



ELCA Foundation
Evangelical Lutheran Church in America

ELCA ENDOWMENT FUND POOLED TRUST — FUND A

FOURTH QUARTER 2010 REPORT

Commitment and continuity despite change

The reorganization that began at the Evangelical Lutheran Church in America (ELCA) in 2010 echoes into the New Year with a leadership transition. On Tuesday, January 4, 2011, the Board of Trustees of the Endowment Fund of the ELCA unanimously elected David Novak, J.D., to serve as president of the Endowment Fund. Presiding Bishop Mark Hanson also appointed Novak as interim president of the ELCA Foundation. This change was announced after the resignation of Cynthia Halverson, who has served in those positions since September of 2007.

“It has been a great privilege to serve the church through the ELCA Foundation over the past 11 years,” said Halverson. “As I look forward to new personal and professional opportunities, I do so with great confidence that the Endowment Fund of the ELCA will continue to provide growing resources for all the ministries of the ELCA.” Halverson noted, “The work is in good hands ... so much so that you will hardly notice there is a transition.”

Novak has worked in the ELCA Foundation since 2004, most recently as the director for Gift Planning. He expressed gratitude for Halverson’s many accomplishments since joining the ELCA in 1999. “I look forward to carrying on the work of the Endowment Fund and the ELCA Foundation,” said Novak. “We thank each of the member groups for their participation in the ELCA Endowment Fund Pooled Trust — Fund A, gifts through donor advised funds, named endowments and their commitment to social purpose investing.”

Halverson’s resignation is effective February 11, 2011.

For more information about investing in Fund A or making a gift to the Endowment Fund of the ELCA, please call (800) 638-3522, ext. 2970, or (773) 380-2970.

STRATEGIC ASSET ALLOCATION UPDATE

In the Second Quarter 2010 Report for the ELCA Endowment Fund Pooled Trust — Fund A, Bonalynn Wallach, ELCA Foundation manager for investments, described planned 2010 changes to the Strategic Asset Allocation of Fund A. These changes, to include inflation-indexed bonds and alternative equities, did not occur and will not occur as originally proposed. The reason is that there are too many uncertainties with regard to tax reporting, disclosures and potential liabilities for Fund A participants if Fund A includes Alternative Equity investments. ELCA Foundation staff and the ELCA Board of Pensions are committed to continued review of the Strategic Asset Allocation of Fund A for potential enhancements and further diversification.

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Fund A — Fourth quarter 2010 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 REVIEW

Kurt A. Kreienbrink, CFA

Corporate Governance Analyst, ELCA Board of Pensions

Strong finish to a strong year

For the fourth quarter, the S&P 500 Index was up 10.8%, and was up 15.1% for the entire year. While the fixed-income market, as measured by the Citigroup Broad Investment-Grade Bond Index, returned a -1.3% for the quarter, it still finished up 6.3% for the year.

It didn’t feel that good, did it?

There certainly has been a better tone to the markets as of late, but a return of over 15% seems high given the roller coaster of feelings and events experienced during the year. 2010 will be remembered for the debt crisis in Europe (Greece and Ireland in particular), the May 6 “flash crash,” and fears of a double-dip recession, among other things. These events all contributed to the significant movement (up and down) experienced in returns during the year. While the overall return for the year was 15.1%, quarterly returns were 5.4% in Q1, -11.4% in Q2, 11.3% in Q3 and 10.8% in Q4. When viewed on a quarterly basis, it’s easier to understand why 2010 didn’t feel like a smooth upward ride.

What’s ahead?

The year ended with some strong momentum in the equity markets, some positive news and trends concerning jobless claims, the extension of federal tax cuts (along with a

temporary social security payroll tax reduction), and strong company fundamentals. All of these items bode well for the equity markets ahead. However, there are bound to be issues that may create future market volatility. Potential issues include:

- continued European debt concerns
- deterioration in financial budgets at federal, state and local levels
- increased concern around higher inflation and higher interest rates if the U.S. economy becomes too strong too quickly

As you may recall, rising interest rates negatively impact the price of bonds. This fact rang true in the fourth quarter when rising interest rates significantly impacted returns for the bond market. As noted above, the fixed-income market, as measured by the Citigroup Broad Investment-Grade Bond Index, returned a -1.3% for the quarter. A quarter does not a trend make, but given the relatively low level of interest rates experienced in the U.S. in recent times, potential market volatility related to interest rate changes is not out of the question.

So, what does this mean for you? After two consecutive years of significant positive returns in the stock market (15.1% in 2010 and 26.5% in 2009) and the bond market too (6.3% in 2010 and 5.1% in 2009), you might be feeling like this is something you can get used to. But, things can change quickly. Given this, now is a good time to review your overall investment goals.



FUND A PORTFOLIO MARKET VALUE¹

As of December 31, 2010, Fund A had investments of approximately \$388.4 million:

- \$197.0 million in the U.S. equity component
- \$72.0 million in the investment-grade, fixed-income component
- \$38.0 million in the high-yield, fixed-income component
- \$60.1 million in the non-U.S. equity component
- \$21.4 million in real estate securities

