



ELCA Foundation
Evangelical Lutheran Church in America

ELCA ENDOWMENT FUND POOLED TRUST — FUND A

THIRD QUARTER 2011 REPORT

Endowment fund investing in a volatile economic climate

Keith Nelson
ELCA Foundation

Making investment decisions during volatile economic times can be unnerving. While markets continue to experience short-term volatility, historically, over the long term the following concepts make sense to consider when investing for the long term in vehicles such as Fund A.

- 1 Make sure you understand your investment strategy: time horizon, goals for growth or maintenance and risk tolerance.** Fund A invests endowment funds that by definition are perpetual funds — ultra-long term, so Fund A seeks to grow over time to help offset inflationary pressure, pay the costs of investing and provide a distribution amount, currently 4.25% annually. Fund A also seeks to help manage risk through prudent diversification.
- 2 Diversify, diversify, diversify.** To do this, Fund A is a broad-based, diversified, balanced fund: 35% U.S. stocks, 25% non-U.S. stocks (currently about 80% developed countries, 20% emerging markets), 15% U.S. bonds, 5% inflation indexed bonds, 10% high-yield bonds, and 10% global real estate securities, managed by 14 different sub-advisors.
- 3 Don't try to time the market.** No one, not even the experts, can consistently predict market movements. If your ministry is just entering Fund A as a participant, consider using a dollar cost averaging approach over a number of months, sending a similar amount into Fund A each month regardless of Fund A gains or losses month to month.
- 4 Use a "hands-off" approach.** Participation in Fund A offers access to professional investment managers who manage the various asset classes and investment styles while rebalancing the account as set forth in the rebalancing policy.
- 5 Stay focused on the big picture.** Generally, the purpose of endowment funds is to make distributions. Fund A makes distributions according to a pre-determined rate regardless of short-term performance by the fund. Also, the fund uses a five-year look back of unit values — averaging the unit values over the previous five years for the amount to which to apply the distribution rate — to help manage volatility of the distribution amount. The design and strategies utilized by Fund A seek to assist participants in the fund to keep their focus on enhancing and strengthening the ministries and missions of the church.

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Fund A — Third Quarter 2011 Performance

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

MARKET REVIEW — STUBBORN PROBLEMS PERSIST

Kurt A. Kreienbrink, CFA

*Senior Corporate Governance Analyst,
ELCA Board of Pensions*

Third Quarter Update

The S&P 500 Index was down significantly in the third quarter, falling 13.9%, while the fixed-income market, as measured by the Citigroup Broad Investment-Grade Bond Index, rose 3.9%. As a result of weak equity markets in the third quarter, year to date the S&P 500 is down 8.7%. Fixed-income on the other hand is up 6.7%.

Stubborn Problems Persist

A number of familiar items continued to weigh heavily on the markets during the quarter, and they include some rather complex issues, such as continued uncertainty in Greece and other European countries with debt issues; a U.S. economy which continues to walk a fine line between very modest growth and slipping into recession, and weak consumer and market sentiment. Still, when markets perceive progress is being made on any of these issues, markets may turn quickly.

Now What?

First of all, keep perspective. Even after taking into account the painful equity markets of the third quarter, the S&P 500 Index is still up significantly from its March 9, 2009 low. More specifically, as of September 30, 2011, the S&P 500 is up over 67% from the March 2009 bottom. The recent drop in the markets and increased volatility are a rude reminder that recoveries from severe downturns like we experienced in 2008 and 2009 are not always steady and upward.

Secondly, rely on strategic asset allocations, which are diversified both across and within asset classes. The practice of diversification is intended to help reduce volatility (fluctuations up or down) in the value of investments should any single investment or asset class perform poorly and allows investments to benefit from market gains as they occur no matter which of the asset classes invested in is performing well.

Consider the following example. A portfolio consisting solely of large company stocks as represented by the S&P 500 Index would have experienced returns of 1.1%, -1.2% and 2.8% over the one-, five- and 10-year periods ending September 30, 2011. During these same time periods, bonds, as represented by the Citigroup Broad Investment-Grade Bond Index experienced returns of 5.3%, 6.7% and 5.8%, respectively. A portfolio which includes allocations to both stocks and bonds would have produced higher returns over these time periods than one allocated exclusively to stocks.

