

# ELCA ENDOWMENT FUND POOLED TRUST – FUND A

FOURTH QUARTER 2015 REPORT



**ELCA Foundation**  
Evangelical Lutheran Church in America

## FUND A – FOURTH QUARTER 2015 SUMMARY

For the fourth quarter, Fund A returned 3.0%, trailing the benchmark return of 3.3%, gross of fees. For the trailing 12 months, the Fund is down 0.6%, ahead of the benchmark return of -1.0%, gross of fees.

## SLIGHTLY POSITIVE IS BETTER THAN NEGATIVE

### Kurt Kreienbrink, CFA

Manager, Socially Responsible Investing and Investor Advocacy, Portico Benefit Services

### Fourth quarter update

The Standard & Poor's 500 Stock Index (S&P 500) total return was 7.0% for the quarter, and 1.4% for the year. The investment-grade bond market, as measured by the Citigroup Broad Investment-Grade Bond Index, was down 0.5% for the quarter, but up 0.5% in 2015.

### Key market news

On Dec. 16, the Federal Reserve (the Fed) adopted a federal funds rate target of 0.25% to 0.50%, the first increase in more than nine years. While there appeared to be limited near-term impact from the increase, this move indicates the Fed believes the U.S. economy is on stronger footing. Other key news during the quarter included continued weakness in the energy industry and commodities, as well as continued concerns about a slowing Chinese economy.

### What will 2016 bring?

Clearly, 2015 was not a banner year for stocks (using S&P 500) or bonds (using Citigroup Broad Investment-Grade Bond Index), but at least they were slightly positive. Furthermore, stocks have not seen a negative year since 2008 (when they were down 37%) and bonds have only seen one negative year (down 2% in 2013) in that time.

Still, the question remains: What will 2016 bring? The simple answer is: Nobody knows for sure. As Portico's senior investment manager of investment implementation reminded me, it's best to be wary of market predictions since they rarely come true. Case in point: As I look back at the beginning of 2015, I don't recall a lot of predictions for just slightly positive returns for both stocks and bonds.

So what's a person to do? The bottom line is it's best to focus on what you can control. At Portico, this means creating and maintaining portfolios that are well diversified both across and within asset classes. It also means continuing to focus on long-term fundamentals which influence long-term performance, and not being distracted by market predictions which rarely come true.

## EQUITIES MARKET REVIEW

### Josh Stieler, CFA

Senior Investment Manager, Portico Benefit Services

### U.S. equity

The U.S. Equity component of Fund A returned 5.7% in the fourth quarter, trailing the benchmark return of 6.3%. Weak relative returns were driven primarily by the large cap core and large cap value components.

The U.S. equity market, as measured by the Russell 3000 Index, narrowly eked out a gain for the year, returning 0.48%. During the fourth quarter, the long-awaited Federal Reserve interest rate increase occurred. However, it remains to be seen whether or not the Fed continues on this course, or pauses to gauge the health of the economy. The other big stories of 2015, in terms of market drivers, were China's slowing growth and the continuing fall in oil and other commodity prices. As a result, energy and materials stocks lagged the overall market while health care, consumer and technology stocks outperformed the overall market. Large cap outperformed small cap, while growth outpaced value stocks for the year.



## EQUITIES MARKET REVIEW (CONT'D)

### Non-U.S. equity

Fund A's non-U.S. equity component returned 3.6% in the fourth quarter, beating the benchmark return of 3.5%. Both growth components – large cap and small cap – were the drivers of positive relative performance.

This year marked the third consecutive calendar year in which non-U.S. markets' collective returns trailed those of the U.S. market. Much of this weakness was driven by emerging markets, as developed countries performed more in line with U.S. markets. The other big driver of the return disparity was the currency impact. The U.S. dollar continued to strengthen in 2015, resulting in a headwind of 7.5%. In other words, price movements of the stocks in their home country's currency were 7.5% higher than these prices translated back to U.S. dollars.

## GLOBAL REAL ESTATE SECURITIES MARKET REVIEW

### Mike Clancey, CFA, CAIA

Assistant Investment Manager,  
Portico Benefit Services

Fund A's global real estate securities component returned just under 1.6% in 2015, compared to the custom benchmark return of just over 1.6%.

Global real estate securities outperformed both U.S. equity (.5%) and non-U.S. equity markets (-4.6%) over the course of the year as volatility came back into the public equity markets amidst global economic slowdown concerns and the first Fed Funds rate hike in nearly ten years – which the FOMC announced in December. US REITs outperformed their international counterparts by a wide margin (+5% vs. -2.7% USD returns). Portico's REIT managers continue to note how real estate valuations are higher in the private markets than in the public markets, as large investors continue to pile into trophy properties in the largest cities globally. However, real estate demand continues to be healthy when weighed against the very modest construction pipeline in all property types – with the exception of multifamily in the U.S.

