



THE
ELCA
FOUNDATION

ELCA ENDOWMENT FUND POOLED TRUST — FUND A

SECOND QUARTER 2007 REPORT

Sharing Your Vision

Julie Johnson

Regional Gift Planner

Most people want to leave a legacy in this world, one that defines their life's passion. You can encourage members of your congregation to support their life's passion through your congregational endowment fund. In fact, by definition congregational mission endowment funds are designed to receive bequests and other gifts as well as make distributions to enhance the mission and ministries supported by your congregation. How can you get this message out most effectively?

Determine who needs to receive your message. Your "target market" consists of members most likely to both take action and promote the endowment fund. Typically, this group includes folks over age 55 and those who have been active on various committees within your church. Inform the rest of your congregation, too. For example, young families need to understand the importance of having a will to establish guardianship of their minor children; they can make charitable provisions at the same time.

Repeat your message consistently and passionately. Members are most likely to act when they hear the same message, often. Therefore, quarterly or monthly communication may be appropriate. You can learn about timelines for communication to members on the ELCA Foundation Web site and from regional gift planners. Many congregations have found that creating an endowment fund brochure is a good first step in building a collection of resources. This document should describe the purpose of the fund, ways to give and annual distribution formulas and provide an overview of ministry support. Other ways to promote your

congregational endowment fund include monthly newsletter articles, notations in weekly bulletins, feature articles on your Web site, and carefully placed brochure racks.

Arrange special events to spread your message.

For example, you could schedule a "Legacy Seminar" presented by a Regional Gift Planner free of charge, or plan an annual recognition dinner as a way of saying thanks to your members who share the vision and support your congregation's mission.

Most importantly, always remember to be good stewards of the gifts members have given or committed.

Communicate the many good things occurring within the ministries supported by your endowment. And, celebrate your success.

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Fund A — Second quarter 2007 performance

To help you understand the “drivers” of Fund A’s overall performance return, every quarter we provide you with market context for each asset class within Fund A.

FOCUS ON GROWTH FOR MISSION, AND AVOID THE RISK OF “FIREWORKS”

Heather H. Williamson, CFA

Senior Investment Manager, ELCA Board of Pensions

During the second quarter Fund A returned 3.6 percent versus a benchmark return of 3.5 percent. While nicely positive and ahead of its benchmark, Fund A’s performance hides a slight change in sentiment in the markets over the course of the quarter. Though the majority of asset classes represented in Fund A were up in April and May, each (with the exception of non-U.S. stocks) experienced losses in June. Fund A, a balanced fund, was carefully designed to perform consistently over the long term even when markets fluctuate over the short term as they have been. My family’s recent holiday experience may help you understand the strategy behind Fund A’s diversified structure.

During Fourth of July festivities, I was surprised at my risk-seeking 6-year-old’s complete fear over the terrible prospect of having to attend a fireworks display. The fact is, major fireworks can be risky unless handled carefully by professionals with crowds at a safe distance. At the same time, if fireworks are too small, too far away or repetitive, they would be much less an attraction.

Risk tolerance and diversification are good lessons that apply in many areas of investing, particularly to support mission needs. Fireworks are fun in the right place, but too many “fireworks” in your mission endowment fund can be harmful. Investments can be powerful tools when handled by professionals, like those investing for Fund A. Any single-asset-class investment can be a risky proposition when not coupled thoughtfully with other asset classes.

The second quarter provides an excellent example. Many endowment committees likely will note real estate securities were down over 9 percent during the second quarter and

despite a robust start in 2007, remain down over 6 percent for the year through June.

Some investors may feel immune from the significant risk of investing much (or all!) of their mission endowment account in a very narrow range of asset classes, in an effort to capitalize on some of the uncharacteristically high returns the past few years. However, investors expose their endowment account to the potential for significant loss by not adequately diversifying.

For example, real estate securities have delivered short-term (three-year) annualized returns of over 20 percent, resulting in a 10-year average return of more than 15 percent for the asset class — more than double the roughly 6.5 percent return we expect from real estate over time. Investors who invested heavily in real estate during this timeframe enjoyed these returns without realizing the huge risk of loss they exposed themselves to by “putting all their eggs in one basket.” Real estate securities do play a strategic role in a diversified portfolio — but the benefit comes from investing moderately in the asset class for risk reduction and as a hedge against inflation. The allocation to real estate securities in Fund A has been designed to perform just this function.

