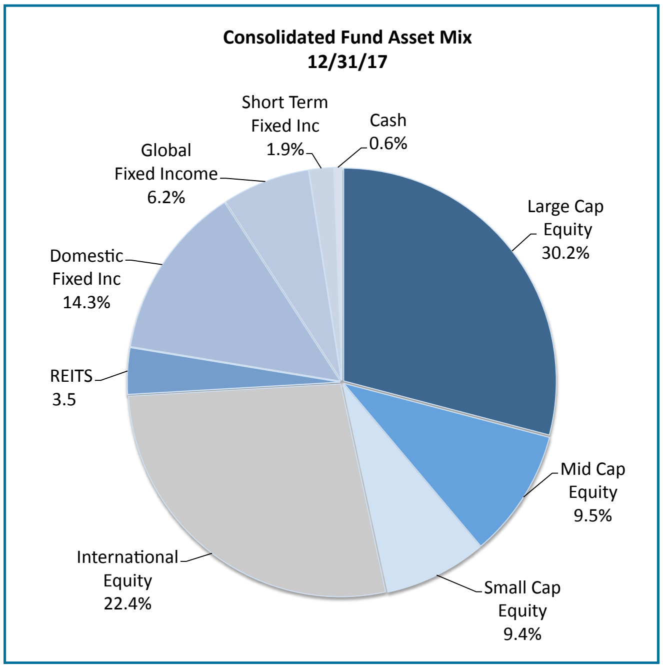
Following a year of impressive gains and with markets at all-time highs, it is not unreasonable to expect a pick-up in volatility in 2018. Given the strong underlying growth in the economy, a prolonged drop in stock prices seems unlikely, but a correction can occur unexpectedly. Global economies are projected to deliver positive growth, and with a pro-business tax plan in place, corporate earnings should remain on a growth trajectory. Our balanced funds are not immune from downturns, but their diversification is designed to mitigate volatility by maintaining exposures to multiple asset classes. Over the past couple years we have made tactical moves to reduce risks and take advantage of opportunities by reducing exposure to large cap domestic stocks and REITS, and moving the proceeds into more attractively priced international stocks and short-term bonds. We continue to monitor our exposures across asset classes and will make further shifts as needed to best position our funds for optimal relative performance. Thank you for your confidence in Friends Fiduciary.

Richard Kent, CFA, Chief Investment Officer

Friends Fiduciary Funds

Total Return for the Period Ending December 31, 2017

		Annualized Returns			
	4th Q	1-Yr	3-Yr	5-Yr	10-Yr
Consolidated Fund					
Total Fund (gross)	4.4	18.3	8.5	10.5	6.6
Blended Benchmark[1]	4.1	16.5	7.6	9.3	5.7
Quaker Green Fund					
Total Fund (gross)	3.9	16.4	7.3		
Blended Benchmark[2]	4.1	16.9	7.8		
Quaker Index Fund					
Total Fund (gross)	6.7	22.4	11.3		
S&P 500 Index	6.6	21.8	11.4		
Short Term Investment Fund					
Total Fund (gross)	0.0	1.2	1.2	1.0	
Blended Benchmark[3]	-0.2	0.5	0.6	0.5	



All returns are in percent. No predictions are made for the future. 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]Blended Benchmark: 25% S&P 500, 10% Russell Mid-Cap, 9% Russell 2000, 21% MSCI EAFE Index, 10% MSCI World Index and 25% Bloomberg Barclays Aggregate Bond as of 6/30/17; formerly, 30% S&P 500, 10% Russell 2000, 22.5% MSCI EAFE Index, 12.5% MSCI World Index and 25% Bloomberg Barclays Aggregate Bond.

[3]Blended Benchmark: 80% BofA Merrill Lynch 1-3 Year US Treasury & Agency Index, 20% Lipper Money Market Index.

Fees: The Consolidated Fund expense ratio for 2017 is 0.79%. The Fund's total expense ratio for the past five years has averaged 0.76%. The Quaker Green Fund has a flat annualized fee of 0.90%. The Quaker Index Fund operates with a tiered fee schedule of 0.30% on the first $5 million, 0.25% on the next $5 million, and 0.20% on balances above $10 million. The Short Term Investment Fund has a flat annualized fee of 0.34%.

A QUAKER VOICE ON WALL STREET

Friends Fiduciary is in the midst of an exciting 2018 shareholder engagement season. Last year, we were able to grow the number of companies we engaged from 17 companies in 2016 to 40 companies in 2017. This year, we have maintained that high level of engagement with dialogues or resolutions planned with 41 companies, while increasing the number of engagements where we serve as lead investor. Leading entails building support among fellow faith-based or socially-responsible investors, conducting appropriate company and issue research, and setting and coordinating strategy for engaging the company.