## FIXED-INCOME MARKET REVIEW

### Mark Haney, CFA

Senior Investment Manager, Portico Benefit Services

### Core investment-grade fixed-income

In the fourth quarter of 2015, Fund A's fixed-income portfolio returned -0.4%, equaling the return of the custom benchmark.

As was widely expected, the Federal Reserve decided to raise the federal funds rate from near 0% to a target range of between .25% and .50% on Dec. 16. They cited expanding economic activity and improvement in a range of labor market indicators, including ongoing job gains and declining unemployment. All policies of reinvesting maturing principal of government agency and mortgage-backed holdings remained unchanged.

Declining energy and commodity prices continue to weigh on the markets during the quarter, but risk assets outperformed after their third quarter sell-off. Fixed income posted a negative return of -.53% (as measured by the Citigroup Broad Investment-Grade Bond Index) after the Fed's decision to raise rates – 3- and 5-year Treasury rates rose about 0.4%, though short Treasury Bills and longer-dated bonds rose less than 0.2%.

### High-yield bonds

High-yield bonds continued to struggle during the fourth quarter of 2015; the asset class posted a -1.7% return as measured by the Citigroup High-Yield BB/B index. Portico high-yield managers outperformed the index for the quarter, returning -1.0%.

With the exception of energy and commodities sectors, fundamentals remained fairly strong and defaults were only marginally higher. According to Moody's, the U.S. speculative-grade default rate edged up to 3.0% in November – up from 2.8% in October with over a third of those coming from the commodities sector. Higher interest rates didn't seem to hurt the most interest-rate-sensitive BB's. BB's posted a return of -0.8% for the quarter, compared to -2.8% for B rated credits and -7.8% for CCC's. While most industry sectors were negative, commodities and energy producers stood out by returning -12% and -21% respectively.

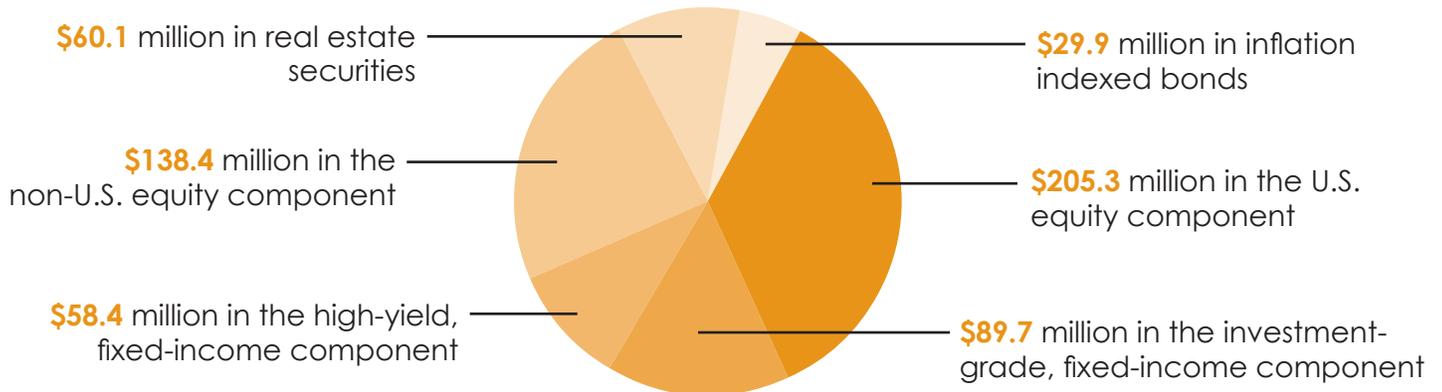
### Inflation-indexed bonds

With inflation expectations declining during the quarter, inflation-indexed bonds posted a negative return of -0.7%. This passively-managed (indexed) portfolio's return was in line with that of the benchmark.



## FUND A PORTFOLIO MARKET VALUE<sup>1</sup>

As of December 31, 2015, Fund A had investments of approximately \$581.8 million.



