



ELCA Foundation
Evangelical Lutheran Church in America

ELCA ENDOWMENT FUND POOLED TRUST — FUND A

FIRST QUARTER 2009 REPORT

Gift Valuation and Acknowledgment

Laura Knitt, JD

Director of Legal and Regulatory Compliance,
ELCA Foundation

Now and then I read IRS cases where a donor’s charitable deduction is not recognized because certain steps have been missed. I hope this article can help prevent problems for donors to your ministry. In requesting gifts for your ministry’s endowment, be prepared to provide proper acknowledgment of gifts received. Valuing a gift for a donor to claim an income-tax charitable contribution deduction is the donor’s responsibility. It helps to know the basics.

When your ministry receives a \$10,000 check, the donor’s gift value is \$10,000. Along with thanking the donor, your ministry’s job is to provide written acknowledgment of the receipt of cash in the amount of \$10,000 for which no goods or services have been provided in return for the gift. If goods or services are provided by your ministry (such as tickets to an endowment celebration dinner), your ministry’s gift acknowledgment has to describe and value such goods or services (unless of an “insubstantial value”). Acknowledgment for gifts of non-cash assets — like appreciated securities, real estate or personal property — should describe a gift (such as 2,000 preferred shares of Acorp stock), but not necessarily list its monetary value.

There are different rules for donors and their tax advisers to use to value various types of property. One of the most important points is that for non-cash deductions of more than \$5,000, a donor must get a qualified appraisal by a qualified appraiser, unless the gift qualifies for an exception. The requirements, including exceptions, are listed in *IRS Publication 561 — Determining the Value of Donated Property**.

For gifts of property valued over \$500, the donor must complete *IRS Form 8283 — Non-cash Charitable Contributions**. If the value of donated property is over \$5,000 (except for certain publicly traded securities), a representative of your ministry must sign the Donee Acknowledgment part of *Form 8283*, which states that if the property is sold, exchanged or otherwise disposed of within three years, the ministry will file with the IRS a *Form 8282 — Donee Information Return**. Your ministry’s acknowledgment on *Form 8283* does not represent agreement with the claimed value of the gift.

A little due diligence and attention to details can go a long way for your ministry.

*IRS forms and publications are available at www.irs.gov.

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Fund A — First 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

Are we there yet?

Are we there yet? This simple question needs very little explanation for any parent who has been on a long road trip with small children. I have experienced it with my own kids, but I think it is more interesting to recall how it felt in the back seat. The Sahara of the sun-side of the car, the Antarctic on the other, cramped legs, snack food gone, and we were just sooooo excited to get to the cabin. As we strive in these difficult times to fulfill mission commitments to communities with increasing needs, could there be a more salient question right now than “are we there yet”?

At 15 months, this recession is one of the longer ones of the post-WWII era, shorter in length than the back-to-back recessions of the early 1980s and similar to the recession associated with the oil shock of the 1970s. But this recession feels worse in many ways, maybe because we are still in the midst of it. Still, economic data suggests we are living through extraordinary times. Unemployment is at a 25-year high, and as a lagging indicator, is likely to go higher. Inflation is close to zero, short-term interest rates are near zero and the average 30-year mortgage rate is at its lowest rate since at least 1971. But, banks continue to be reluctant to lend to consumers, businesses and sometimes each other. Home prices, gross domestic product and corporate profits also continue to decline.

In the race to the bottom of the investment markets, it is hard to say if we have quite gotten there yet. A number of economists have voiced hope that with a recent, slight deceleration in the rate of decline among some economic indicators, we may be closing in on a bottom. The equity markets took heart during March, cutting year-to-date declines nearly in half, evidence that things can come back quickly. However, analysts have been cautious to declare the broad, global repricing of all assets is complete. Amid

the steepest, global recession since the Great Depression, no one can call the precise time of a market turn.

Yet the question persists, *are we there yet?* Unfortunately, we’ll probably only know we’ve reached the bottom of the investment markets when we see it from our rearview mirror. For now, people are doing the best they can with the information they have and no road map. For example, the United States government is trying not to repeat the most obvious mistakes of the past. During the Great Depression, the U.S. government made the situation worse when it raised taxes, raised interest rates and worked to decrease the deficit. Today, under the guidance of Federal Reserve Chairman Ben Bernanke (a scholar of the Great Depression), the government is employing an eased monetary policy and injecting capital into the systems, things it eventually tried in the 1930s but too late to unravel the damage.

