



ELCA Foundation
Evangelical Lutheran Church in America

ELCA ENDOWMENT FUND POOLED TRUST — FUND A

THIRD QUARTER 2008 REPORT

Planning for future gifts

Creating policies for handling gifts from estates — Part two

EDITOR'S NOTE: *In our previous newsletter, Keith Nelson discussed the importance of establishing policies about how future gifts from estates are to be managed and used.*

The Rev. Keith T. Nelson
Associate Director, ELCA Foundation

Earlier, I suggested that a congregation's policy for managing estate gifts practiced first fruits giving (i.e., by assigning the first 10 percent or 20 percent of a gift to support ministry outside of the congregation). This quarter, I will cover additional policies a congregation can use to further define its goals for mission endowment.

Fund new areas of ministry

A congregation may have an interest in supporting new areas of ministry with initial funding from the Mission Endowment Fund. Typically, congregations establish a policy that says this funding will be in the form of a one-time grant. However, some congregations establish a policy by which a two- to four-year grant will be given each year, diminishing over time.

Establish a matching-gift program

Another policy beneficial to some congregations says: "The Mission Endowment Fund of (Name) Lutheran Church will fund new initiatives in our congregation only on a matching-gift basis with gifts from living members of the congregation." The benefit of this approach is to encourage increased involvement and support for ministry by members of the congregation.

Define "endowment" versus "memorial" fund

It may also be helpful to set a clear written distinction between the Mission Endowment Fund and your congregation's memorial fund.

- All undesignated estate gifts should be placed in the Mission Endowment Fund.
- All gifts received by a living donor who gives her or his gift in the memory or honor of another person or in celebration of a special occasion should be placed in the memorial fund, unless otherwise designated.

The ELCA Foundation can help you plan effective policies to support ministry through your congregation's Mission Endowment Fund. Please call your ELCA Foundation Regional Gift Planner (see Page 7) or call the ELCA Foundation office at (800) 638-3522, ext. 2970 for more information.

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Fund A — Third 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

To say investors have been disconcerted with the capital markets is an understatement, as the quarterly returns demonstrate. The losses and volatility have extended into October, as we continue to experience the bursting of a protracted credit bubble with global ramifications. Since the beginning of the new quarter on Oct. 1, the U.S. government and countries around the world have taken unprecedented moves to restore confidence in the financial markets.

While much of the focus has been on the precipitous drop in the stock markets, the freezing of the credit markets have been particularly worrisome. While we cannot predict when the deleveraging process will be completed (it is sure to take many months) or when stock markets will recover, we remain confident in the capital markets and believe that government intervention was necessary.

The rescue package will likely have unintended consequences and challenges. And, once confidence is restored, we anticipate officials will turn their attention to establishing a regulatory structure which is commensurate with the global, modern capital markets in which we operate today.

While Fund A is broadly diversified, which can lessen volatility over long time periods, it does not protect the Fund from downward markets like the ones we are currently experiencing. During the third quarter, Fund A returned -8.8 percent, versus a benchmark return of -8.4 percent.

Each of the asset classes in which Fund A invests experienced negative returns, with the exception of real estate securities. Additionally, except for high-yield securities, each portfolio also underperformed its benchmark. The investment managers who invest the underlying portfolios in each of the asset classes in which Fund A participates are focused on quality investments within their areas of expertise. In times like these, when the markets are driven erratically by fear, it is not necessarily surprising to see that our managers have lagged their benchmarks. You can learn more about each asset class’ returns within this newsletter.

Positioned for recovering stock and bond markets

We anticipate that when the markets begin to trade on the fundamentals of intrinsic value and credit worthiness, our managers will be well-positioned to take advantage of recovering stock and bond markets.

We want to assure you we continue to monitor and invest Fund A in a prudent, thoughtful and educated way on your behalf. We believe that those with a long investment time horizon, such as mission endowment funds, will be well-supported by a broad, diversified investment approach like that followed by Fund A.