## FUND A INVESTMENT PORTFOLIO PERFORMANCE<sup>2</sup> AS OF DECEMBER 31, 2015

	Q4 (%)	YTD (%)	1 YR (%)	3 YRS (%)	5 YRS (%)	10 YRS (%)	SINCE INCEPTION	
<b>TOTAL FUND A<sup>7</sup></b>	3.00	-0.57	-0.57	7.88	7.33	6.03	5.05	
<b>FUND A BENCHMARK:</b> Benchmark: 35% Russell 3000 Index, 25% MSCI All Country World ex-U.S. Index, 10% Citigroup High Yield BB/B Cash Pay Capped Index, 15% Custom Citigroup Bond Index, 10% of Custom Dow Jones Global Real Estate Securities Index (60% Dow Jones U.S. Select Real Estate Securities Index and 40% Dow Jones Global ex-U.S. Select Real Estate Securities Index), and 5% Citigroup U.S. 1-10 year Inflation Linked Securities Index.	3.32	-0.97	-0.97	6.80	6.85	5.76	4.91	
<b>EQUITIES</b>	Fund A U.S. Equity portfolio	5.66	-0.37	-0.37	15.66	12.61	7.38	4.91
	U.S. Equity Benchmark (Russell 3000 <sup>3</sup> )	6.27	0.48	0.48	14.74	12.19	7.44	4.97
	Fund A non-U.S. equity portfolio	3.64	-1.93	-1.93	4.04	2.56	4.06	N/A
	Fund A non-U.S. equity benchmark (MSCI All Country World (Ex-U.S.) Index)	3.52	-4.60	-4.60	2.02	1.38	3.08	N/A
<b>HIGH-YIELD</b>	Fund A high-yield portfolio	-0.99	-1.94	-1.94	2.50	5.25	7.10	N/A
	High-yield benchmark (Citigroup BB/B Cash Pay Capped Index <sup>8</sup> )	-1.67	-4.14	-4.14	1.49	4.81	6.40	N/A
<b>FIXED-INCOME</b>	Fund A fixed-income portfolio	-0.42	0.55	0.55	1.59	3.46	4.76	5.37
	Fixed-income benchmark (Custom Citigroup Index <sup>4</sup> )	-0.40	0.57	0.57	1.56	3.43	4.78	5.42
<b>GLOBAL REAL ESTATE SECURITIES</b>	Fund A global real estate securities portfolio	4.03	1.57	1.57	7.54	8.85	6.54	N/A
	Real estate securities benchmark (Custom Dow Jones Global Real Estate Securities Index <sup>5</sup> )	4.93	1.64	1.64	8.29	9.90	6.14	N/A
<b>INFLATION INDEXED</b>	Inflation indexed bond portfolio	-0.70	-0.47	-0.47	-2.12	N/A <sup>6</sup>	N/A <sup>6</sup>	N/A
	Inflation indexed benchmark (Citigroup U.S. 1-10 year Inflation-Linked Securities Index)	-0.68	-0.53	-0.53	-2.12	N/A	N/A	N/A

**NOTE:** Past performance does not guarantee future results.

- Total market value of Fund A is \$589.8 million, including deposits between monthly valuation dates and operating cash on which a total fee of 1/12 of 1% is deducted monthly from Fund A. Unit value: \$1,160.81
- Returns are before the deduction of fees.
- The U.S. equity benchmark changed from the Dow Jones Total Stock Market Index to the Russell 3000 in October 2011.
- The Investment Grade Fixed Income Benchmark changed from the old Custom Citigroup Index (40% Mortgage, 30% Credit, 25% Treasury/Government, 5% Asset-Backed) to the new Custom Citigroup Index (40% Collateralized, 35% Credit, 25% Treasury/Government) in October 2011.
- Late in 2008, the Real Estate Securities benchmark transitioned to 60% Wilshire U.S. Real Estate Securities Index and 40% Wilshire Ex-U.S. Real Estate Securities Index, from 100% Wilshire U.S. Real Estate Securities Index. In April 2013 the Custom Global Real Estate Securities benchmark transitioned to 60% Dow Jones U.S. Real Estate Securities Index and 40% Dow Jones Global Ex-U.S. Real Estate Securities Index with net dividends.
- In June 2011, Inflation Indexed Bonds were added as a component to Fund A's asset allocation. The inflation indexed benchmark changed from the Citigroup Inflation Linked Securities Index to the Citigroup U.S. 1-10 Year Inflation Linked Securities Index as of 12/1/2014.
- Endowment Fund A moved to the SP Investment Grade Fixed Income Pool as of November 2007 and to the SP U.S. Equity Pools as of December 2007 from separately managed accounts.
- The high-yield benchmark changed from the Citigroup High Yield Cash Pay Capped Index to the Citigroup BB/B Cash Pay Capped Index on Sept. 1, 2012.



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The ELCA Foundation regional gift planners are located throughout the country and are ready to assist you.



### AT A GLANCE

**ELCA Endowment Fund Pooled Trust – Fund A** was established to allow for the collective long-term investment of funds belonging to the Evangelical Lutheran Church in America (ELCA), its congregations, synods, seminaries and other eligible affiliated entities. Fund A is administered by the ELCA. The Board of Pensions of the ELCA, doing business as Portico Benefit Services, is the investment advisor. The ELCA promotes investment in the Endowment Fund Pooled Trust through the ELCA Foundation.

### SOCIAL PURPOSE INVESTING

Fund A's assets are selected, where feasible, in accordance with criteria of social responsibility that are consistent with the values and programs of the ELCA. In addition, Fund A seeks positive social investments that provide a proactive way to receive a return while directing capital to underserved markets, such as community development and renewable energy.

### 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. Portico Benefit Services' 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 Portico Benefit Services 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.