It is unclear what the right policy will have been at this particular time and in these particular circumstances. We do know that we will not get there if we stop moving forward. These are extraordinary times, but we stand by time-tested basic investment philosophies, such as the diversification found in Fund A, that we believe work over time for endowed assets with long time horizons.

FUND A — FIRST QUARTER 2009 SUMMARY

During the first quarter of 2009, general economic conditions remained unstable. However, based on a perceived slowing of the decline in some leading indicators during the month of March, the global equity markets enjoyed a nice rally. During the quarter, Fund A returned -7.4 percent versus a benchmark return of -7.6 percent, which while positive on a relative basis was reflective of the negative returns in most asset categories.



FUND A PORTFOLIO MARKET VALUE¹

As of March 31, 2009, Fund A had investments of approximately \$241 million:

- \$121 million in the U.S. equity component
- \$47 million in the investment-grade, fixed-income component

- \$24 million in the high-yield, fixed-income component
- \$36 million in the non-U.S. equity component
- \$11 million in global real estate securities

FUND A INVESTMENT PORTFOLIO PERFORMANCE AS OF MARCH 31, 2009

		FIRST QUARTER (%)	ONE YEAR (%)	FIVE YEARS (%)
Total Fund A ²		-7.4	-30.0	-1.2
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%, Dow Jones Wilshire Real Estate Securities Index/ Dow Jones Wilshire ex-U.S. Real Estate Securities Index ⁵ 5%)		-7.6	-31.4	-1.9
EQUITIES	Fund A U.S. equity portfolio ²	-9.9	-37.2	-4.2
	U.S. equity benchmark (Dow Jones Wilshire 5000 Index ³)	-10.6	-38.0	-4.5
	Fund A non-U.S. equity portfolio ²	-9.8	-47.0	0.5
	Non-U.S. equity benchmark (MSCI All Country World (ex-U.S.) Index)	-10.7	-46.5	-0.7
HIGH-YIELD	Fund A high-yield portfolio ²	8.2	-7.7	3.0
	High-yield benchmark (Citigroup High-Yield Cash-Pay Capped Index)	5.6	-18.8	-0.1
FIXED-INCOME	Fund A fixed-income portfolio ²	0.7	1.3	3.9
	Fixed-income benchmark (Custom Citigroup Index ⁴)	0.7	3.6	4.3
GLOBAL REAL ESTATE SECURITIES	Fund A global real estate securities portfolio ²	-28.0	-54.4	-5.3
	Real estate securities benchmark (Dow Jones Wilshire Real Estate Securities Index and Dow Jones Wilshire ex-U.S. Real Estate Securities Index ⁵)	-27.6	-58.0	-8.1

Past performance does not guarantee future results.

1. Total market value of Fund A is approximately \$241 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. 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 percent Dow Jones Wilshire Real Estate Securities Index and 40 percent Dow Jones Wilshire ex-U.S. Real Estate Securities Index.



U.S. EQUITIES MARKET REVIEW

Josh Stieler, CFA

Assistant Investment Manager, ELCA Board of Pensions

Fund A's U.S. equity component fell by 10.4 percent, outperforming the benchmark return of -10.6 percent. Positive relative returns by the value and risk-controlled managers more than offset the underperformance of the growth manager.

After falling sharply in January and February the Wilshire 5000 Total Market Index finished the quarter down -10.6 percent, its sixth consecutive losing quarter. The index lost 45.7 percent during this losing streak. Investor concern over mounting job losses, weak corporate earnings and unprecedented government measures to stabilize the economy continued to dominate market sentiment. The news was not all bad, however; cautious optimism that the recession is near an end drove the market up almost 20 percent the last three weeks of March.

Growth stocks significantly outperformed value stocks, largely due to the weak performance of financial stocks. Large-cap stocks outperformed small-cap as investors avoided the shares of the riskier small companies.

