



THE
ELCA
FOUNDATION

ELCA ENDOWMENT FUND POOLED TRUST — FUND A

FOURTH QUARTER 2007 REPORT

Money for mission

The Rev. Keith Nelson

Associate Director, ELCA Foundation

Many investors with short-term investment expectations may be disappointed when looking at investment returns affected by negative, short-term fluctuations.

Long-term focus

Fortunately, Fund A of the Endowment Fund Pooled Trust, administered by the ELCA Foundation in partnership with the ELCA Board of Pensions, is not a short-term investment. It is a long-term, total-return fund. While the market may fluctuate, Fund A investment goals remain steady. The overall goal is to provide a growing distribution amount for ministry while growing the value of the underlying assets invested over time.

Fund A's three primary principles are to:

- 1 provide long-term capital appreciation of the "real" (inflation-adjusted) value of the corpus or fund assets
- 2 provide stable, quarterly distributions that grow over time
- 3 invest fund assets in a manner consistent with the ELCA's commitment to social responsibility

Ministry-driven

The standard distribution amount is determined by using the average unit values of the fund over the last five years, not the last few weeks or months. Current returns, interest rates and short-term market conditions do not determine the current distribution amount for ministry. In other words, ministries that depend on support from endowment distributions are sheltered from the full impact of short-term market fluctuations.

Social purpose investing

Fund A uses a three-prong approach to address social and corporate governance issues:

- 1 positive social investments
- 2 shareholder advocacy
- 3 social screening

Find more information about social purpose investing on Page 6.

It is the combination of these investment strategies, especially in times of market uncertainty, that make Fund A an appropriate investment tool for ELCA-related ministries with both large and small endowment fund assets.

The ups and downs of the market may prompt hasty investment decisions. However, a long-term investment perspective with a focus on ministry requires careful, well-developed investing strategies, offered through Fund A.

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Fund A — Fourth quarter 2007 performance

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

2007 YEAR-END MARKET COMMENTARY

Heather H. Williamson, CFA

Senior Investment Manager, ELCA Board of Pensions

I heard a colleague talking about the holidays this year with some exasperation. It seems his mother-in-law has a severe case of holiday-induced nostalgia. Harrowing preparations result in inevitable disappointment as she leads an annual quest to recapture the magic of a Christmas past that no one else in the family remembers.

This story reminds me of the way human beings sometimes make too much or too little of past events as predictors of the future. We sometimes believe we have more power over future outcomes than we really do. Our viewpoints of the capital markets and the economy are a similar case-in-point.

2007 was a very interesting year. We saw inflationary worries and rising short-term interest rates but decent returns through midyear. Then everything changed. The national housing market eroded; credit became difficult to obtain; the dollar weakened further; and despite a change in focus by the Federal Reserve from inflationary to recessionary risks, the regulator found itself in the awkward position of needing to reduce interest rates and improve access to capital. All the while, commodity prices (e.g., oil) seemed on the brink of accelerating inflation and venerable financial institutions took enormous write-downs for losses because they had improperly managed risks.

It will likely take many years and many academics to analyze exactly what went wrong, but at its most basic, people simply did not understand the risks they were taking or they rationalized that “this time is different ...” A dose

of, perhaps boring, reality may be helpful here: Manage the risk you know about (we don’t know when economic and market cycles will occur, but we are absolutely certain they will with predictable regularity) and “this time” is almost never different.

So how do you plan for predictable events that happen at uncertain intervals with varying outcomes? Focus on the long-term, which is consistent with both the objectives and mission of most endowment funds. You should also consider your spending and distributions policies. These policies can be set to support the ongoing financial needs of the missions you support while smoothing the inevitable cyclical nature of the markets (along with their inevitable, occasional downturns).

Fund A can provide an excellent tool for meeting financial needs that, in turn, fund mission. The strategic asset allocation (mix of types of investments) is set to fulfill the objective of providing sustainable distributions that grow generally in line with inflation. The default distribution rate set by the ELCA Foundation, while not a required rate for Fund participants, does take into account both the expected long-term return of the Fund and subsequently uses smoothing calculations to ensure that funding for mission can generally grow over time.