We have engaged companies on a variety of issues this year, choosing focus areas based on where we see our voice having the most potential for impact. We have participated in dialogues and co-filed resolutions with companies on issues across environmental, social, and governance categories, such as human and labor rights in supply chains, paid family leave, cybersecurity, water use in meat production, drug pricing, and separating the board chair and CEO roles, among many others. There are several areas, such as lobbying and sustainability reporting, where we've concentrated our leadership given our knowledge and experience participating in engagements on those topics.

LEADERSHIP

In our increasingly political environment, we believe that it's important for companies to be transparent about their efforts to influence policy, and to ensure that those often-significant expenditures are in line with their public statements and goals so as to minimize reputational risk. We noticed this discrepancy particularly this year with Comcast Corporation, with whom we've filed our fourth shareholder proposal on lobbying. The company risks reputational damage because its public statements in favor of net neutrality contrast with its private efforts to undermine it. Management agreed to dialogue with us for the second time this year, but we were unable to reach a compromise, and so filed a shareholder resolution which will be voted on early this summer.

We've also asked three utility and energy companies for lobbying disclosures. Although some engagements are still in progress, earlier this fall we secured a commitment from Atmos Energy Corporation to produce an annual lobbying report and annually brief their board on all lobbying expenditures, and thus were able to withdraw our proposal.

We have continued our leadership in the banking and insurance sectors, asking companies to produce comprehensive annual sustainability reports, and ultimately to look at potential carbon risk in their invested portfolios. We filed and withdrew a sustainability resolution at SunTrust Banks after the company agreed to produce an annual sustainability report and establish a corporate social responsibility steering committee, among other commitments. We have also continued dialogue with two insurance companies, Ameriprise Financial and Torchmark Corporation, with whom we had filed shareholder resolutions last year. We were able to withdraw those resolutions after pledges to implement an annual sustainability reporting process. This year both companies produced their first annual sustainability reports, and we remain in fruitful dialogue with them, informing them of best practices and encouraging further transparency.

COALITION BUILDING

In doing this work, we are joined by many partners, both faith-based and secular. We find building support for our work and supporting the work of others allows us to pool our resources and deepen our impact. When we hit a wall with a company, bringing on a partner can galvanize a dialogue. One example has been our engagement with Cracker Barrel on food waste management. When we first contacted Cracker Barrel, we didn't receive a response. We had chosen food waste as a focus area because reduction makes sense from a business, environmental, and social perspective—wasted food is wasted product, food waste is responsible for a very high percentage of total greenhouse gas emissions, all while 1 in 6 Americans faces food insecurity and hunger. When Cracker Barrel didn't respond, we asked others in our investor network to join us in reaching out, and sent a second letter with our new partners, including the American Baptist Home Mission Society— which represents a faith community well known to Cracker Barrel. The company responded, and we continue to talk with top-level management about their approach to food waste management.

Another example is our partnership with Joseph Rowntree Charitable Trust, in outreach to Clarks, a historically Quaker shoe company based in the UK. Although Clarks is privately held, we were asked to reach out to them by the Interfaith Center on Corporate Responsibility (ICCR), our faith-based investor network, because of our shared Quaker heritage. They were concerned by Clarks' potential sourcing of Bangladeshi leather linked to child labor and extreme environmental degradation. Our first attempt at contacting the company went unanswered—but we asked Joseph Rowntree Charitable Trust, a British Quaker grant-making trust, which holds some of the private stock, to join us in our second attempt. We received a letter from the company addressing our concerns. Both the Cracker Barrel and Clarks dialogues are ongoing, but serve as potent examples of the power our voice can have when joined with those who share our values and concerns.

WHAT IS SHAREHOLDER ENGAGEMENT?

At Friends Fiduciary, active ownership goes beyond just voting proxies at a company's annual meeting—it means raising issues that we see as important to the company's sustainability and profitability. We do that by engaging companies in dialogue, and if companies are unresponsive or unwilling to address an important concern, by filing a shareholder resolution. Shareholder resolutions are voted on by company shareholders at its annual meeting and serve as an important barometer of shareholder interest and perspective.

LOOKING FORWARD

In the upcoming months, we will continue to negotiate withdrawals for resolutions we have filed with companies willing to make concessions, build support for our shareholder resolutions going to a vote, and research strategies for new focus areas such as racial justice. As always, we are guided in this work by a vision of a more just and equitable world, grounded in Quaker values and sound business practices and an appreciation for our shared humanity.

