Friends Fiduciary plays an important role for our society. We are steward of the assets previously stewarded by Friends Fiduciary are now invested with a different set of values by the new owner. All of this is occurring at a time when we believe Quaker values are most needed in our society.

Friends Fiduciary delivers strong returns with social responsibility.

Friends Fiduciary had a very successful 2018, as we supported Friends organizations to align their financial resources with their Quaker values. New and existing constituents invested over $22 Million during the year and our total assets under management reached a high of $491 Million in 2018 before the stock market pulled back in the last quarter. We partnered with QuakerSpeak to produce a video on “Investing the Quaker Way” (check it out on our website) to better get the word out about what we do and why.

The stock markets experienced significant volatility, particularly in the latter part of 2018. As noted in Rich Kent’s review of FFC’s investment performance, our flagship fund – Quaker Growth & Income Fund – is highly diversified, which serves to mitigate risk and the impacts of market volatility. Adding to the economic challenges that drove that market volatility, our country has struggled to define its values and find a path forward on effective governance in a time of hyper-partisanship on issues like immigration and climate change, both of which have far reaching consequences for business as well as our world.

Within the Quaker ecosystem, we have seen several Quaker organizations struggle financially, including some retirement communities, schools, and other organizations, leading to take-overs by non-Quaker entities, reductions in programs, and lay-offs. This is in addition to continued fracturing within some yearly meetings around faith, inclusiveness, and authority. Friends Fiduciary is directly affected by the health and vitality of our constituent investors. For example, after a change in ownership of a large Quaker retirement community, the assets previously stewarded by Friends Fiduciary are now invested with a different set of values by the new owner. All of this is occurring at a time when we believe Quaker values are most needed in our society.

Friends Fiduciary plays an important role for Quaker faith communities and organizations by continuing to provide....

continued on page 2

Investment Review

Breaking a string of nine consecutive positive calendar years, the S&P 500 Index buckled under the weight of rising interest rates and decelerating global economies to post a decline of -6.9% in 2018, its first calendar loss since 2008. After rising +10.6% through the first three quarters, the S&P 500 retreated -13.5% in the fourth quarter giving back all of its gains for the year. A similar reversal was seen with small cap and international stocks which finished the year down -11.0% and -13.8%, respectively. Emerging markets stocks fared even worse with a decline of -14.6%, as higher borrowing costs and weaker demand for commodities drove investors from this asset class. Fixed income markets proved to be the only resilient asset class as the Bloomberg Barclays Aggregate Bond Index posted a slightly +0.01% gain for the year and short-term bonds, as measured by the 1-3 Year Treasury/Agency Index, increased +1.6%. There are some who believe that the 10 year bull market has more room to run as the economy and corporate earnings continue to expand, albeit at a decelerating pace. Supporting the bullish view are recent dovish comments made by Federal Reserve Bank president, Jerome Powell, who has indicated that short interest rates may need to rise at a more gradual pace than previously anticipated. Other Fed officials have also said that the central bank may want to pause at this point in the rate rising cycle to better assess the impact of recent moves. As we enter 2019, conditions for domestic economy are favorable with GDP estimates pointing to above trend growth near 3%. The labor market remains healthy with an unemployment rate of 3.9%, near its lowest level in 50 years, and wage gains approaching 3.2%. Even though the brewing trade war with China has caused consumer confidence to weaken somewhat, consumer spending should remain robust in the coming year.

The Quaker Growth & Income Fund (formerly the Consolidated Fund) declined -9.5% in fourth quarter bringing the full year into negative territory with a modest loss of -5.5%; however, on a relative basis the fund outperformed benchmark returns of -9.8% and -6.9% in the quarter and full year, respectively. Three of the fund’s four large cap managers contributed positively to the relative outperformance, as well as the fund’s small cap and mid-cap allocations. The fund’s international equity and fixed income exposure also outperformed their respective benchmarks. We are pleased that investment returns over the trailing three, five, and ten year periods remain strong and above benchmark.