The distractions and noise of the holidays are like that in the capital markets – the short-term can seem overwhelming. The ELCA Foundation and the Board of Pensions strive to provide you the tools to diminish the distractions that occur in the short term and focus on your mission endowment goals.



FUND A PORTFOLIO MARKET VALUE

As of Dec. 31, 2007, Fund A had investments of approximately \$347 million:

- \$169 million in the U.S. equity component
- \$71 million in the investment-grade, fixed-income component
- \$35 million in the high-yield, fixed-income component
- \$54 million in the non-U.S. equity component
- \$15 million in real estate securities
- \$3 million accruals and other

FUND A PERFORMANCE AS OF DEC. 31, 2007

		FOURTH QUARTER (%)	ONE YEAR (%)	FIVE YEARS (%)
Total Fund A ¹		-2.0	6.0	12.4
Fund A benchmark <i>(Dow Jones Wilshire 5000 Index² 50%, MSCI All Country World (Ex-U.S.) Index 15%, Citigroup High-Yield Cash-Pay Capped Index 10%, Custom Citigroup Index³ 20%, Index Dow Jones Wilshire Real Estate Securities Index 5%)</i>		-1.9	5.6	12.1
EQUITIES	Fund A U.S. equity portfolio ¹	-3.0	6.0	13.9
	U.S. equity benchmark <i>(Dow Jones Wilshire 5000 Index²)</i>	-3.4	5.1	13.6
	Fund A non-U.S. equity portfolio ⁴	-1.6	17.2	N/A ⁴
	Non-U.S. equity benchmark <i>(MSCI All Country World (Ex-U.S.) Index)</i>	-0.7	16.7	N/A ⁴
HIGH-YIELD	Fund A high-yield portfolio ¹	0	4.6	N/A ⁴
	High-yield benchmark <i>(Citigroup High-Yield Cash-Pay Capped Index)</i>	-0.7	2.6	N/A ⁴
FIXED-INCOME	Fund A fixed-income portfolio ¹	2.9	7.1	4.8
	Fixed-income benchmark <i>(Custom Citigroup Index³)</i>	3.0	7.0	4.5
REAL ESTATE SECURITIES	Fund A real estate securities portfolio ¹	-15.1	-19.2	N/A ⁴
	Real estate securities benchmark <i>(Dow Jones Wilshire Real Estate Securities Index)</i>	-13.7	-17.9	N/A 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. The total U.S. equity benchmark changed from the Russell 3000 to the Dow Jones Wilshire 5000 in November 2007.
3. The total fixed-income benchmark changed from the Citigroup Broad Investment Grade to the Custom Citigroup Index in October 2007.
4. This portfolio became a component of Fund A less than five years ago, so a five-year return is unavailable.



U.S. EQUITIES MARKET REVIEW

Josh Stieler, CFA

Senior Investment Analyst, ELCA Board of Pensions

Fund A's U.S. equity component fell by -3.03 percent for the fourth quarter, somewhat less than the benchmark's decline of -3.4 percent. Strong performance by the large-cap growth manager was partially offset by underperformance by the large-cap value manager.

2007 proved to be a volatile year for U.S. equity markets. The Wilshire 5000 broad market index rose 7.55 percent in the first half of the year before falling 1.81 percent in the second half. This second-half decline was driven largely by the financial sector, which suffered from tightening credit markets and exposure to risky sub-prime mortgages.

Several trends reversed in 2007. For instance, large-cap stocks outperformed small-cap for just the second time in nine years while growth outperformed value for the first time since 1999.

NON-U.S. EQUITIES MARKET REVIEW

Josh Stieler, CFA

Senior Investment Analyst, ELCA Board of Pensions

Fund A's non-U.S. equity component fell by -1.63 percent in the fourth quarter, compared to the benchmark return of -0.66 percent. Core and value managers underperformed, more than offsetting strong results from the growth manager.

