



THE
ELCA
FOUNDATION

ELCA ENDOWMENT FUND POOLED TRUST — FUND A

FIRST QUARTER 2008 REPORT

Investing for good

Patricia Zerega

*Director for Corporate Social Responsibility,
Church in Society*

As an endowment fund investment vehicle of this church, the ELCA Endowment Fund Pooled Trust-Fund A is required to be invested under social responsibility criteria established through the ELCA's Church in Society unit.

Money and investments play powerful roles in our society. We can use them positively or negatively.

As Lutherans we are called to be good stewards of all our resources. We are to use our resources to live in harmony with creation, to work for justice, to be a voice for the voiceless and to benefit the poor.

The work of Corporate Social Responsibility (CSR) within the Evangelical Lutheran Church in America continues to develop new methods and tools to keep up with the changing times. This work includes a significant amount of time talking with companies, sharing best practices from other corporations, partner churches and socially responsible investing firms.

When a company announces a new policy, our dialogue leading up to that policy decision becomes public. Examples of such policies can be seen in Sears' new policy on PVCs at <http://www.searsholdings.com/about/sustainability/index.htm#pvc> or its policy on video game sales at http://www.sears.com/shc/s/c_10153_12605_entertainment_video+games.

Other policies are not always as visible to the consumer, such as when hotel chains adopt a policy to protect children from sexual exploitation or when a company begins gathering information on its water or carbon

footprint. How much attention is drawn to these policies depends on various aspects of the dialogue at that time.

The CSR program applauds corporations which take seriously the care of our neighbors and our environment. CSR staff will continue to cultivate these relationships so we all can work toward human dignity and be good stewards of creation.

Faith-based investing offers us the challenge and the opportunity to be a Christian witness within the economy. The ELCA uses these tools to assist in being good stewards over our investments, seeking to enable equitable care, distribution and management of all that God has created and entrusted to human kind.

Learn more about the ELCA's efforts in the area of corporate social responsibility at www.elca.org/corporate or on Page 6 of this newsletter.

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Fund A — First 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.

A FIRM FOUNDATION FOR LONG-TERM MISSION SUPPORT

Heather H. Williamson, CFA

Senior Investment Manager, ELCA Board of Pensions

The first quarter of 2008 was not kind to investors. Fund A declined 6.2 percent (although long-term returns for three and five years remain strong at 8.2 percent and 11.3 percent respectively, gross of fees). Nearly all asset categories experienced declines during the quarter, and as a broadly diversified portfolio, Fund A cannot avoid the fluctuations in the markets. However, Fund A’s exposure to asset classes that experienced positive returns, investment-grade fixed income and real estate securities helped mitigate the full brunt of declines seen in global equity markets.

Negative returns are never pleasant, but they are to be expected periodically and especially when economic and other unstable conditions prevail. While we can expect and plan for cyclical economic and market conditions, we cannot time them. Investment in broadly diversified assets such as those found in Fund A is your best defense against market cycles. Diversification exposes your investments to those investments that are rising while mitigating the volatility experienced.

I am reminded of a recent bit of insanity called a home remodel project on which my family embarked. We collected multiple bids and pushed for a level of specificity that clearly made a number of contractors nervous. We chose the contractor that came in with a reasonable cost and a good track record (on time and on budget). Still, we ended up somewhat over budget and one month over schedule.

The truth is, all our planning still could not avoid the surprises of opening the walls and discovering what a builder did 40 years ago. However, our detailed planning prepared us to deal with the unexpected and move on. In the end, we have a great home for our family to grow in, and despite the element of surprise, just a little over budget and only one month past schedule — not bad.

Planning your organization’s investments to be appropriate for long-term mission support is not so dissimilar. It is natural to wonder what to do when you see the latest barrage of shaky economic news: the worst housing market downturn in memory, flagging consumer confidence, declining manufacturing numbers and rising energy and food prices. Now major institutions and regulatory agencies are talking about the likelihood of a U.S. and possibly global recession. With each bit of data and news, the markets have acted with expected unpredictability. If the stock and bond markets cannot figure out which way to head — up one day, down the next — how are we to know what to do with the mission endowment funds with which we have been entrusted as fiduciaries?

Think back to home remodeling. Just as planning does not always prevent surprises on the home front, it also can’t prevent even the most well-diversified portfolio from moving up or down with the broader markets. However, broad diversification such as that found in Fund A provides a firm foundation for achieving returns sufficient to provide stable distributions to support mission over long periods of time in spite of shorter term periods of market instability and declines.



FUND A PORTFOLIO MARKET VALUE¹

As of March 31, 2008, Fund A had investments of approximately \$324 million:

- \$153 million in the U.S. equity component
- \$72 million in the investment-grade, fixed-income component

- \$34 million in the high-yield, fixed-income component
- \$49 million in the non-U.S. equity component
- \$16 million in real estate securities

FUND A INVESTMENT PORTFOLIO PERFORMANCE AS OF MARCH 31, 2008

		FIRST QUARTER (%)	ONE YEAR (%)	FIVE YEARS (%)
Total Fund A ²		-6.2	-2.2	11.3
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%)		-5.8	-2.4	11.1
EQUITIES	Fund A U.S. equity portfolio ²	-10.4	-6.1	12.0
	U.S. equity benchmark (Dow Jones Wilshire 5000 Index ³)	-9.5	-6.1	12.1
	Fund A non-U.S. equity portfolio ²	-8.6	3.5	N/A ⁴
	Non-U.S. equity benchmark (MSCI All Country World (Ex-U.S.) Index)	-9.2	2.2	23.5
HIGH-YIELD	Fund A high-yield portfolio ²	-2.1	-0.5	N/A ⁴
	High-yield benchmark (Citigroup High-Yield Cash-Pay Capped Index)	-2.4	-2.5	8.3
FIXED-INCOME	Fund A fixed-income portfolio ²	1.8	7.2	4.8
	Fixed-income benchmark (Custom Citigroup Index ⁵)	2.3	7.9	4.7
REAL ESTATE SECURITIES	Fund A real estate securities portfolio ²	3.3	-18.5	N/A ⁴
	Real estate securities benchmark (Dow Jones Wilshire Real Estate Securities Index)	2.1	-19.0	19.0

