



ELCA Foundation
Evangelical Lutheran Church in America

ELCA ENDOWMENT FUND POOLED TRUST — FUND A

THIRD QUARTER 2009 REPORT

Security of your investments

Bonalynn Wallach

Manager for Investments, ELCA Foundation

Recently there have been a number of incidents which have heightened the awareness and concerns about the safety and security of investments. Situations of fraud and bankruptcy involving long-standing, respected investment advisors frequently appear in the media.

Through its investments in the Endowment Fund Pooled Trust Fund A (EFPT Fund A) the ELCA has not had exposure to those firms as investment advisors. The ELCA engages in business with many investment managers and understands the concerns around the possible risk for future fraud or bankruptcy. To mitigate these risks, the Board of Pensions, as investment advisor, performs rigorous due diligence on all managers hired as sub-advisors to manage investment portfolios. Additionally, ELCA Foundation staff performs investment manager oversight for all of its investment advisor relationships. The role of Manager for Investments provides another layer of supervision to ensure that we are adhering to our fiduciary responsibility as administrator for the EFPT Fund A.

Where are investments held?

The EFPT Fund A investments are held “in trust” with its custodial bank, the Bank of New York/Mellon (BNY Mellon)*. The EFPT Fund A investments are isolated from deposits held in BNY Mellon’s general banking accounts. As custodian of the EFPT Fund A investments, BNY Mellon’s primary role is to act as an accountant, accurately administering the flow of funds and securities through an independent organization known as the Depository Trust Corporation (DTC).

What is the role of the DTC?

The DTC is a member of the U.S. Federal Reserve System. It is a limited-purpose trust company under New York State banking law and a registered “clearing agent” with the

Securities and Exchange Commission. DTC activities are regulated and monitored by the Federal Reserve.

Most securities issued in the United States (e.g., bonds, stocks and other similar investments) are held in electronic form at the DTC.

What type of oversight is performed?

The activities of the DTC, BNY Mellon and other clearing agents are routinely audited by several entities, including the U.S. Treasury Department, the Federal Deposit Insurance Corporation, the Federal Reserve System and one or more of the large U.S. accounting firms, as well as their foreign counterparts.

*Boston Safe Deposit is a predecessor to BNY Mellon.

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Fund A — Third quarter 2009 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

It’s just not fair

My 8-year-old son shared a schoolyard incident with me that seems applicable to how many view our current economic situation. He asked why a few kids are able to dominate the playground even though everyone knows it is not quite right? Knowledge does not make some things any better. There has been a great deal of focus on the global recession being a U.S. instigated (if not centered) phenomenon perpetrated by U.S. executives of financial institutions for personal gain — it sure sounds like a few kids calling all the shots on the playground.

To be sure, mistakes were made, but let’s not lose sight that they were made over a 30-year period by a vast array of individuals, companies, regulatory agencies, financial institutions, global governments and administrations. That is really the confounding and frustrating thing about long economic cycles. Surely people knew something was wrong, so why can bubbles continue to grow and burst unpredictably but regularly?

My 10-year-old offered some advice to my 8-year-old. “Life is not fair. Just figure out how to have fun on the playground.” I wish it was that simple in the adult world. During an economic crisis, real people are hurt in meaningful ways. We cannot turn back time and “fix” large international insurance companies and investment

banks that initiated the bursting of the bubble. We can’t go back to Congress and suggest they really might want to seriously consider a better regulatory structure. Yet, while it may be unsettling, there are some valuable lessons to be learned from the crisis that may be helpful going forward.

Transitioning to sustainable

Interestingly, the Board of Pensions has been skeptical of unsustainable growth for some time. While it is human nature to hope that long-term average annualized returns for markets happen annually, we take a different view. Take the U.S. equity markets (as measured by the S&P 500), for example, over the past 10 years, they have had 12-month returns (at October end) as low as -25% and as high as 26%, with only one year, 2000, close to average (between 6% and 8%).

To take advantage of these cycles and the fact that different assets move in different directions at different times, diversification (a mix of assets such as stocks and bonds) can be a powerful tool.

Since March 2009, the markets have come back quite a bit. Virtually all asset categories have enjoyed double-digit returns and even investment-grade bonds have done very well so far this year; yet, we would guard against too much optimism. It could be a few years before we ease into a more sustainable environment, but we continue to believe that a sound investment strategy, including maintaining a diversified portfolio will serve mission-focused assets well over the long run.