ABOUT THE INVESTMENT ADVISER

Given the current market situation, what do you need to know about the investment adviser to Fund A?

- The ELCA Board of Pensions is solvent and in good financial shape.
- The assets of Endowment Fund A are held in trust separate from the Board of Pensions and the other assets of the ELCA.
- While Fund A will move up and down with the markets, at the beginning of September our broadly diversified portfolios avoided significant exposure to the most troubled financial securities.



FUND A PORTFOLIO MARKET VALUE¹

As of Sept. 30, 2008, Fund A had investments of approximately \$309 million:

- \$149 million in the U.S. equity component
- \$70 million in the investment-grade, fixed-income component

- \$34 million in the high-yield, fixed-income component
- \$39 million in the non-U.S. equity component
- \$17 million in real estate securities

FUND A INVESTMENT PORTFOLIO PERFORMANCE AS OF SEPT. 30, 2008

		THIRD QUARTER (%)	YEAR-TO-DATE (%)	ONE YEAR (%)	FIVE YEARS (%)
Total Fund A ²		-8.8	-15.0	-16.7	6.3
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%)		-8.4	-14.7	-16.4	6.0
EQUITIES	Fund A U.S. equity portfolio ²	-10.0	-20.0	-22.4	5.7
	U.S. equity benchmark (Dow Jones Wilshire 5000 Index ³)	-8.7	-18.6	-21.4	5.7
	Fund A non-U.S. equity portfolio ²	-22.6	-29.5	-30.7	N/A ⁴
	Non-U.S. equity benchmark (MSCI All Country World (Ex-U.S.) Index)	-22.0	-29.9	-30.3	11.3
HIGH-YIELD	Fund A high-yield portfolio ²	-4.5	-4.1	-4.1	5.6
	High-yield benchmark (Citigroup High-Yield Cash-Pay Capped Index)	-7.3	-7.7	-8.3	4.6
FIXED-INCOME	Fund A fixed-income portfolio ²	-1.6	-0.7	2.2	3.8
	Fixed-income benchmark (Custom Citigroup Index ⁵)	-0.7	0.5	3.5	3.8
REAL ESTATE SECURITIES	Fund A real estate securities portfolio ²	4.1	2.0	-13.4	N/A ⁴
	Real estate securities benchmark (Dow Jones Wilshire Real Estate Securities Index)	4.5	1.0	-12.9	13.6

1. Total market value of Fund A is \$312 million, including deposits between monthly valuation dates and operating cash on which a total fee of one-twelfth 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.



EDITOR'S NOTE: *This newsletter reports performance as of the end of the previous quarter. Therefore, while we acknowledge notable capital market fluctuations in early October, they are not reflected in the summaries that follow.*

U.S. EQUITIES MARKET REVIEW

Josh Stieler, CFA

Assistant Investment Manager, ELCA Board of Pensions

Fund A's U.S. Equity component returned -10.0 percent, trailing the benchmark return of -8.7 percent. Positive relative performance from JPMorgan failed to offset weaker performance of the other managers who struggled to add value in a challenging market environment.

U.S. equity markets continued their slide as the current crisis in the credit markets deepened. Energy and commodity stocks led the market decline while the financial sector was the strongest performer. This strong relative performance is misleading, however, as financial stocks significantly underperformed in the previous quarter. Small-cap stocks handily outperformed large-cap stocks while value stocks outperformed growth stocks.

The financial industry continues to consolidate (Lehman Brothers filed bankruptcy; AIG, Fannie Mae and Freddie Mac were taken over by the government; and Washington Mutual was bought by JPMorgan), despite U.S. Treasury and Federal Reserve efforts to support the market and jumpstart lending activity.

NON-U.S. EQUITIES MARKET REVIEW

Josh Stieler, CFA

Assistant Investment Manager, ELCA Board of Pensions

Fund A's non-U.S. equity component returned -22.6 percent, trailing the benchmark return of -22.0 percent. Strong relative performance by JPMorgan was more than offset by other managers. International equity markets, as measured by the MSCI All Country World ex-U.S. Index, fell almost 30 percent year-to-date.