Investment results for the Quaker Green Fund were above benchmark for the quarter and year with returns of -10.4% and -6.1%, compared to benchmark returns of -10.6% and -6.9%, respectively. The biggest contributors to the outperformance were from the fund’s small, mid-cap, and international stocks, while the fund’s large cap and cleantech/alternative energy exposures underperformed their respective benchmarks. With nearly half of its exposure to international markets, the fund’s cleantech/alternative energy exposure fell in sync with weak stock market trends in foreign countries. On a more positive note, the underlying business fundamentals at many of these companies remain intact.

continued on page 2
**Investment Review continued from page 1**

The Quaker Index Fund outperformed the S&P 500 Index in the fourth quarter and full year posting returns of -13.1% and -3.7%, compared to -13.5% and -4.4% for the S&P 500 Index, respectively. The fund’s underweights to Industrial and Energy stocks were the two biggest contributors to full year outperformance, while overweights to Financials and Materials names detracted from performance. Individual stock selection in the Communication Services, Industrials and Consumer Staples sectors also contributed to the outperformance. Financials and Energy stock selection were negative contributors to performance.

The Short Term Investment Fund (STIF) posted a positive investment return of +0.8% in the fourth quarter, slightly below the benchmark return of +1.1%, and a full year return of +1.6%, equal to the +1.6% for the benchmark. Short-term rates, as measured by 2-year Treasury bond, declined from 2.9% to 2.5% in the fourth quarter reflecting anticipation that the Fed might pull back from its early stance on four rate hikes in 2019, and on investor concerns over the strength of the US economy. With a yield-to-maturity of 2.8%, the Short Term Investment Fund offers a steady, attractive yield on funds with a shorter time horizon.

The Quaker Growth & Income 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 calculated using a three year average of the fund unit values — this is done to smooth out the peaks and troughs in the markets. Intended only as a guideline, constituents are free to take more or less than the announced distribution rate; and withdrawals can occur at any time throughout the year.

In June 2019, the Quaker Growth & Income Fund will distribute $1.00 per unit representing a 4.0% distribution rate, up from $0.97 in December 2018. The Quaker Green Fund will distribute $0.64 per unit in June 2019, representing a 3.5% rate and up from the $0.63 in December 2018.

As the US economy enters its tenth year of the current economic expansion, we do not see evidence of a meaningful slowdown in economic activity on the horizon; however, as the US postures with its trading partners — particularly China — and the Federal Reserve Bank “normalizes” its interest rate policy, the markets could remain volatile as was seen in the in the fourth quarter of 2018. We remain vigilant in our practice of maintaining asset class balance and a significant level of diversification in our funds to moderate the inevitable big swings in the markets.

Thank you for investing with Friends Fiduciary.

Richard Kent, CFA, Chief Investment Officer

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**Services Supporting Friends Organizations:**

Friends Fiduciary will receive and liquidate stock gifts from your members and donors for free when the proceeds are added to your fund at FCC. We offer free or low cost stock gift processing brokerage services that save you time and money. When stock gift proceeds are paid out, FCC charges a fee of $25; for the current fee schedule visit the “Services for Donors” page in the Charitable Services section of our website.

Friends Fiduciary offers donor advised funds to Quakers and those wishing to benefit Quaker organizations. A donor advised fund is established with an irrevocable gift to Friends Fiduciary for which the donor receives a tax deduction when the gift is made. The donor retains the ability to make grant recommendations from the fund to qualified charities. Donors can recommend grants once their fund reaches $25,000. Donors can start up a fund with an initial contribution of $5,000 and then take a maximum of three years to build the fund to the $25,000 minimum. For more information on donor advised funds, please contact Mimi Blackwell at mblackwell@friendsfiduciary.org or 215-241-7272.