While one may be tempted to look at performance numbers such as these and contemplate focusing exclusively on bonds, keep in mind that different asset classes perform better in different environments, and over longer time periods stocks have historically outperformed bonds. Specifically, since December 31, 1925, the annualized return for U.S. large-cap stocks is 9.7%, while U.S. core bonds have returned 5.7%*. We continue to believe in an investment philosophy that looks beyond current headlines and near-term returns and base our decisions on the tenets of diversification, strategic asset allocation and long-term investing.

*Historical asset class returns do not represent actual performance of ELCA Funds. Past performance is no guarantee of future results. Data obtained from Wilshire Associates Inc. (Wilshire Compass).

FUND A PORTFOLIO MARKET VALUE¹

As of September 30, 2011, Fund A had investments of approximately \$361.1 million:

- \$119.9 million in the U.S. equity component
- \$63.6 million in the investment-grade, fixed-income component

- \$39.2 million in the high-yield, fixed-income component
- \$83.2 million in the non-U.S. equity component
- \$33.6 million in real estate securities
- \$21.6 million in inflation indexed bonds

See the Fund A Investment Portfolio Performance chart on Page 3.



FUND A INVESTMENT PORTFOLIO PERFORMANCE AS OF SEPTEMBER 30, 2011

		THIRD QUARTER (%)	YEAR-TO-DATE (%)	ONE YEAR (%)	FIVE YEARS (%)	10 YEARS (%)
Total Fund A ²		-12.45	-8.08	-1.23	1.54	4.95
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>		-11.93	-7.34	-0.50	1.48	4.87
EQUITIES	Fund A U.S. equity portfolio ²	-16.46	-11.44	-0.92	-1.19	3.37
	U.S. equity benchmark <i>(Total Stock Market Index³)</i>	-15.23	-9.84	0.67	-0.76	3.57
	Fund A non-U.S. equity portfolio ²	-20.20	-17.47	-11.45	-1.36	N/A ⁶
	Non-U.S. equity benchmark <i>(MSCI All Country World (Ex-U.S.) Index)</i>	-19.85	-16.80	-10.81	-1.57	6.84
HIGH-YIELD	Fund A high-yield portfolio ²	-4.99	-0.89	1.91	7.59	N/A ⁶
	High-yield benchmark <i>(Citigroup High-Yield Cash-Pay Capped Index)</i>	-5.16	-0.62	2.56	6.67	8.45
FIXED-INCOME	Fund A fixed-income portfolio ²	2.94	5.90	4.70	6.61	5.73
	Fixed-income benchmark <i>(Custom Citigroup Index⁴)</i>	3.41	6.32	5.18	6.82	5.83
GLOBAL REAL ESTATE SECURITIES	Fund A global real estate securities portfolio ²	-17.48	-10.29	-2.88	-2.55	N/A ⁶
	Real estate securities benchmark <i>(Wilshire U.S. Real Estate Securities Index and Wilshire Ex-U.S. Real Estate Securities Index⁵)</i>	-15.66	-8.21	-0.78	-3.56	9.07
INFLATION INDEXED	Inflation indexed bond portfolio	4.98	N/A ⁷	N/A ⁷	N/A ⁷	N/A ⁷
	Inflation indexed benchmark <i>(Citigroup U.S. Inflation-Linked Securities Index)</i>	4.95	10.99	10.15	7.21	7.20

- NOTES:
- On August 1, 2011, Fund A and its benchmark completed its transition to the new strategic asset allocation. Please refer to the first quarter newsletter for details.
 - Past performance does not guarantee future results.

- Total market value of Fund A is \$360.2 million, including deposits between monthly valuation dates and operating cash on which a total fee of 1/2 of 1% is deducted monthly from each account.
- Returns are before the deduction of fees.
- The U.S. equity benchmark changed from the Russell 3000 to the Dow Jones Total Stock Market Index in November 2007.