NON-U.S. EQUITIES MARKET REVIEW

Josh Stieler, CFA

Assistant Investment Manager, ELCA Board of Pensions

Funds A's non-U.S. equity component fell by 10.2 percent, compared to -10.7 percent for the benchmark. Both the value and growth managers had very strong relative quarters.

International markets continue to struggle with the same economic woes that have plagued the United States. Markets continue to focus on the coordinated governmental efforts to stabilize economies and restore health to the troubled financial sector. As in U.S. markets, international markets tumbled in January and February before showing strong gains in March. Developed markets returned -14 percent, significantly trailing the 0.95 percent return of emerging markets.

Growth outperformed value in both developed and emerging markets. The U.S. dollar continued to strengthen in the first quarter, reducing the returns of dollar-based investors. Dollar-based returns trailed local currency returns by more than 3.5 percent.

GLOBAL REAL ESTATE SECURITIES MARKET REVIEW

David Quello, CFA

Investment Manager, ELCA Board of Pensions

Fund A's global real estate securities component returned -28.0 percent in the first quarter, compared to the benchmark return of -27.6 percent. Real estate securities markets declined significantly during the quarter due to sluggish economic results and continued concerns about the financial sector. While the declines were spread across most regions and property types, U.S. real estate securities had the poorest performance of -33.9 percent, while non-U.S. real estate securities declined -16.3 percent. Real estate companies continue to focus on raising and preserving cash to help meet debt obligations until the capital markets begin functioning normally again.

During the quarter, the portfolio completed the transition from a purely U.S. real estate securities portfolio to a global real estate securities portfolio. The global portfolio targets a 60 percent U.S. real estate securities and 40 percent non-U.S. real estate securities allocation. The broadening of the portfolio is expected to improve the risk/return profile of Fund A.



FIXED-INCOME MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

Fund A's fixed-income portfolio and its benchmark both returned 0.7 percent.

The Federal Reserve continued its policy to keep the Fed Funds rate between 0 percent and 0.25 percent. It also continued its policy of growing its balance sheet through the purchase of Agency Mortgage Backed Securities (MBS), adding plans throughout the quarter to include other securities such as longer-term treasuries.

The Term Asset-Backed Securities Loan Facility led the depressed asset-backed securities segment to an outsized return of 8.37 percent for the quarter. Agency MBS also had a positive return of 2.25 percent. All other high-grade fixed income segments posted negative returns, largely due to rising Treasury rates. Long Treasury yields moved higher by 0.86 percent to end the quarter at 3.53 percent; the two-year note rose just 0.20 percent to 0.54 percent.

The government segment was the worst performer, returning -1.17 percent, with Corporate Bonds returning a slightly better -1.09 percent. The strong performance of mortgage-backed and asset-backed securities helped the overall market to a slightly positive 0.24 percent return as measured by the Citigroup U.S. Broad Investment-Grade Index.

HIGH-YIELD MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

The high-yield bond component of Fund A returned 8.2 percent, relative to its benchmark, the Citigroup High-Yield Cash-Pay Capped index, which returned 5.6 percent. The outperformance was due to conservative portfolio positioning and avoidance of the lowest quality portion of this market.

The strong performance represented the continuation of a rally that began in December 2008, when yields in the asset class approached 20 percent on average. Not wanting to miss an opportunity, investor cash began to flow into high-yield bonds again and with new issuance still low, prices had no place to go but up. The preference for quality continued however with the strongest demand for the highest rated BB bonds; that segment returned 7.05 percent where the lowest rated CCC segment returned only 1.15 percent.

Many of the most beaten down consumer-related industries led the rebound; leisure (17.79 percent), restaurants (15.79 percent) and home builders (12.61 percent) were among the strongest performers. Conversely, some previously more stable industries such as aerospace (-2.55 percent) and oil equipment (4.23 percent) underperformed the market as a whole.

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 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



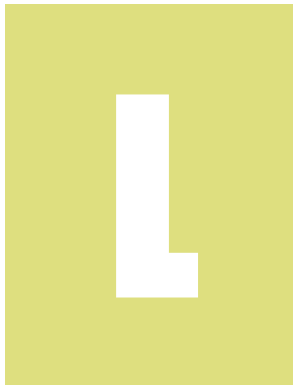
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Evangelical Lutheran Church in America

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