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**Friends Fiduciary Funds**

**Investment Returns for the Period Ending December 31, 2018**

<table>
<thead>
<tr>
<th>Fund</th>
<th>4th Q</th>
<th>1-Yr</th>
<th>3-Yr</th>
<th>5-Yr</th>
<th>10-Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quaker Growth &amp; Income Fund</strong></td>
<td>-9.5</td>
<td>-5.5</td>
<td>6.5</td>
<td>5.6</td>
<td>9.3</td>
</tr>
<tr>
<td>Blended Benchmark</td>
<td>-9.8</td>
<td>-6.9</td>
<td>5.6</td>
<td>4.5</td>
<td>8.2</td>
</tr>
<tr>
<td><strong>Quaker Green Fund</strong></td>
<td>-10.4</td>
<td>-6.1</td>
<td>5.3</td>
<td>4.3</td>
<td></td>
</tr>
<tr>
<td>Blended Benchmark</td>
<td>-10.6</td>
<td>-6.9</td>
<td>5.4</td>
<td>4.3</td>
<td></td>
</tr>
<tr>
<td><strong>Quaker Index Fund</strong></td>
<td>-13.1</td>
<td>-3.7</td>
<td>9.2</td>
<td>8.9</td>
<td></td>
</tr>
<tr>
<td>S&amp;P 500 Index</td>
<td>-13.5</td>
<td>-4.4</td>
<td>9.3</td>
<td>8.5</td>
<td></td>
</tr>
<tr>
<td><strong>Short Term Investment Fund</strong></td>
<td>0.8</td>
<td>1.6</td>
<td>1.4</td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>Blended Benchmark</td>
<td>1.1</td>
<td>1.6</td>
<td>0.9</td>
<td>0.8</td>
<td></td>
</tr>
</tbody>
</table>

All returns are in percent, gross of fees, and reflect the reinvestment of dividends. No predictions are made for the future. Past returns are not a guarantee of future results.

2. Blended Benchmark: 25% S&P 500, 10% Russell Mid-Cap, 9% Russell 2000, 21% MSCI EAFE, 10% MSCI World and 25% Bloomberg Barclays Aggregate Bond as of 6/30/17; formerly 30% S&P 500, 10% Russell 2000, 22.5% MSCI EAFE, 12.5% MSCI World and 25% Bloomberg Barclays Aggregate Bond.
4. Fees: The Quaker Growth & Income Fund budgeted expense ratio for 2018 is 0.75%. The Fund’s expense ratio for the past five years has averaged 0.76%. The Quaker Green Fund annual fee is 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 annual fee is 0.34%.
At Friends Fiduciary, we align our investments with our Quaker values, not just because we believe in those values, but also because we believe that Quaker values are good long-term business values.

Increasingly, the larger investment world is agreeing with our perspective. According to the 2018 US Sustainable Investment Forum (US SIF) Trend Report, there is $12 trillion invested in strategies in the United States that incorporate environmental, social, and governance (ESG) factors. That’s an increase of 38 percent, from $8.6 trillion in 2016. As asset managers see the strong demand for sustainable, ethical funds, we’ve seen a rush to roll out funds that can be marketed as “socially responsible.” However, many new ESG strategies seem to be surface level. They may solely use negative screens, and often apply them to only a handful of industries. They may vote against shareholder resolutions that ask a company to give the board oversight of sustainability, or tie it to management or CEO compensation.

This speaks to Friends Fiduciary’s value-add: we use our unique voice to bear witness to Quaker testimonies, not only by rigorously screening the companies we hold but also by remaining active owners of those companies. We take our responsibilities as shareholders very seriously, and believe that it is in the long-term interests of companies to be attentive to environmental, social, and governance factors in their operations. We raise issues that we see as important to our company’s sustainability and profitability, and if a company is unwilling to address an important concern, we may file shareholder resolutions.

2019 SHAREHOLDER ADVOCACY SEASON

We are midway through the 2018-2019 proxy season. Thus far, we’ve filed shareholder resolutions at 25 companies; on 6 of those resolutions we are the lead filer. We’ve also engaged 13 companies in dialogue serving as lead for 11 of those engagements, and sent 8 letters to companies seeking new dialogues. We engage companies on a wide variety of issue areas of interest and importance to Friends across the environmental, social, and governance spectrum, a few of which are highlighted below.

A FOCUS ON PHARMA

This year, as part of an Interfaith Center on Corporate Responsibility initiative, we asked pharmaceutical companies to explain how pricing factors into management compensation—ensuring, for example, that an executive won’t receive a higher bonus simply by raising the price of a drug. High prices for life-saving pharmaceuticals can be financially devastating for those who need them, and although a drug’s consumer price may be mitigated by pharmacy benefit managers and insurance companies, pharmaceutical companies obviously play an integral role. As shareholders, we believe that drug companies shouldn’t rely on price increases for the majority of their revenue, and shouldn’t incentivize their executives to rely on price increases. We don’t believe it to be a sustainable growth model, and it dramatically increases a company’s reputational risk.