- The fixed-income benchmark changed from the Citigroup Broad Investment Grade to the Custom Citigroup Index in October 2007.
- 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.
- This portfolio became a component of Fund A less than 10 years ago, so a 10-year return is unavailable.
- In June 2011, Inflation Indexed Bonds were added as a component to Fund A's asset allocation.



U.S. EQUITIES MARKET REVIEW

Josh Stieler, CFA

Investment Manager, ELCA Board of Pensions

Fund A's U.S. equity component returned -16.5% in the third quarter, underperforming the benchmark return of -15.2%. Underperformance was driven primarily by the risk controlled and small/mid-cap value managers.

The 15% drop in the U.S. equity markets marked the second worst quarterly result since the beginning of the credit crisis 2007. Macroeconomic fears carried the day as the ongoing sovereign debt situation in Europe, concern over U.S. debt levels and the resulting downgrade by Standard and Poor's, and questions on the health of the global financial sector all conspired to send investors fleeing riskier assets. Volatility spiked during the quarter with over half of the trading days producing returns of +/- 1% in the S&P 500 Index and almost 30% of the trading days producing returns of +/- 2%. As in past quarters, however, corporate profits continued to beat estimates.

Technology, utilities and consumer staples stocks held up much better than consumer discretionary, energy and financial stocks, as these sectors are more closely tied to the strength of the overall economy. Large-cap stocks outperformed small-cap stocks for the quarter while growth stocks outperformed value stocks.

NON-U.S. EQUITIES MARKET REVIEW

Josh Stieler, CFA

Investment Manager, ELCA Board of Pensions

Funds A's non-U.S. equity component returned -20.3%, trailing the benchmark return of -19.9%. Underperformance was broad-based, with three of the four non-U.S. equity managers trailing the benchmark.

The story in international markets continues to be the tenuous debt situation in Europe. What started out as high debt levels and default fears in several peripheral Euro zone nations has spread to broader concerns about several larger European Union economies such as Italy and Spain. Policymakers continue to struggle to find a solution,

introducing significant uncertainty in the markets. Emerging economies, the primary drivers of recent global economic growth, lagged developed markets for the quarter. While economic growth in emerging markets remains strong, any slowdown in developed economies is likely to affect these countries. Emerging markets trailed developed markets by 3.5% for the quarter and 6.7% year-to-date (in U.S. dollar terms).

The U.S. dollar strengthened against foreign currencies, reducing dollar-based returns by 4.5%. Investment style was not a major driver of returns in international markets, as both value and growth stocks fell by approximately 20%.

FIXED-INCOME MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

For the quarter, Fund A's fixed-income portfolio underperformed its benchmark, returning 2.9%, versus the Fund's custom benchmark return of 3.4%. An overweighting of the credit sector was the main contributor to underperformance as spreads widened through the quarter's second half.

Continuing weakness in the U.S. economy and lack of resolution of the Greek debt crisis erupted in a flight to quality during the quarter. Treasuries rallied to near record low yields; the 10-year yield fell 1.24% from the June quarter to 1.95%. On September 21, the Federal Reserve announced "Operation Twist," its decision to extend the maturity of its securities holdings with the objective of "twisting" or flattening the yield curve and reducing long-term rates relative to short rates. The 30-year bond yield ended the quarter 1.45% lower at 2.91% at quarter's end. On a total return basis, government-issued securities produced a return of 6.03% for the quarter; asset-backed securities came in at 3.55%, followed by credit and mortgage-backed securities returning 2.7% and 2.38%, respectively. Overall, the Citigroup U.S. Broad Investment-Grade Index, returned 3.9% for the quarter.



GLOBAL REAL ESTATE SECURITIES MARKET REVIEW

Mike Clancey, CAIA

Investment Analyst, ELCA Board of Pensions

Fund A's global real estate securities component returned -17.6% in the third quarter, compared to the custom benchmark return of -15.7%. Beginning in August and following on through September, global real estate securities sold off aggressively with the broader equity markets. Relative performance lagged the benchmark during the quarter primarily due to stock selection in the United States and Japan. However, an underweight to European real estate securities helped relative performance in the portfolio since that region significantly underperformed the United States and Asia. The property types that performed the best globally included apartments and stand-alone retail, while office and industrial companies lagged.