For the year, non-U.S. equity markets performed very well as investors continued to look abroad for attractive growth opportunities. Several themes played out in 2007:

- Emerging markets continued to outperform developed markets. Emerging markets returned 39.39 percent in 2007 versus 12.43 percent for developed markets.
- Growth stocks returned to favor. Growth stocks in Fund A's non-U.S. equity benchmark returned 21 percent compared to 12 percent for value stocks. Fund A's growth manager outperformed the benchmark by more than 12 percent.

- The U.S. dollar continued to weaken, benefiting dollar-based investors. The MSCI All Country ex-U.S. Index's dollar-based returns were almost double the local currency returns (16.65 percent versus 8.53 percent).
- Volatility returned to the markets in the second half of 2007 amid a global credit squeeze, a falling U.S. housing market and concerns over economic growth in developed markets.

FIXED-INCOME MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

For the fourth quarter, Fund A's fixed-income portfolio slightly underperformed its benchmark, returning 2.92 percent versus the benchmark return of 2.95 percent.

Credit concerns stemming from sub-prime and the housing sector continued to plague the fixed-income markets during the fourth quarter. The Federal Reserve Board responded with several moves to increase liquidity including two 0.25 percent cuts in the Federal Funds interest rate that brought that rate to 4.25 percent by the end of the quarter. The Federal Reserve also held a series of auctions that provided billions of dollars to member banks more easily than existing alternatives.

The Federal Reserve's move brought Treasury rates down substantially, especially in shorter maturities, the two-year note coming down 0.95 percent to 3.05 percent at quarter's end.

With risk increasing in the non-governmental sectors, increasing risk premiums caused these segments to lag in total return. Government bonds returned 3.85 percent, compared to the mortgage sector returning 3.12 percent and corporate sector only 2.18 percent.



REAL ESTATE SECURITIES MARKET REVIEW

David Quello, CFA

Investment Manager, ELCA Board of Pensions

Fund A's real estate securities component returned -15.06 percent for the quarter, compared to the benchmark return of -13.68 percent. The portfolio underperformed its benchmark largely due to an overweight in the hotel sector, which underperformed the index, and an underweight in the health care sector, which outperformed the index.

The real estate securities market lost approximately 18 percent during 2007 after returning over 30 percent per year in three of the prior four years. 2007 was a volatile year with commercial real estate values peaking in February and ultimately declining significantly due in large part to the credit crisis created by sub-prime residential lending and a softening U.S. economy.

The ELCA real estate securities component seeks to achieve its objective by investing in a well-diversified portfolio of public market real estate investments (e.g., real estate investment trusts, investment builders, developers or other companies engaged in various aspects of the real estate business or which hold significant real estate assets). The residential housing market is not included in this fund.

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.

HIGH-YIELD MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

For the fourth quarter of 2007, the high-yield bond component of Fund A returned -0.02, outperforming its benchmark return of -0.66 percent.

The sub-prime mortgage and credit crunch continued to pressure the riskiest debt sectors during the fourth quarter. Investors required increasing risk premiums that, by quarter's end, were almost double the levels seen before the second half of the year. Though interest rates and Treasuries rallied substantially, high-yield produced a negative return of -0.66 percent for the quarter as measured by the Citigroup High-Yield Cash-Pay Capped Index. Many market participants, including Moody's Investor Services, expect default rates to rise from the current historical lows of less than 1 percent to as high as 4 percent or more during 2008. This event would continue to force required risk premiums higher and limit returns. The Endowment Fund's experienced active managers should be able to avoid much of the direct impact of higher aggregate default rates, however, through careful issuer selection.

Industry segments performed within a wide range with home builders, not surprisingly, losing -7.71 percent, while segments such as health care returned a positive 2.59 percent.

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 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 — KLD Research & Analytics Inc. — 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/foundation 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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