We have had productive dialogues at several of the companies where we co-filed resolutions (Eli Lilly, Merck, Pfizer, Celgene, and Biogen), with one company agreeing to publish a summary of their board’s process for setting compensation, including its ability to decrease incentive compensation if an executive increases the price of a drug significantly above the company’s business plan.

RACIAL JUSTICE AND INVESTMENTS

We are also exploring ways that we can incorporate racial justice in our work, both organizationally and as investors. Our Executive Director, Jeff Perkins, recently participated in an investor forum held by Transform Finance, hosted at the Rockefeller Foundation, where institutional investors, investment managers, and foundations came together to discuss the question “If you care about racial justice, what should you know about how it shows up in your investments?” We are proud to be a part of this emerging conversation as the investment community grapples with how to take this fundamental issue on.

We have also explored ways we can use the tools currently available to us—dialogue and shareholder resolutions—to drive companies forward in their consideration of race and equity. Beyond the inherent value of racial equity, many studies have shown the financial benefits of diverse teams, including a Boston Consulting Group study which found that companies with diverse leadership teams have 19% higher revenue than those who don’t, due to increased innovation. This year, we co-filed resolutions at Amazon and Alphabet (Google’s parent company), asking them to tie management compensation to sustainability metrics that include diversity. The diversity crisis in the technology sector poses risks to companies, potentially negatively impacting talent acquisition and retention, product development, and customer service. Additionally, a lack of diversity further excludes many of the communities in which these companies are based, exacerbating income inequality and gentrification. Both Amazon and Alphabet fall behind their peers in their efforts to diversify their top leadership teams. In 2017, of Alphabet’s top 290 managers, 25% were women, and 17 were underrepresented people of color. In 2016, of Amazon’s top 105 managers, 22% were women, and only one was an underrepresented person of color. Peers like Microsoft, IBM, and Intel have already set goals and metrics related to diversity, and tied compensation to those goals.

A BUSINESS CASE FOR CLIMATE SOLUTIONS

The investment world was rocked by the October release of the UN’s Intergovernmental Panel on Climate Change’s (IPCC) “Special Report on Global Warming of 1.5 °C.” The report is a synthesis of scientific climate research, and found that if we exceed 1.5 degrees of warming by even half a degree, we will significantly worsen the risk of drought, floods, extreme heat, and poverty for hundreds of millions of people. Climate change will clearly impact the investment world as well—one 2015 study found that the value at risk if global warming were to exceed 1.5 degrees Celsius may be equivalent to a permanent reduction of 5-20% in portfolio value in just over a decade.

It is obvious that urgent and collaborative action is needed. At Friends Fiduciary, we’ve been consistent in advocating for climate solutions as a witness to our Quaker value of stewardship. We continue to work for a swift and just transition to a low carbon economy, by engaging with the companies we own, and through policy advocacy in cases where we determine our voice as Quaker investors will provide a unique perspective.

Given the current federal legislative gridlock, our policy advocacy often occurs at the state level. In early December, we published an op-ed in the New Jersey Spotlight in favor of A4634, a bill which would accelerate adoption of electric vehicles in the state. A4634 would establish a statewide target for electric vehicle adoption, invest in a public changing infrastructure network, and create an electric vehicle rebate program. Due to the positive response to our op-ed outlining the business case for this approach, we were asked to testify at a hearing for the bill at the New Jersey statehouse. We support this effort because electric vehicles, in concert with expanding public transit options, will be a key factor in reducing greenhouse gas emissions. Proactively encouraging the transition to electric vehicles ensures that states are competitive in the low-carbon economy, especially as businesses adopt renewable energy, energy efficiency, and greenhouse gas reduction goals. We will continue to track the bill as it moves through the legislature.

We have also been asking our portfolio companies how they assess and manage climate risk in their operations. We co-filed climate change-related resolutions at several companies, including Illinois Tool Works asking the company to set greenhouse gas reduction goals, Pilgrim’s Pride asking them to disclose how they manage the water risks that come with meat production, and Restaurant Brands International (Burger King’s parent company) asking them to set goals related to deforestation in their supply chain. We’ve also continued to participate in the Climate Action 100+, a global investor initiative representing $30 trillion in assets under management which seeks to reduce emissions at the 100 companies that are responsible for 71% of global emissions climate, in addition to strengthening their climate-related governance and disclosure.

