



ELCA Foundation
 Evangelical Lutheran Church in America
 God's work. Our hands.

ELCA ENDOWMENT FUND POOLED TRUST — FUND A

SECOND QUARTER 2008 REPORT

Planning for Future Gifts

The Rev. Keith T. Nelson

Associate Director, ELCA Foundation

Many congregations do not create a policy for managing estate gifts until a gift is actually received.

Why not?

Too often, when congregations use bequests for current ministry – paying bills, making building improvements or meeting the congregation’s mission support commitment — members cease to see a need for their own gifts. All it takes is one decision by a congregation council to set a precedent.

A congregation’s goal should be to develop policies that will encourage members to increase their financial gifts for today’s ministry in the way of annual stewardship while planning ahead to support ministry of the congregation through gifts from their estates.

How?

In addition to establishing a Mission Endowment Fund, create a continuing resolution (policy) stating how gifts from estates to the congregation are going to be managed and used. Below is a sample policy/continuing resolution:

Be it resolved that, from this date forward, all bequests and gifts of whatever kind or in whatever amount received from the estates of persons who have named [NAME] Lutheran Church shall have 20 percent (or 10 percent) of the principal amount initially allocated to, and expended for, benevolence beyond the congregation in one or more of the four areas of the church’s involvement: congregational ministry, community outreach, [NAME] Synod and its affiliated or recognized ministries, and/or churchwide ministries of the ELCA.

The remaining 80 percent (or 90 percent) of the principal shall be retained and placed under the management of the [NAME] Lutheran Mission Endowment Fund, and shall be utilized according to the bylaws and distribution guidelines approved by the congregation on [MONTH/DAY/YEAR].

An expression of first fruits giving

With this continuing resolution, a tithe (10 percent or more) of the gifts received from the estate is used to support the current needs of the community and the world. In this model, your congregation displays its commitment to first fruits giving — truly blessed to be a blessing in a special way.

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Fund A — Second quarter 2008 performance

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

MARKET COMMENTARY

Heather H. Williamson, CFA

Senior Investment Manager, ELCA Board of Pensions

We had a philosophical article half-written for you about how we can know everything about past economic and market cycles, but when it comes to current dynamics of macro- and micro-economic factors, even investment professionals can only make educated guesses regarding the magnitude and direction of stock and bond markets. Then an onslaught of gloomy economic data and poor market performance focused us on more practical matters.

After a bleak first quarter, in which global markets declined approximately 10 percent, many investors only hoped for a better second quarter. In fact, hopes seemed to be realized when during the month of April alone, over half that ground was made up with 5 percent stock returns, although investment-grade bonds lost ground. These same bonds decreased somewhat again in May, but people felt a little more optimistic about the global stock markets as positive returns continued. Then June happened, with U.S. stocks hovering near the technical definition of a “bear” market, or a 20 percent drop since October 2007.

Because Fund A is invested in the capital markets, it experienced a negative absolute return during the quarter. However, it also outperformed its benchmark nicely by 0.5 percent (gross of fees). Exposure to multiple asset classes mitigated some of the magnitude of negative returns that less diversified funds experienced.

While investment professionals can get caught up in the pursuit of understanding the dynamics and practice of our craft, they bring us no closer to predicting exactly how economics, capital markets and people will behave. While we find this market variability fascinating, the critical support that your endowment fund provides reminded me that sometimes we need to pay attention to the basics, which really are timeless.

Although diversified portfolios like Fund A should serve a long-term investor well, over short periods like a month, or even a few years, the tenets of long-term investing may not seem to pan out. While the Fund is in negative territory for the first half of 2008 over the five-year period, Fund A has returned 9.0 percent (annualized).

Compare this fund to a more conservative investment (such as a single asset class fixed-income fund), which may seem tempting these days, but over long time periods, will not likely provide sufficient return ahead of inflation. For example, the Citigroup Custom Bond Index, the benchmark for the fixed-income portion of Fund A, returned 4.0 percent for the five-year period ending June 30, 2008.