International equity markets fell sharply in the third quarter, as it became clear that the credit crisis will not be confined to the United States. As in the United States, other governments were forced to rescue several large financial firms. Market declines were widespread, falling by double digits in all major countries.

Highlights:

- Developed markets fell by just over 20 percent.
- Emerging markets fell by almost 27 percent as investors looked to reduce overall risk exposure. Russia was the worst performing emerging nation, falling over 45 percent.
- In a sharp reversal of recent trends, the U.S. dollar strengthened significantly against major currencies. U.S. dollar-based returns were almost 7 percent below local currency returns.
- Growth stocks outperformed value stocks in both developed and emerging markets.

REAL ESTATE SECURITIES MARKET REVIEW

David Quello, CFA

Investment Manager, ELCA Board of Pensions

Fund A's real estate securities component returned 4.1 percent, compared to the benchmark return of 4.5 percent. The portfolio underperformed its benchmark largely due to an overweight in the hotel sector and an underweight in the health care sector. Defensive sectors such as health care, apartments and self-storage outperformed other more economy-sensitive sectors.

Given the quarter's financial turmoil, real estate securities were surprisingly successful, especially relative to other equity securities. Real estate securities have experienced increased volatility relative to past periods due to the global economic situation and their link to the financial sector. As a result, portfolio managers are closely examining company balance sheets to identify strong companies that can best maneuver with a slowing global economy and the uncertainties in financial markets.



FIXED-INCOME MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

Fund A's fixed-income portfolio underperformed its benchmark, returning -1.6 percent, versus the benchmark's -0.7 percent, reflecting the underweight of U.S. Treasury-only assets in the fixed-income portion of the portfolio.

The credit crisis peaked with the failure of Lehman Brothers on Sept. 15, and a handful of money market funds, considered the safest of fixed-income investment vehicles, subsequently failed or "closed shop."

Treasury Bill yields briefly went negative, and the commercial paper market, the funding American business relies on for daily working capital, all but dried up. The Federal Funds target rate remained steady at 2 percent.

Treasuries were in high demand during the quarter and rates dropped by 0.65 percent on the two-year and 0.15 percent on the benchmark 10-year. Governments as a whole returned 2.06 percent. By contrast, with risk premiums widening to the highest levels on record, the credit (corporate bond) sector returned -6.55 percent. Surprisingly, mortgage securities performed best, returning 2.16 percent for the quarter. The ordinarily high-quality, asset-backed sector returned a disappointing -2.57 percent due to the troubled consumer-related auto and credit card loans that back them.

HIGH-YIELD MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

The high-yield bond component returned -4.5 percent, its benchmark -7.3 percent. While still negative, conservative positioning of the portfolios and avoidance of the lowest quality portion of this market, combined with the absence of the socially screened gaming sector — one of the quarter's worst performing sectors, led to this significant outperformance of its benchmark.

The deepening credit crisis and a significant increase in the expected default rate weighed heavily on high-yield bonds and is reflected by the steadily increasing risk premium on high-yield bonds throughout the year. The average spread over Treasuries rose to almost 10 percent by Sept. 30, putting the average yield on the asset class at 12.5 percent.

The broad high-yield market and the riskiest sectors performed even worse; the former, which includes non-cash pay assets, lost over 9 percent; the riskiest CCC-rated bonds averaged a loss of nearly 14 percent.

Finance and auto manufacturers were among the worst performing segments, coming in at -11.8 percent and -12.1 percent, respectively. With oil prices peaking in July, the transportation and airlines industries were among the best performers, returning -1.85 percent and -1.90 percent, respectively.

ELCA FOUNDATION PARTNERSHIP WITH ELCA BOARD OF PENSIONS

The ELCA Board of Pensions serves as investment adviser for two of the ELCA Foundation's 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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