1. Total market value of Fund A is \$328 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 10.4 percent, trailing the benchmark return of -9.5 percent. Negative relative performance was driven by underperformance of the large cap growth, large cap value, and small-mid cap managers.

U.S. equities saw their largest quarterly decline since 2002, as the sell-off in stocks continued in response to the ongoing troubles in the credit markets. Financial stocks once again led the decline, as evidenced by the near collapse and subsequent rescue of investment bank Bear Stearns. While financial stocks led the decline, negative returns were by no means restricted to this sector. Other sectors, such as technology, materials and utilities, posted double digit declines for the quarter as well.

Value stocks returned to favor, outperforming growth stocks for the quarter. Size was not a major driver of returns as both large-cap and small-cap stocks fell by 9 percent to 10 percent.

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 8.6 percent in the first quarter, ahead of the benchmark return of -9.2 percent. Strong relative performance was driven by Baillie Gifford, the growth manager, and Barclays Global Investors, a core manager.

Responding to the ongoing tightening in the credit markets, international equity markets fell. As in the United States, financial stocks showed particular weakness as participants reduced exposure to troubled banks and mortgage lenders.

Highlights:

- Developed markets fell by 8.7 percent overall. Denmark was the only developed country posting a gain (a very modest .04 percent).

- Emerging markets fell 11 percent. The decline was led by China (-23.7 percent) and India (-27 percent), two of the strongest performers over the last two years. As the threat of a global recession increases, investors are questioning whether these fast-growing, export-dependent economies can sustain their high equity valuations.
- Style was not a major driver of returns in the developed markets. Both growth and value stocks fell approximately 9 percent. In emerging markets, growth stocks outperformed value stocks for the first time since late 2006.

FIXED-INCOME MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

In the first quarter, Fund A's fixed-income portfolio underperformed its benchmark, returning 1.81 percent, versus the benchmark return of 2.31 percent. This underperformance was primarily due to issue selection within the mortgage segment and an overweighting of the sector.

The credit and mortgage crisis negatively affected nearly every non-Treasury market sector. The Federal Reserve acted decisively with two back-to-back interest rate cuts in January and another cut on March 18, leaving the rate at 2.25 percent by quarter's end. Other liquidity measures were taken to provide capital to the banking system. While mortgage and credit risk premiums showed some improvement by quarter's end, there are also signs this crisis will take some time to work through.

The two-year Treasury rate dropped 1.46 percentage points to 1.58 percent; the 30-year rate dropped only 16 percentage points to yield 4.29 percent. Total return for the Treasury/Government sponsored sector was 4.20 percent for the quarter.

The rest of the fixed-income market didn't fare as well. The mortgage segment, consisting only of the safest agency-backed issues, actually fared the best with a return of 2.48 percent. The asset-backed segment returned 1.45 percent with corporate bonds lagging at only .67 percent.



REAL ESTATE SECURITIES MARKET REVIEW

David Quello, CFA

Investment Manager, ELCA Board of Pensions

Fund A's real estate securities component returned 3.3 percent in the first quarter, compared to the benchmark return of 2.1 percent. The portfolio outperformed its benchmark largely due to an overweight in the self-storage sector and an underweight in the industrials sector. This performance was partially offset by an overweight in the office sector, which underperformed the overall index.

Despite a generally negative period for U.S. equities, real estate securities held up quite well due to attractive valuations and aggressive actions by the Federal Reserve to stimulate economic growth and provide increased liquidity. Commercial real estate fundamentals continue to be fairly stable but could exhibit weakness if the economy continues to decline.

HIGH-YIELD MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

For the first quarter of 2008, the high-yield bond component of Fund A returned -2.1 percent, outperforming its benchmark return of -2.4 percent.

High-yield bonds, the riskiest segment of the fixed-income marketplace, continued to suffer the effects of the current financial crisis. On average investors required an additional 1.0 percent in yield on March 31, compared to the end of 2007. Though interest rates and Treasuries rallied substantially, high-yield bonds produced a negative return of -2.4 percent for the quarter, as measured by the Citigroup High-Yield Cash-Pay Capped Index. Valuations currently look attractive compared to historical averages, though the current flight from risk and toward quality, as well as increasing defaults, will continue to weigh on the sector.

Some industry segments bucked the negative trend, however, with conservative sectors like utilities and energy returning 1.8 percent and 1.3 percent, respectively. Surprisingly, home builders bounced back from recent doldrums with a 2.9 percent return for the quarter. The worst performing segments included restaurants (-9.2 percent) and airlines (-5.4 percent).

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 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:

- **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.

- **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.

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

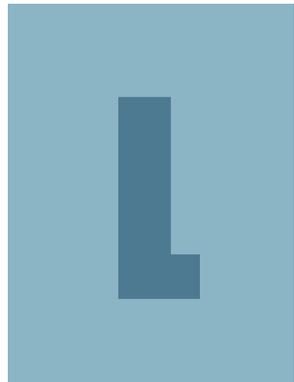


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