While we cannot control the markets’ movements, we do work hard to monitor and mitigate risk and manage Fund A diligently. You can rest assured, while we investment professionals will continue to be fascinated by and study the economy and the dynamics of the markets, we do it so the simple and basic tenets of long-term investing will continue to work for your mission endowment fund’s well-being.



FUND A PORTFOLIO MARKET VALUE¹

As of June 30, 2008, Fund A had investments of approximately \$331 million:

- \$160 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
- \$49 million in the non-U.S. equity component
- \$15 million in real estate securities

FUND A INVESTMENT PORTFOLIO PERFORMANCE AS OF JUNE 30, 2008

		SECOND QUARTER (%)	YEAR-TO-DATE (%)	ONE YEAR (%)	FIVE YEARS (%)
Total Fund A ²		-0.6	-6.7	-6.2	8.8
Fund A benchmark (Dow Jones Wilshire 5000 Index ³ 50%, MSCI All Country World (Ex-U.S.) Index 15%, Citigroup High-Yield Cash-Pay Capped Index 10%, Custom Citigroup Index ⁴ 20%, Index Dow Jones Wilshire Real Estate Securities Index 5%)		-1.1	-6.9	-6.7	8.4
EQUITIES	Fund A U.S. equity portfolio ²	-0.7	-11.1	-11.8	8.7
	U.S. equity benchmark (Dow Jones Wilshire 5000 Index ³)	-1.6	-11.0	-12.6	8.4
	Fund A non-U.S. equity portfolio ²	-0.4	-9.0	-6.1	N/A ⁴
	Non-U.S. equity benchmark (MSCI All Country World (Ex-U.S.) Index)	-1.1	-10.2	-6.6	20.6
HIGH-YIELD	Fund A high-yield portfolio ²	2.6	0.5	1.5	7.1
	High-yield benchmark (Citigroup High-Yield Cash-Pay Capped Index)	2.0	-0.5	-0.5	6.8
FIXED-INCOME	Fund A fixed-income portfolio ²	-0.9	0.9	6.8	4.1
	Fixed-income benchmark (Custom Citigroup Index ⁵)	-1.0	1.3	7.4	4.0
REAL ESTATE SECURITIES	Fund A real estate securities portfolio ²	-5.2	-2.1	-15.0	N/A ⁴
	Real estate securities benchmark (Dow Jones Wilshire Real Estate Securities Index)	-5.4	-3.4	-15.4	16.5

1. Total market value of Fund A is \$339 million, including deposits between monthly valuation dates and operating cash on which a total fee of $\frac{1}{2}$ of 1 percent is deducted monthly from each account.
2. Returns are before the deduction of fees.
3. The U.S. equity benchmark changed from the Russell 3000 to the Dow Jones Wilshire 5000 in November 2007.
4. This portfolio became a component of Fund A less than five years ago, so a five-year return is unavailable.
5. The fixed-income benchmark changed from the Citigroup Broad Investment Grade to the Custom Citigroup Index in October 2007.



U.S. EQUITIES MARKET REVIEW

Josh Stieler, CFA

Senior Investment Analyst, ELCA Board of Pensions

Fund A's U.S. Equity component fell by -0.6 percent, outperforming the benchmark return of -1.5 percent during the quarter. Positive relative performance was driven by AllianceBernstein's Large Cap Growth portfolio and AXA Rosenberg, a risk controlled manager.

After rising over 7 percent in April and May, U.S. equity markets tumbled by more than 8 percent in June. Rising commodity prices and weakness in the financial sector continued to dominate headlines. Oil rose more than 40 percent, adding to mounting inflation fears. Financial stocks again led the decline, falling by 15 percent. Consumer oriented stocks also fell sharply as inflation concerns hurt retailers. Commodity-related stocks did well, with energy stocks leading the way with a return of almost 20 percent. The Federal Reserve cut interest rates to 2 percent in April, but held rates steady in June as it tried to balance the competing demands of slowing growth and rising prices.

