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

The Quaker Green Fund is a new balanced and diversified fund that is “fossil fuel free.” New and existing investors may invest in this fund which excludes investments in fossil fuel companies as defined by the Carbon Tracker Top 200 Fossil Fuel Companies list and consistent with 350.org’s current divestment goals. The fund adheres to FFC’s Quaker values investment guidelines. Our active shareholder advocacy work will include the companies in this fund, as well as those in the existing Consolidated Fund. In addition to being “fossil fuel free,” the Quaker Green Fund includes a component dedicated to a new “cleantech” category. These investments will fall within nine positive environmental themes. Areas include advancements in sustainable use of agricultural resources, alternative and renewable energy, energy conservation, efficient transport, water conservation and filtration, low carbon finance, and cutting-edge clean technologies. This approach provides exposure to the interconnected segments of clean energy and clean technology while providing diversification to manage the overall profile of risk and volatility.

While similar to the Consolidated Fund, the Quaker Green Fund necessarily has a different asset allocation -- it is less diversified not only because of the absence of fossil fuels but also due to the smaller size of the fund -- and a distinct fee structure. Investors may make additions or withdrawals at any time. The expense ratio of the fund is 0.90%. As the fund grows in size, the Board of Directors hopes to add more asset classes.

The 2014 standard distribution rate for the Quaker Green Fund is 3.5%. The rate, which is reviewed annually by the FFC Board of Directors, depends upon long term capital market returns, volatility and inflation and reflects the unique asset allocation of this new fund. It is intended as a distribution level that balances current distributions with preservation of principal over time. FFC serves over 300 Quaker meetings, churches, schools and organizations across the country. Because each constituent has different financial circumstances and needs, the Quaker Green Fund 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.

Friends Fiduciary Corporation Consolidated Fund

Total Return for the Period Ending December 31, 2013

<table>
<thead>
<tr>
<th></th>
<th>4th Q</th>
<th>1-Yr</th>
<th>3-Yrs</th>
<th>5-Yrs</th>
<th>10-Yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Fund (gross)</td>
<td>5.9</td>
<td>18.6</td>
<td>10.3</td>
<td>13.1</td>
<td>6.8</td>
</tr>
<tr>
<td>Blended Benchmark¹</td>
<td>5.4</td>
<td>16.4</td>
<td>9.9</td>
<td>12.0</td>
<td>6.1</td>
</tr>
<tr>
<td>Large Cap Domestic Equity</td>
<td>9.8</td>
<td>33.6</td>
<td>16.0</td>
<td>17.3</td>
<td>7.9</td>
</tr>
<tr>
<td>Large Cap Domestic Equity Benchmark²</td>
<td>10.5</td>
<td>32.4</td>
<td>16.2</td>
<td>17.2</td>
<td>7.4</td>
</tr>
<tr>
<td>Small Cap Domestic Equity</td>
<td>9.6</td>
<td>35.5</td>
<td>9.0</td>
<td>18.9</td>
<td></td>
</tr>
<tr>
<td>Russell 2000</td>
<td>8.7</td>
<td>38.8</td>
<td>15.7</td>
<td>20.1</td>
<td></td>
</tr>
<tr>
<td>International Equity</td>
<td>5.0</td>
<td>17.1</td>
<td>4.5</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td>International Equity Benchmark¹</td>
<td>4.8</td>
<td>16.6</td>
<td>6.3</td>
<td>11.3</td>
<td></td>
</tr>
<tr>
<td>REITs</td>
<td>-0.3</td>
<td>4.4</td>
<td>10.8</td>
<td>19.6</td>
<td></td>
</tr>
<tr>
<td>FTSE NAREIT Index</td>
<td>-0.7</td>
<td>2.5</td>
<td>9.4</td>
<td>16.5</td>
<td></td>
</tr>
<tr>
<td>Fixed Income</td>
<td>0.3</td>
<td>-1.7</td>
<td>3.8</td>
<td>5.5</td>
<td>4.7</td>
</tr>
<tr>
<td>Barclays Capital Aggregate Bond Index</td>
<td>-0.1</td>
<td>-2.0</td>
<td>3.3</td>
<td>4.5</td>
<td>4.6</td>
</tr>
</tbody>
</table>

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.

¹42% S&P 500, 5% Russell 2000, 15% MSCI ACWI ex-US, 33% Barclays Aggregate Bond, 5% FTSE NAREIT

²100% S&P 500 as of April 1, 2009; formerly 50% S&P 500 and 50% Russell 1000 Value

³100% 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.

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distribution rate is intended only as a guideline. Constituents may take more or less than the announced standard distribution rate depending on their unique organizational needs.

As we go to print with our winter edition, global equity markets are dropping sharply as investors digest the reality of the Fed scaling back its bond buying program. Emerging markets are particularly weak due to investor flight from this riskier asset class to the safer havens of US Treasuries and gold. The Fed’s readiness to limit support is an indication that the US economy is in much better shape than a year ago and perhaps nearing a self-sustaining level of growth. While we may not see a repeat of the double digit equity returns in 2014, the general economic expansion should continue this year with moderate improvement in employment levels and positive trends in both individual and corporate consumption. We thank you for your support and look forward to serving your future investment needs.
From Jeff Perkins, Executive Director

As evident throughout this newsletter, 2013 was a strong and active year for Friends Fiduciary. The Consolidated Fund return of 18.6% in 2013 was very strong against the benchmark of 16.4%. Both the short and long term returns demonstrate the value of our Quaker investing approach and support the assertion that we can invest following our Quaker values AND beat the market returns over a range of time horizons. This is a very important message for those Quaker colleges, schools and organizations that are not yet reflecting Quaker values in the management of their financial resources.