It may be worth noting that halfway through the fireworks my son, for the first time ever, rolled over on his back and was awed by what he saw ... shapes, colors and sounds. He had not become more risk tolerant. He just finally understood that fireworks displays provide a beautiful show with little risk of injury, because they are carefully managed. We believe you too can be amazed by the power of a balanced fund like Fund A. Professionals work hard daily to limit the inherent risk of any single asset class in this fund. Though Fund A may not deliver the awe of fireworks over the short term, it is designed to consistently deliver healthy long-term returns to support mission.



FUND A PORTFOLIO MARKET VALUE

As of March 31, 2007, Fund A had investments of approximately \$337 million:

- \$178 million in the U.S. equity component
- \$62 million in the investment-grade, fixed-income component
- \$33 million in the high-yield, fixed-income component
- \$45 million in the non-U.S. equity component
- \$16 million in real estate securities
- \$3 million accruals and other

FUND A PERFORMANCE AS OF JUNE 30, 2007

		SECOND QUARTER (%)	ONE YEAR (%)	FIVE YEARS (%)
Total Fund A ^{1,2}		3.6	17.4	11.0
Fund A benchmark as of June 30, 2007 ³ (Russell 3000 Index 53%, MSCI All Country World (Ex-U.S.) Index 13%, Citigroup High-Yield Cash-Pay Capped Index 10%, Citigroup Broad Investment Grade Index 19%, Dow Jones Wilshire Real Estate Securities Index 5%)		3.5	16.9	10.8
EQUITIES	Fund A U.S. equity portfolio ¹	5.7	20.2	11.5
	U.S. equity benchmark (Russell 3000 Index)	5.8	20.1	11.5
	Fund A non-U.S. equity portfolio ¹	9.8	32.2	N/A ⁴
	Non-U.S. equity benchmark (MSCI All Country World (Ex-U.S.) Index)	8.2	29.6	19.5
HIGH-YIELD	Fund A high-yield portfolio ¹	0.5	10.7	N/A ⁴
	High-yield benchmark (Citigroup High-Yield Cash-Pay Capped Index)	0.0	10.8	11.6
FIXED-INCOME	Fund A fixed-income portfolio ¹	-0.6	6.4	4.9
	Fixed-income benchmark (Citigroup Broad Investment Grade Index)	-0.6	6.1	4.6
REAL ESTATE SECURITIES	Fund A real estate securities portfolio ¹	-9.0	12.0	N/A ⁴
	Real estate securities benchmark (Dow Jones Wilshire Real Estate Securities Index)	-9.5	11.7	19.4

1. All returns are before the deduction of fees. Fees are $\frac{1}{12}$ of 1 percent per month. All returns for periods greater than one year are annualized. Past performance does not guarantee future results.
2. Fund A is transitioning to the following allocation: U.S. equities 50 percent, non-U.S. equities 15 percent, high-yield bonds 10 percent, fixed-income 20 percent, real estate securities 5 percent. This transition is expected to be completed approximately fourth quarter 2007.
3. The benchmark is transitioning to Russell 3000 Index 50 percent, MSCI All Country World (Ex-U.S.) Index 15 percent, Citigroup High-Yield Cash-Pay Capped Index 10 percent, Citigroup Broad Investment Grade Index 20 percent, Dow Jones Wilshire Real Estate Securities Index 5 percent. Transition is expected to be completed approximately fourth quarter 2007.
4. This portfolio became a component of Fund A less than five years ago, so a five-year return is not available.



U.S. EQUITIES MARKET REVIEW

Diane Brehmer

Associate Senior Investment Manager, ELCA Board of Pensions

Fund A's U.S. equity performance matched its benchmark in the second quarter, returning 5.7 percent versus the Russell 3000 Index. This strong quarterly return pulled year-to-date returns above 7 percent.

Early 2007 concerns about slowing corporate earnings and higher energy prices did not produce a market decline in the second quarter, but returns among different segments of the market varied notably. The large-cap S&P 500 Composite Stock Price Index returned 6.3 percent, outperforming the small-cap Russell 2000 Index by nearly 2 percent. The Russell 3000 Growth Index returned 6.8 percent and outperformed the corresponding value index by over 2 percent. Growth outperformed value even more strongly among small-cap stocks; small-cap growth returned 6.7 percent, more than 4 percent higher than small-cap value's 2.3 percent return.