Growth stocks outperformed value stocks for the quarter. Small- and mid-cap stocks held up reasonably well, outperforming large stocks.

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 -0.4 percent, compared to the benchmark return of -1.1 percent. Strong relative performance by Baillie Gifford, the growth manager, was partially offset by weaker performance by AllianceBernstein, the value manager.

International equity markets fell in the quarter as investors remained concerned about sluggish global growth, weakness in financial stocks and rising inflation, particularly in emerging countries.

Second quarter highlights:

- Developed markets fell 1.2 percent overall, with European markets pacing the decline. Japan, on the other hand, turned in its first positive quarter in over a year.
- Emerging markets fell 0.9 percent. Argentina, Brazil and Russia posted strong returns. China, India, Korea, Mexico, Taiwan and Thailand all underperformed the index.
- The U.S. dollar strengthened against international currencies for the first quarter in almost two years. U.S. dollar returns were 0.8 percent below local currency returns for the quarter.
- Growth stocks outperformed value stocks in developed markets, while style was not a major driver of returns in emerging markets.

FIXED-INCOME MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

Fund A's fixed-income portfolio returned -0.9 percent versus the benchmark's -1.0 percent. The underperformance was primarily due to issue selection in, and an overweighting of, the mortgage sector.

With no improvement in sight for the housing market and credit crunch, the Federal Reserve eased the Fed Funds rate April 30 to 2.0 percent. But, in light of rising oil and commodity prices, the Federal Reserve left the rate unchanged in its June 25 meeting, citing inflation risk.

Fearing the Fed's next move would be to raise rates, the Treasury market sold off dramatically, especially in shorter maturities. The two-year note ended the quarter yielding 2.16 percent, 1.03 percentage points higher than the previous quarter. The 30-year bond yield, however, rose just .23 percent to 4.54 percent.

Governments were the worst performing sector for the quarter, returning -2.04 percent and underperforming the Citigroup Broad Investment-Grade Index return of -1.19 percent. The credit, mortgage and asset-backed indexes returned -0.92 percent, -0.60 percent and -0.03 percent respectively for the second quarter.



REAL ESTATE SECURITIES MARKET REVIEW

David Quello, CFA

Investment Manager, ELCA Board of Pensions

Fund A's real estate securities component returned -5.2 percent in the second quarter, compared to the benchmark return of -5.4 percent. The portfolio outperformed its benchmark, largely due to an overweight in the specialty sector and an underweight in the industrials sector. This was partially offset by an overweight in the hotel sector, which underperformed the overall index.

It was a bumpy quarter for real estate securities as the gains in April and May were more than offset by an 11 percent decline in June. Real estate securities were part of a broad equity decline as investor concerns built due to surging oil prices and the softening of the U.S. and global economies. The credit markets for commercial real estate continue to be impacted by the broader credit crunch and it has led to more volatile performance over the recent months.

HIGH-YIELD MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

The high-yield bond component of Fund A returned 2.6 percent, outperforming its benchmark return of 2.0 percent.

High prevailing yields allowed a positive return, in aggregate, for the asset class, in spite of the sell-off of Treasuries and other fixed-income sectors. With an average yield near 10 percent, current income and a small recovery from extremely weak valuations at the end of March allowed the segment a return of 2.01 percent for the quarter as measured by the Citigroup High-Yield Cash-Pay Capped index.

Industries not reliant as much on commodity inputs like oil fared best; broadband, technology and cable were among the best performers returning 12.52 percent, 5.69 percent and 4.82 percent respectively; airlines, auto manufacturing and chemicals were punished the most posting negative returns of -14.03, -4.64 percent and -2.27 percent respectively.

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.

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 for the ELCA Endowment Fund Pooled Trust — Fund A, the ELCA Board of Pensions, in a manner designed to achieve attractive long-term returns for Fund A participants 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 participants 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 participants.
- 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 participants).
- 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 participants 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:

- 1 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 participants and for the purpose of maximizing the economic value of the company involved.

- 2 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.

- 3 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.

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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