“Initiative and Persistence in Advocacy” describes our increasingly robust shareholder and policy advocacy work across the issues on which we have been active in 2013. In March of 2013 we initiated our SRI E-Bulletin which provides similar information throughout the year. To sign up for these emails send your contact information to info@friendsfiduciary.org.

Initiative and Persistence in Advocacy

Since this past summer, Friends Fiduciary has focused its shareholder advocacy in several key areas within the Environmental, Social and Governance (ESG) framework of socially-responsible investing. Priority areas have been climate change, human rights, economic justice, and membership and lobbying disclosures. Our activities on these priorities consist of direct dialogue with companies, shareholder resolutions, and policy advocacy in which we contribute a unique and compelling business perspective. The past few months also mark the first time Friends Fiduciary has taken the lead advocate role, in both direct dialogue and resolution filing.

Addressing climate change remains a top concern

Earlier this fall, Friends Fiduciary Executive Director Jeff Perkins spoke at an Environmental Protection Agency public meeting in Philadelphia, citing FFC’s long term, values based investment approach in urging the EPA to “develop and pursue ambitious standards for existing power plants…” FFC has also asked another federal agency, the Securities and Exchange Commission, to scrutinize biomass energy claims. We believe that bioenergy, or energy generated from burning biological matter like wood, should be required to compete for investment dollars without making misleading “clean” and “carbon neutral” claims and concealing regulatory and financial risks.

This same logic underlies the initiative we took in lead filing a shareholder resolution with Lincoln National. Believing that companies should both disclose and respond to ESG issues and risks, Friends Fiduciary is requesting Lincoln National issue a sustainability report by fall of 2014. As a life and health insurer, Lincoln National faces a number of ESG risks, particularly related to climate change. Examples of risks include increased losses on invested assets exposed to extreme weather risks, and the possibility of adverse health and mortality claims experience due to climate related impacts (e.g. extreme heat, asthma due to poor air quality, etc.) FFC co-filed with CF Industries, a manufacturer of agricultural chemicals, requesting that they also prepare and make available to investors a sustainability report.

As socially-responsible, long term investors, FFC is expressing its concern about potential financial risks associated with failing to assess and respond to climate risk impacts on their operations. As part of a first-of-its-kind $3 trillion coalition of global investors, FFC has asked the world’s largest public oil & gas, coal and electric companies to review the financial risks of carbon-heavy investment plans, in light of a low-carbon future. This risk applies to fossil fuel financiers as well, and we’ve co-filed resolutions with Bank of America and PNC requesting a similar fossil fuel risk assessment of their financing operations.

Shareholder advocacy requires persistence and patience to faithfully reflect our Quaker values.

We are pleased that our new Quaker Green Fund opened for investments in January 2014. This fossil fuel free investment option is for those organizations that want to reflect that particular witness in the investment of their financial resources. As active and engaged shareholders, Friends Fiduciary does not believe divestment of fossil fuel companies is the right strategy for the Consolidated Fund, however we know that there is a range of opinions on the divestment issue and we want to be able to serve all Friends meetings, churches, schools and organizations.

FFC welcomed 15 new constituent investor groups in the Consolidated and Short Term Investment Funds in 2013. We are proud of our work on behalf of our constituent investors and pleased to serve as a unique Quaker business voice on important issues of concern for Friends.

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levels of their supply chains to ensure they aren’t inadvertently complicit in human rights abuses.

Persistence with these advocacy efforts, focused on systemic and often global issues, reflects our belief that commitment to our Quaker investing values is our unique witness in the world and is also good for business.

Disclosure promotes effective corporate governance

Bylaw amendments by both PNC and BNY Mellon signaled their potential intent to replace in-person shareholder meetings with exclusively virtual meetings. Virtual-only shareholder meetings are largely criticized as poor governance because of their potential to limit shareholder participation. Hence, Friends Fiduciary initiated letters, coordinating the sign-on by other investors concerned about the issue, to both companies calling for virtual technologies to be used only as adjuncts to continued in-person meetings. Virtual technologies, if used responsibly, have the potential to broaden shareholder participation, granting access to shareholders who couldn’t otherwise be in attendance, however they can also serve to insulate company management and board members from important shareholder input and concerns.

Access to relevant information is critical for shareholders to be responsible owners in the companies we own. For this reason, we’ve strongly advocated for increased corporate disclosures on several areas of particular concern. Recently, the focus has been on political spending transparency. In December, revelations about the questionable dealings within American Legislative Exchange Council (ALEC) reaffirmed how secretive corporate political spending fails as a successful business strategy and opens the participating companies to reputational and other risks. These revelations were the last straw for a company like VISA. After a year-long campaign, during which FFC co-filed a resolution with VISA requesting political spending disclosure, VISA not only withdrew their membership in ALEC, but also decided to publicize additional informational disclosures on its website. When the company notified us of these changes, we withdrew our shareholder resolution. This is a “win” from a shareholder advocacy standpoint, and “Democracy Now!”, in an episode featuring ALEC titled “Institutional Corruption,” noted the work of Quakers – meaning Friends Fiduciary – on this issue.

Shareholder advocacy requires persistence and patience to faithfully reflect our Quaker values

All in all, these last few months, Friends Fiduciary has kept an eye on previous advocacy efforts and moved into leadership roles. When corporate response insufficiently reflected the extent of social and financial responsibility that we believe characterize long-term business success, we responded with repeated advocacy. When certain issues were of particular relevance to Friends, we took initiative and attracted the endorsements of other institutional investors and independent shareholders. Persistence and initiative define the past few months, but also reflect our upcoming tasks. As socially responsible, long-term investors, we believe that strong corporate social responsibility leads to long-term business success. Shareholder and policy advocacy are our unique witness in the world as we represent the Quaker values of our constituent investors.