NON-U.S. EQUITIES MARKET REVIEW

Diane Brehmer

Associate Senior Investment Manager, ELCA Board of Pensions

Fund A's non-U.S. equity component returned 9.7 percent in the second quarter, compared to the benchmark return of 8.2 percent. All of the non-U.S. equity managers used for Fund A outperformed the benchmark. The growth portfolio was the best performer within Fund A's non-U.S. component, returning 3.7 percent over its benchmark.

Several trends in non-U.S. stock markets during 2006 reversed in the first half of 2007

- Returns to investment style were mixed. The growth style outperformed value by nearly 4 percent in the Pacific region, while value outperformed growth in Europe and the emerging markets. Outside the U.S., value outperformed growth by 0.4 percent.
- Emerging markets resumed their climb and returned 15 percent this quarter, compared with a 7 percent return in developed markets.

- After a strong first quarter, Japan fell by a little more than 0.5 percent in the second quarter.
- Market volatility in the second quarter was lower than in the first quarter, but continues somewhat higher than in 2006

During the quarter, the weakening U.S. dollar once again benefited Fund A's U.S. dollar-based investors — U.S. dollar-based returns were 1.3 percent above local currency returns.

HIGH-YIELD MARKET REVIEW

Mark Haney

Senior Investment Manager, ELCA Board of Pensions

For the second quarter of 2007, the high-yield bond component of Fund A returned 0.54 percent, outperforming its benchmark return of 0.04 percent.

The high-yield market finally came under pressure in the second quarter, returning a negligible .04 percent as measured by the Citigroup High Yield Cash-Pay Capped Index. Valuations have been full for some time, and worries about the mortgage market and troubles at two Bear, Stearns & Co. Inc. hedge funds caused the market to demand higher yields on risky debt securities, forcing prices lower. The heavy supply of new issues due to the surge in corporate buy-out transactions has not been absorbed, given the shrinking demand, and several new high-yield issues have been cancelled in recent weeks.

Within the high yield market, however, the dispersion of returns among various industries and issuers was quite wide. Autos and auto parts were up 1.9 percent, and certain pharmaceutical companies' debt securities returned over 2 percent during the quarter. This positive activity was offset by sectors such as local telephone carriers, which posted returns as low as -3.8 percent.

The recent pull-back in the high-yield market may be the beginning of a trend toward more rational valuations in this asset class. Though returns going forward may be lower than the unsustainable levels we have seen in recent years, the asset class has a higher cash return than high-grade bonds to somewhat offset lower prices.



Also, our skilled investment managers' ability to avoid defaults and deteriorating or overvalued situations should mitigate the effects of any sustained downturn.

REAL ESTATE SECURITIES MARKET REVIEW

David Quello

Investment Manager, ELCA Board of Pensions

Fund A's real estate securities component returned -9.0 percent in the second quarter, compared to the benchmark return of -9.4 percent. The portfolio outperformed its benchmark largely due to overweighting in the apartment sector and underweighting in the shopping center and regional mall sectors.

After more than four years of strong double-digit returns, real estate securities struggled during the quarter and posted a significantly negative return due to investor concerns about the economic cycle and higher interest rates. The pricing correction was broad as all property sectors were negative, with the retail sector being the hardest hit. Volatility may continue for this asset class as the market continues to digest economic data. However, support for pricing appears to be solid, due to the increased costs of replacing hard assets such as commercial buildings and continued acquisitions by private real estate entities.

ELCA FOUNDATION PARTNERSHIP WITH ELCA BOARD OF PENSIONS

The ELCA Board of Pensions serves as investment adviser for the ELCA Foundation's two main investment funds — the ELCA Endowment Fund Pooled Trust and the Charitable Gift Annuity Reserve.

Attractive long-term investment returns allow congregations and beneficiary ministries to further their mission efforts. The Board of Pensions, as the ELCA's lifetime source of health, retirement and other benefits and related services, supports the ELCA Foundation's efforts to help strengthen the mission and benevolence of this church.

FIXED-INCOME MARKET REVIEW

Mark Haney

Senior Investment Manager, ELCA Board of Pensions

For the second quarter, Fund A's fixed-income portfolio outperformed its benchmark, returning -0.56 percent versus the benchmark return of -0.60 percent.