FUND A INVESTMENT PORTFOLIO PERFORMANCE AS OF DECEMBER 31, 2010

		FOURTH QUARTER (%)	ONE YEAR (%)	FIVE YEARS (%)	10 YEARS (%)
Total Fund A ²		7.45	13.98	4.75	4.77
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>		7.38	14.86	4.68	4.27
EQUITIES	Fund A U.S. equity portfolio ²	11.88	15.99	2.40	2.66
	U.S. equity benchmark <i>(Total Stock Market Index³)</i>	11.67	17.49	2.90	2.24
	Fund A non-U.S. equity portfolio ²	7.29	11.83	5.58	N/A ⁶
	Non-U.S. equity benchmark <i>(MSCI All Country World (Ex-U.S.) Index)</i>	7.20	11.15	4.82	5.58
HIGH-YIELD	Fund A high-yield portfolio ²	2.82	13.63	8.97	N/A ⁶
	High-yield benchmark <i>(Citigroup High-Yield Cash-Pay Capped Index)</i>	3.21	13.95	8.02	8.61
FIXED-INCOME	Fund A fixed-income portfolio ²	-1.13	6.74	6.08	5.98
	Fixed-income benchmark <i>(Custom Citigroup Index⁴)</i>	-1.07	6.55	6.15	6.04
GLOBAL REAL ESTATE SECURITIES	Fund A global real estate securities portfolio ²	8.26	27.08	4.27	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>	8.09	27.13	2.51	11.09

NOTE: Past performance does not guarantee future results.

1. Total market value of Fund A is \$388.8 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 11.9% in the fourth quarter, narrowly outperforming the benchmark return of 11.7%. Strong relative returns by the large-cap growth and small-/mid-cap managers were offset by the weaker performance of the large-cap value manager.

Markets continued their strong performance in the fourth quarter, repeating their double-digit gains of the third quarter. Investors continue to embrace the idea of a stabilizing economy. The recovery in the employment market remains tepid, but the latter half of 2010 showed encouraging signs. It proved to be a solid year for the corporate sector, with projected operating earnings growth of over 30% in 2010 (as measured by the S&P 500). While corporations continue to manage costs closely, revenue growth is starting to contribute to improving margins. Gains were broad-based as all sectors rose in the quarter. Energy and Consumer Cyclical stocks led the way with a gain of over 15% while the more defensive sectors, such as Utilities and Consumer Staples, lagged the overall market.

Small-cap stocks returned over 16% for the quarter, handily outperforming large-cap returns of approximately 11%. Growth stocks outperformed value as investors continued to favor stocks with strong earnings growth.

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 7.3%, outperforming the benchmark return of 7.2%. Stronger relative returns by the growth and value managers were offset by the weaker performance of the core managers.

International equity markets continued to show strong returns yet lagged the U.S. market for the quarter and the year. Despite lingering economic and geopolitical risks, international equity markets still managed double-digit gains in 2010. Signs of recovery in major developed market economies overcame sovereign credit risks in many smaller European nations, such as Portugal, Ireland, Italy, Greece and Spain. For the quarter, emerging markets performed in line with developed markets. However, emerging markets annual return of 19% more than doubled developed market returns of 9%. Canada and Japan led the way in developed markets while Argentina and Russia led emerging markets, based largely on rising oil prices.

The dollar weakened versus major currencies and, as a result, dollar-based returns outperformed local currency returns by over 1% for the quarter. For the year, dollar based returns exceeded local currency returns by 3.5%. As in the U.S., growth significantly outperformed value in developed markets. Style was not a major driver of emerging market 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 8.26% in the fourth quarter, compared to the custom benchmark return of 8.09%. Real estate securities continued their strong 2010 performance during the quarter as the overall global economic outlook has improved. Europe continues to underperform the U.S. and Asia given concerns over the strength of some European Union countries. Hotels had the strongest performance during the quarter while healthcare properties were the weakest performers. The portfolio performed in line with the benchmark during the quarter as well as the calendar year 2010.



HIGH-YIELD MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

For the fourth quarter of 2010, the high-yield bond component of Fund A returned 2.8%, under-performing its benchmark, the Citigroup High-Yield Cash-Pay Capped Index by 0.4%. Individual credit selection and quality positioning were the primary reasons for the under-performance.

Demand continued to be strong for most of the fourth quarter with the Citigroup High-Yield Cash-Pay Capped index posting a solid 3.21% return. There was a short flight to quality in November that produced a negative return for the month, but confidence returned in December to offset the loss. Corporate balance sheets and credit metrics continue to be strong; defaults declined to 3.1% by the end of December according to Moody's. This compares to a default rate of 13.1% just a year ago.

The positive environment again encouraged investors to reach for the riskiest and highest yielding CCC credits evidenced by that segment's 7.39% return, compared with that of BB's at only 1.53%.

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.

FIXED-INCOME MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

For the fourth quarter of 2010, Fund A's fixed-income portfolio under-performed its benchmark, returning -1.13% versus the benchmark return of -1.07%. An underweighting of the credit sector and security selection within the credit and mortgage sectors was the primary reason for the outperformance.

Renewed signs of economic strength sent bonds into negative territory during the last quarter of the decade. While risk premiums narrowed in the credit and mortgage segments, rising interest rates allowed only the shortest maturities to eke out positive returns. Overall, bonds returned -1.34% for the quarter. Government securities lead the decline posting a -2.34% return, followed by credit and asset-backed securities with returns of -1.68% and -1.41% respectively. Only the mortgage sector ended the quarter in positive territory with a return of 0.22%.

The Federal Reserve kept its Fed Funds rate near 0% during the quarter and did not back off of its intention to implement a second round of quantitative easing that some market participants feel is unnecessary and could cause an increase in long-term inflation expectations. The Fed noted in its December 14, 2010, statement that while household spending is increasing it remains constrained by continued high unemployment and "measures of underlying inflation have continued to trend downward." Short-term interest rates should therefore remain stable in the foreseeable future while longer rates become potentially more volatile.

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 that 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)

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.

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 screens.² 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 an 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.



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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 Chicago office or a regional gift planner nearest you



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