HIGH-YIELD MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

For the third quarter of 2011, the high-yield bond component of Fund A returned -5.1%, slightly underperforming its benchmark, the Citigroup High-Yield Cash-Pay Capped Index by 0.1%. Individual credit selection and quality positioning were reasons for the underperformance.

The flight to quality that took place in August and September took its toll on high-yield bonds, sending yields to over 10% in many cases. Overall, the asset class returned -5.2% for the quarter, but performance varied widely across industries. The retail and energy related segments performed best, while the gaming and housing related segments trailed.

As expected, the highest quality BB-rated segment outperformed the lowest rated CCC-rated bonds by a wide margin in the third quarter, returning 2.12% and -9.1%, respectively. Default rates remained benign, however, standing at just under 2% at quarter's end. While current spreads are pricing in defaults of 8% – 9% over the next 12 months, our managers believe they should only rise to 3% – 4%, indicating much of the bad news may already be reflected in current market prices.

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 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. Fund A seeks to achieve attractive long-term returns while investing in ways that are compatible with the social policies of the ELCA.

Fund A’s Social Purpose Program

The Board of Pensions uses a three-pronged approach to social purpose investing:

- 1 Positive social investments¹** — Making investments in pursuit of market-rate returns for participants, while channeling capital to underserved markets.
- 2 Shareholder advocacy** — Acting as fiduciaries on behalf of participants to positively influence decisions made by the companies in which the Board of Pensions is invested.
- 3 Social screening²** — Avoiding new investments in companies whose business practices conflict with the ELCA’s social criteria screens.

Fund A Supports Positive Change

Where applicable, the Board of Pensions’ social purpose fund managers seek and invest in activities they believe will positively benefit the community while achieving acceptable returns for participants. Managers look for investments which may include the following: community development, affordable housing, sustainable forestry, women- and minority-owned businesses, and clean energy and the environment.

Shareholder Advocacy Supports Shareholders

Through shareholder advocacy the Board of Pensions (in coordination with other shareholders where appropriate)

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

- 1 Dialogues** — Dialogue may involve meeting face-to-face with corporate leaders to discuss why specific changes have been proposed. This tactic has been proven to be particularly effective.
- 2 Shareholder resolutions** — Shareholder resolutions appear on proxy ballots prior to a corporation’s annual meeting, giving every shareholder the opportunity to vote on a proposed change.
- 3 Proxy voting** — 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.

Screening Investments According to Church Values

Each year, investment managers for screened portfolios receive a list of companies that may not be considered for future investment due to business practices that conflict with the ELCA’s social criteria screens². Social criteria screens include: alcohol, community economic development³, environmental³, gambling, military weapons, pornography and tobacco.

The process of developing the ELCA’s social criteria screens involves multiple sources. ELCA social statements (adopted by the ELCA Churchwide Assembly), social messages (adopted by the ELCA Church Council) and social policy resolutions (adopted by either Church Council or Churchwide Assembly) express scriptural and confessional understandings related to contemporary social issues and serve as the basis for social criteria screen development. All social criteria screens must be approved by the ELCA Church Council.

1. Consist mainly of investment-grade, fixed-income and alternative assets.
2. Due to practical implementation realities, not all portfolios in the social purpose funds are screened. Unscreened portfolios include real estate, alternative real assets and commingled assets.
3. Indicates positive social investment screen. Environmental screen is both positive and negative.

About Fund A

You should carefully consider the target asset allocations, 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, in which Fund A is invested, 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, as well as the fund, may perform below expectations and lose money over short or extended periods.

Neither the ELCA Board of Pensions nor its funds are subject to registration, regulation or reporting under the Investment Company Act of 1940, the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Advisers Act of 1940 or state securities laws. Members, therefore, will not be afforded the protections of those provisions of those laws and related regulations.



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The ELCA Foundation regional gift planners are located in regional offices throughout the country. Call (800) 638-3522 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 Chicago office or a regional gift planner nearest you



ELCA Foundation
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