Kate Monahan, Shareholder Engagement Associate

Supporting Friends Through Planned Giving

The goal of the Planned Giving Program at Friends Fiduciary is to support the development efforts of Quaker organizations which in turn strengthens and grows The Religious Society of Friends. In 2017, donors to Quaker organizations established over $900,000 in charitable gift annuities, made $117,000 in gifts to donor advised funds, and contributed $133,000 to newly established endowment funds, all through Friends Fiduciary. Private foundation funds of $2.4 million were placed with Friends Fiduciary for administration and investment management. In 2017 we facilitated 111 stock transfers totaling $757,000 and benefiting 40 Quaker organizations. It was a very productive year and here's what's happening in 2018!

One of our most popular offerings is the Quaker Fundraisers Gathering (QFG). The QFG is a biennial, multi-day event sponsored by Friends Fiduciary and organized by a planning committee of representatives from various Quaker organizations, affiliations, and regions of the country. The 2018 Gathering will include a track for "Fundraisers New to Quakerism/ Quakers New to Fundraising." This is an ideal option for those who have not previously raised funds for a Friends organization and for volunteer fundraisers at monthly meetings and other smaller organizations.

Feedback from previous QFGs is integral to the shaping of future conferences. The 2018 planning committee is focused on creating a program that will address the issues that fundraisers have identified as important to their work. Raising funds in Friends settings is unique. Connect with peers, hear from experts, share your experience—join us for the Quaker Fundraisers Gathering! The 2018 event will be held in Philadelphia, September 30-October 2, 2018. Additional details will be available in early February at www.friendsfiduciary.org.

The adjective "new" can elicit a wide spectrum of emotional responses, ranging from excitement, annoyance, to terror. You may have experienced all of these after learning about recent tax reforms. From a giving perspective, many donors are wondering how to maximize their charitable deduction while consistently supporting the organizations they previously have. The catch word for philanthropy in tax year 2017 and beyond may be "bunching".

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Supporting Friends Through Planned Giving *continued from page 3*

A donor may choose to "bunch" or time their gifts in certain years to beat the expanded standard deduction (an increase from $12,000 to $24,000) and maximize their tax savings through itemization. But what about the charity that has relied on annual, not every-other-year, donations from a donor? Donor advised funds or DAFs, offer a simple solution to this dilemma. An individual can establish a DAF in a single tax year, in effect doubling their contributions and itemizing their charitable deduction for that year. The donor skips a calendar year of giving while the DAF distributes funds to charities annually, so that the organization receives a predictable stream of support.

Although DAFs are not a new method of charitable giving, they may take on greater significance under the new tax plan. Friends Fiduciary has been offering donor advised funds since 2006 and we are ready to assist Friends in establishing one.

In December, Friends Fiduciary received a grant from the Tyson Memorial Fund to create a planned giving marketing piece. The *PG Primer* will be a print and electronic resource that will highlight donor stories and basic nuts and bolts of several planned giving vehicles. The *PG Primer* will serve as a simple and indispensable tool for those new to fundraising and volunteers who support the development efforts of smaller Quaker organizations and meetings. A late spring of 2018 publication is anticipated. Friends Fiduciary is grateful to the Tyson Memorial Fund for facilitating the creation of this invaluable resource for Quaker fundraisers!

As a Quaker non-profit, Friends Fiduciary understands fundraising in a Friends setting and provides hands-on support of an organization's planned giving efforts to help secure long-term goals. In 2017 Friends Fiduciary took first steps in a three year, incremental plan to revitalize, restructure, and strengthen our Planned Giving Program. We value our partnership with Quaker organizations from across the country and are working to tangibly support their fundraising efforts and the future of The Religious Society of Friends.

Mimi Blackwell, Planned Giving Program Manager

From the Executive Director

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Quacker organizations are viewed. I have long maintained that Friends Fiduciary is "one thing all Friends ought to be able to agree on." We reflect Quaker values in our investment process on behalf of our investors. We are first and foremost an investment manager; we are not a political organization. However, it is clear to me that Friends are not unaffected by the hyper-polarized culture in this country. I've gotten glimpses of that in our travels. While I'm very clear that Friends Fiduciary views all of our engagement and policy advocacy work through a long term business lens, what became equally clear is that we need to better articulate those connections when we talk to Friends across the country about our work. Rather than making assumptions about a particular understanding on an issue, we need to clearly communicate the business and values case for why we are active with particular companies and issues.

I look forward to another great year in 2018, particularly in terms of meeting so many Quakers, learning about the great work of their meetings, churches and organizations, and sharing how Friends Fiduciary supports that work through our excellent investment returns, rigorous Quaker values investing, and robust shareholder engagement – all done on behalf of Friends.