However, companies with direct operational impacts aren’t the only ones who need to consider climate change’s potential impact on their business, and their role to play in the transition. We have continued our engagements with insurance companies, asking about the risks climate change poses to their portfolios. Having participated last year in an investor initiative to encourage large banks to disclose how they are mitigating risks and taking advantage of opportunities as a result of their financing and lending, we’re now on the leadership team coordinating outreach to smaller banks asking the same question. We sent letters of inquiry to three regional banks we own—Signature Bank, S&T Bancorp, and 1st Source Corporation.

LOOKING FORWARD

Although we are faced with immense challenges as a society, we are steadfast in our support for just and sustainable business practices aligned with Quaker values on Wall Street. The change we seek will not occur without corporations playing a role, be it through voluntary initiatives or public policy. Please don’t hesitate to reach out to me with questions or concerns—our shareholder engagement work is an important way we witness on behalf of our constituent investors.

Kate Monahan, Shareholder Engagement Associate
Supporting Friends Through Planned Giving

Planned Giving Resources for Quaker Organizations and Donors

In 2018, Friends Fiduciary’s Planned Giving program facilitated $1.6 million in new gifts to benefit Quaker organizations across the country. In order to secure future gifts in support of The Religious Society of Friends, I personally visited 48 meetings, churches, organizations, schools, and retirement communities located in Indiana, North Carolina, Ohio, New Jersey, and Pennsylvania. The 2018 Quaker Fundraisers Gathering was well attended by volunteer and professional fundraisers from as far as Nevada City, California and as near as the Friends Center offices of AFSC. The biennial event, sponsored by Friends Fiduciary, is an important networking and professional development opportunity for those raising funds for Quaker organizations.

You may be wondering exactly how the Planned Giving Program at Friends Fiduciary tangibly supports philanthropy within and for the benefit of Quaker organizations. The answer is, “In many ways.” By design, the program is responsive to the needs of the wide range of organizations that it serves. Friends Fiduciary understands Quaker organizations and the donors who want to support them, and each interaction is unique. Some recent examples may help illustrate our work.

• **Growing Quaker School:** The head of a small, relatively new Quaker school recently contacted FFC with an enviable “problem.” The grandparents of a recent graduate were interested in establishing a Charitable Gift Annuity to support the school. Great news! However, the school had never encountered that type of gift before. So the school called Friends Fiduciary and asked us to start a conversation with the donors.

A Charitable Gift Annuity (“CGA”) provides lifetime income to the annuitant (usually the donor) and the funds that remain when that person dies are given to the charitable organization(s) of the donor’s choosing. In speaking with the donors it was clear that they wanted to benefit the Friends school and that they also wanted to maximize their lifetime income. We emphasized with the donors the impact that their gift could have on the growing Quaker school. Ultimately, the donors chose a CGA with Friends Fiduciary naming the school, which had so positively impacted their granddaughter’s formative years, as the charitable beneficiary.

• **Finance Committee Clerk:** After attending the Quaker Fundraisers Gathering and learning more about the many ways to make a planned gift, the finance committee clerk of a monthly meeting reached out to Friends Fiduciary. She was not sure how to introduce the idea of planned giving to her fellow members and candidly shared that asking for and talking about money was typically a “prickly subject” within the meeting. I visited her meeting and made a presentation about simple planned gifts (bequests, charitable gift annuities) and other easy ways to give (appreciated stock and required minimum distribution from IRAs). The presentation by Friends Fiduciary was an important conversation starter as the members begin to explore how to support their meeting through planned gifts.

• **“Large Shop” Organization:** Friends Fiduciary also works with Quaker organizations that are only in need of administrative planned giving support. We manage Pooled Life Income Funds for six different Quaker charities as well as investments for six charitable remainder trusts. Because we are registered to issue charitable gift annuities in 46 states, organizations that solicit donors nationwide often turn to FFC to issue and administer their CGA contracts.

Each story will be different and Friends Fiduciary, with its knowledge and experience in facilitating planned gifts to benefit Quaker organizations, is here to help. For planned giving support that meets your unique needs as a donor or Quaker organization, contact me, Mimi Blackwell, Planned Giving Program Manager, mblackwell@friendsfiduciary.org or 215.241.7272.

Mimi Blackwell, Planned Giving Manager