FUND A PORTFOLIO MARKET VALUE¹

As of September 30, 2009, Fund A had investments with the ELCA Board of Pensions of approximately \$318.5 million:

- \$159.2 million in the U.S. equity component
- \$62.3 million in the investment-grade, fixed-income component

- \$32.0 million in the high-yield, fixed-income component
- \$48.2 million in the non-U.S. equity component
- \$16.8 million in global real estate securities

FUND A INVESTMENT PORTFOLIO PERFORMANCE AS OF SEPTEMBER 30, 2009

		THIRD QUARTER (%)	YEAR-TO-DATE (%)	ONE YEAR (%)	FIVE YEARS (%)	10 YEARS (%)
Total Fund A ²		15.33	23.59	3.05	4.58	3.55
Fund A benchmark <i>(Dow Jones Total Stock Market Index³ 50%, MSCI All Country World (ex-U.S.) Index 15%, Citigroup High-Yield Cash-Pay Capped Index 10%, Custom Citigroup Index⁴ 20%, Wilshire U.S. Real Estate Securities Index/Wilshire Ex-U.S. Real Estate Securities Index⁵ 5%)</i>		14.75	23.72	1.38	3.90	3.27
EQUITIES	Fund A U.S. equity portfolio ²	16.75	22.42	-4.55	2.08	0.91
	U.S. equity benchmark <i>(Total Stock Market Index³)</i>	16.32	21.52	-6.25	1.64	0.77
	Fund A non-U.S. equity portfolio ²	20.49	38.51	5.55	9.12	3.40
	Non-U.S. equity benchmark <i>(MSCI All Country World (Ex-U.S.) Index)</i>	19.69	36.35	5.89	8.10	4.02
HIGH-YIELD	Fund A high-yield portfolio ²	10.25	34.29	17.07	6.69	5.43
	High-yield benchmark <i>(Citigroup High-Yield Cash-Pay Capped Index)</i>	13.42	44.15	17.13	5.51	6.28
FIXED-INCOME	Fund A fixed-income portfolio ²	5.12	9.17	12.61	5.42	6.38
	Fixed-income benchmark <i>(Custom Citigroup Index⁴)</i>	4.05	7.35	12.43	5.50	6.49
GLOBAL REAL ESTATE SECURITIES	Fund A global real estate securities portfolio ²	32.94	25.29	-19.56	4.64	11.17
	Real estate securities benchmark <i>(Wilshire U.S. Real Estate Securities Index and Wilshire Ex-U.S. Real Estate Securities Index⁵)</i>	31.77	27.20	-25.32	2.25	10.01

NOTE: Past performance does not guarantee future results.

1. Total market value of Fund A is approximately \$316 million. This total includes accrual, liabilities, deposits between monthly valuation dates and operating cash on which a total fee of one-twelfth of 1% 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 Total Stock Market Index in November 2007.

4. The fixed-income benchmark changed from the Citigroup Broad Investment Grade to the Custom Citigroup Index in October 2007.
5. The Global Real Estate Securities Benchmark is a composite of 60% Wilshire U.S. Real Estate Securities Index and 40% Wilshire Ex-U.S. Real Estate Securities Index.
6. This portfolio became a component of Fund A less than 10 years ago, so a 10-year return is unavailable.



U.S. EQUITIES MARKET REVIEW

Josh Stieler, CFA

Assistant Investment Manager, ELCA Board of Pensions

Fund A's U.S. equity component returned 16.75% in the third quarter, outperforming the benchmark return of 16.3%. Strong returns by the Large Cap Growth and Small-/Mid-Cap managers drove this positive performance.

The U.S. equity market continued its strong rally off of first quarter lows. While unemployment remains high, signs of positive economic indicators and improving corporate earnings have increased hopes that the recession is at or nearing an end. Particular strength has been shown from companies that fared most poorly in 2008 and early 2009. As the economic situation stabilizes, investors have shown a willingness to buy these previously distressed stocks at attractive valuations. All sectors showed positive performance for the quarter with the more cyclical sectors (e.g., industrials, consumer cyclicals) and financials showing the strongest returns. Sectors less exposed to the economic recovery, such as health care, utilities and consumer staples, lagged.

Value stocks outperformed growth during the quarter while smaller stocks outperformed larger.