Although the Federal Reserve continued to hold the key Federal Funds rate steady during the quarter at 5.25 percent, interest rates moved significantly higher in almost every other category. The 10-year Treasury yield moved up 0.38 percent to 5.02 percent. Sectors that are pricing in higher risk (due to the slowing housing market and corporate buyout demand) moved even higher.

Overall, fixed income returned -.60 percent for the second quarter as measured by the Citigroup Broad Investment-Grade Index. Government bonds returned -.41 percent due largely to rising real rates rather than changes in inflation expectations. Though less sensitive to interest-rate movements in general, the mortgage sector was hit hard by the housing slump and underperformed government bonds with a -.69 percent return for the quarter. Corporate bonds were the worst-performing segment, returning -.74 percent, but asset-backed securities, due to their low sensitivity to interest rates and high quality, actually posted a small positive gain of .05 percent for the quarter.

THE ELCA FOUNDATION



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SOCIAL PURPOSE INVESTING IN FUND A

Fund A — a social purpose fund — is managed by the ELCA Foundation’s investment adviser, the ELCA Board of Pensions, in a manner designed to achieve attractive long-term returns for Fund A investors while considering the corporate social responsibility work of the ELCA.

Fund A’s social purpose program uses three strategies

The overarching investment goal for Fund A is to achieve economic success for investors while considering the corporate social responsibility work of the ELCA. The Board of Pensions uses a three-pronged approach for addressing social and corporate governance issues:

- 1 Positive social investments. These investments positively benefit communities while earning acceptable returns for Fund A investors.
- 2 Shareholder advocacy. The Board of Pensions votes proxies, initiates shareholder resolutions and engages in corporate dialogue to motivate corporate leaders to act in the best interests of shareholders (i.e., Fund A investors).
- 3 Social screening. Social screening prohibits new investments in certain companies whose business practices don’t meet the ELCA’s corporate social criteria.

Fund A supports positive change

Positive social investing provides a proactive way for Fund A investors to receive market-rate returns on investments that channel capital to underserved markets. Typical investments may include securitized loans to promote community development, sustainable forestry, women- and minority-owned businesses and renewable energy.

Shareholder advocacy supports shareholders

Through shareholder advocacy the Board of Pensions works to motivate corporate leaders to act in the best interests of shareholders. These shareholder advocacy efforts include three components:

- Proxy voting — The Board of Pensions takes seriously its fiduciary responsibility to vote proxies. All proxy voting decisions are made solely in the best interests of investors and for the purpose of maximizing the economic value of the company involved.

- Dialogues — Dialogue involves meeting face to face with corporate leaders. This method of interacting with companies is effective because it helps corporate decision makers understand why a proposed change has been requested. The Board of Pensions works in cooperation with other areas of this church to engage companies in dialogue.
- Shareholder resolutions — If a company does not respond favorably to dialogue, the Board of Pensions may file a shareholder resolution. Shareholder resolutions appear on proxy ballots prior to a corporation’s annual meeting, giving every shareholder the opportunity to vote on a proposed change.

These efforts reflect a fiduciary responsibility to maximize value for Fund A investors.

Social screens support church values

Each year, investment managers for screened portfolios receive a list of companies that may not be purchased for the fund due to business practices that conflict with the ELCA’s corporate social criteria. Companies may appear on the list if they engage in aspects of these businesses:

- harmful products or services like tobacco, distilled alcohol, pornography or gambling
- those that research and develop nuclear, biological or chemical weapons; or manage U.S. government-owned facilities for such weapons
- those with significant toxic waste releases, hazardous waste sites, and environmental penalties or liabilities; and major producers of toxic chemicals

In collaboration with its social criteria consultant — Kinder, Lydenberg & Domini Research (KLD) — the Board of Pensions researches and evaluates thousands of companies in the process of determining which companies should appear on the list.



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The ELCA Foundation Regional Gift Planners are located in regional offices throughout the country. Call (800) 638-3522, ext. 2970 or visit www.elca.org/fo to find out more about how:

- your congregation or other ministry can establish an account in the Endowment Fund Pooled Trust
- you or a friend can leave a legacy for ministry
- you can establish contact with the Regional Gift Planner nearest you



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