NON-U.S. EQUITIES MARKET REVIEW

Josh Stieler, CFA

Assistant Investment Manager, ELCA Board of Pensions

Funds A's non-U.S. equity component returned 20.49% for the quarter, compared to 19.7% for the benchmark. Both the value and growth managers performed well for the quarter, driving the outperformance.

International markets outpaced U.S. markets for the second consecutive quarter. Growth in economic fundamentals and corporate earnings remains sluggish but, as was the case in the United States, markets were encouraged

by stabilization. Both developed and emerging markets performed well. In developed markets, continental Europe led the advance while the Japanese market continued to struggle. A renewed appetite for risk fueled strong returns in emerging markets, particularly in South Korea as well as the South American markets.

Value stocks outperformed growth stocks in developed markets while style was not a major differentiator of returns in emerging markets. The dollar continued to weaken during the quarter in part due to concerns over the dollar's status as the world's reserve currency. U.S. dollar-based returns were almost 5% above local currency returns.

GLOBAL REAL ESTATE SECURITIES MARKET REVIEW

David Quello, CFA

Associate Senior Investment Manager, ELCA Board of Pensions

Fund A's real estate securities component returned 32.94% in the third quarter of 2009, compared to the custom benchmark return of 31.8%. Real estate securities markets around the world continued to rebound significantly for the second quarter in a row. Regionally, European and U.S. real estate securities were the best performers while Asia lagged the other regions this quarter. The portfolio's outperformance during the quarter was largely driven by good stock selection in U.S. companies. This was partially offset by the portfolio's cash holdings which dragged down the portfolio's returns given the strong performance during the quarter. While the overall economic environment appears to be stabilizing, a recovery in real estate fundamentals will likely take some time due to the lag effect inherent in commercial real estate investments. The portfolio manager continues to emphasize companies with strong balance sheets given some uncertainties about the future supply of debt capital to the market.



FIXED-INCOME MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

For the third quarter, Fund A's fixed-income portfolio out-performed its benchmark, returning 5.12% versus the benchmark return of 4.05%. The out-performance represents a continued rally and overweight in the credit and non-agency mortgage related sectors that had lagged through much of the first quarter.

In its September 23 statement, the Federal Reserve noted that it "will continue to employ a wide range of tools to promote economic growth and preserve price stability". This includes keeping the Federal Funds rate between 0% and .25% with economic conditions likely warranting exceptionally low rates for an extended period of time. Though mortgage related security purchases will continue they noted the need to gradually slow this program to provide a smooth transition in markets. The fixed income markets responded positively with even high-priced treasuries rallying (+2.02%).

Overall investment-grade bonds, as measured by the Citigroup U.S. Broad Investment-Grade Index returned 3.56% for the quarter. The Credit and Asset Backed segments had the best performance returning 7.51% and 6.40%, respectively. Mortgages, previously buoyed by heavy purchases by the Fed still managed to eke out a positive return of 2.44% for the quarter.

HIGH-YIELD MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

For the third quarter of 2009, the high-yield bond component of Fund A returned 10.25%. This represents an underperformance relative to the Citigroup High Yield Cash-Pay Capped index. Performance continues to be affected by a grab for yield and demand for the riskiest market segments and individual issuers that the Fund's managers tend to avoid.

The high-yield asset class continued its strong performance during the quarter returning 13.42% (as measured by the index referenced above). The market's appetite for risk that returned in the second quarter continued into the third with the highest rated BBs returning 8.66% while the riskiest CCC segment gained in excess of 26%.

Market industry segment returns, widely distributed over the last 12 months began to smooth out during the quarter. Notable however, was the bankrupt index which returned 40.29% (and up nearly 125% year-to-date) and the continued strength in the technology segment (+28.18% for the quarter). Banks continued to lag posting a 4.54% quarterly return (though still down -32.81% year-to-date) and the small environmental services segment returning 2.72% (for both the quarter and year-to-date).

ELCA FOUNDATION PARTNERSHIP WITH ELCA BOARD OF PENSIONS

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

Long-term projected investment returns should 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 advisor 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 striving to earn 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 can provide 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

ABOUT FUND A

You should carefully consider the investment objectives, risks, charges and expenses of any fund before investing in it. Fund A is subject to risk. Past performance cannot be used to predict future performance. The ELCA Board of Pensions’ funds, including Fund A, are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Fund assets are invested in multiple sectors of the market. Some sectors, and therefore the funds, may perform below expectations and lose money over short or extended periods.

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 enhancing shareholder 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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