ELCA ENDOWMENT FUND POOLED TRUST – FUND A

FOURTH QUARTER 2017 REPORT

ELCA Foundation
Evangelical Lutheran Church in America

FUND A – FOURTH QUARTER 2017 SUMMARY

Fund A generated a strong positive 3.53% (net of investment management costs) return during the fourth quarter to cap off a very constructive 2017 return of 16.32% (net of investment management costs). From an allocation standpoint the Fund's relative overweights to global equities were rewarded as the global equity rally continued. Over the full year the Fund's decision to increase international equity weighting was beneficial.

MARKET SNAPSHOT

The S&P 500 Stock Index total return was up 6.6% in the fourth quarter, and was up 21.8% in 2017. Non-U.S. stocks, as measured by the MSCI All Country World ex-U.S. IMI Index, were up 5.2% in the quarter, and up 27.8% in 2017. The investment-grade bond market, as measured by the Citigroup Broad Investment-Grade Bond Index, was up 0.4% in the fourth quarter, and up 3.6% in 2017.

When it was all said and done, the capital market returns for 2017 were pretty impressive. This included double-digit returns for domestic and Non-U.S. stocks, and respectable positive returns in the bond markets. Even more impressive is that this performance occurred during a year when there were plenty of stress-inducing headlines related to North Korea, political gridlock, and predictions that record market highs could soon give way to market downturns. In the end, solid and improving economic fundamentals, both domestically and abroad, outweighed these potential negatives.

For the quarter, U.S. equities posted strong performance, especially the Consumer Discretionary sector of the S&P 500, which returned 9.9%. Healthcare (1.5%) and Utilities (0.2%) were clear laggards as markets discount more potential downside than upside ahead. While the U.S. had solid performance (6.6%), Europe returns lagged, registering a 0.7% total return, but the largest returns for the quarter actually came from emerging markets 7.4%, with India's 11.8% return a clear standout. For the one-year period ending December 29, 2017, global equities rallied with double-digit returns exceeding 20% in most regions. Commodities and managed futures lagged for the one-year period.

EQUITY

Global equity markets continued to climb higher in the fourth quarter. The U.S. equity market, as measured by the Russell 3000 Index, returned 6.3% during the quarter and 21.1% for the year. Non-U.S. equity markets, as measured by the MSCI ACWI ex-US IMI Index returned 5.2% for the quarter and 27.8% for the year.

U.S.

Fund A's U.S. equity component returned 20.15% (net of investment management costs) for the year, underperforming its benchmark by 0.97%. Weaker returns relative to the benchmark were broad-based as four of the five actively-managed components underperformed. Weaker stock selection in the technology sector was the primary driver. While larger technology names like Amazon and Apple have been driving the market overall, an underweight to each of these companies in the U.S. equity program detracted from relative results.

Non-U.S.

Fund A's international equity component returned 29.58% (net of investment management costs) for the year, beating the benchmark by 1.8%. The large/mid cap growth and two small cap components showed particular strength while the large/mid cap value component, which tends to play more of a defensive role, lagged for the year. At the aggregate level, stock selection in developed markets drove much of the outperformance. Specifically, results in Japan and the U.K. were particularly strong. Positive stock selection impacts in emerging markets also helped drive outperformance with South Africa and Brazil as notable contributors.

FIXED-INCOME

Investment grade

In the fourth quarter of 2017, Fund A's fixed-income portfolio returned 0.41% (net of investment management costs), in line with the custom benchmark. Credit was again the clear leader up 1.1%, followed by Mortgages up 0.1%, and Governments up 0.04%. This brings the full year total to 3.62% (net of investment management costs) versus 3.75% for the benchmark. In a year of low interest rates and tight spreads, limited opportunities to add value and the large component of passive management in the Portico fixed income pools were the main reasons for 2017 performance equal to the benchmark. The portfolio maintains a duration of 5.8 years, below that of the broader Bloomberg Barclays Aggregate index duration of 5.9 years.

The Federal Reserve reiterated in its December statement that the labor market continued to strengthen and economic activity has been rising at a solid rate. Inflation remains below the 2.0% target and longer-term inflation expectations are little changed. In view of the realized and expected labor market conditions and inflation, the Committee decided to raise the target range on the federal funds rate to 1.25%–1.5%. The Treasury yield curve flattened somewhat dramatically during the quarter with the shortest part of the curve rising over 0.4% in yield and 10-year yields up 0.07%; the 30-year part of the curve was lower by 0.12 percentage points in yield.

High-yield

High-yield bonds had a positive return for the fourth quarter but the pace began to moderate; Portico's high-yield pools slightly underperformed the benchmark return of 0.57% for the quarter returning 0.50% (net of investment management costs) , bringing the full calendar year total slightly ahead with 7.03% (net of investment management costs) versus 6.91% for the benchmark. Low yields and tight spreads made finding value-adding opportunities hard to come by and unattractive to reach down in quality for yield.

The core, single B quality segment underperformed both lower quality (CCC's) and higher quality (BB's). The highest quality BB sector performance came in at 0.6%, a few basis points less than CCC's; single B rated bonds returned 0.4%. By industry, returns varied by as much as 2 to 3 percentage points but certain bond structures such as Pay-In-Kind (PIK) performed very well with PIK's returning 4.9%. The overall High-Yield pool held a duration of 2.43 yrs with the bulk of the bonds in the 1-3 year duration component. The current yield of the portfolio is just under 6%.

Inflation-indexed

Inflation-indexed bonds outperformed nominal Treasuries in the fourth quarter by about 1.4% for the broad market. The pool return was in line with the benchmark for the quarter, returning 0.56% (net of investment management costs). During the full year of 2017 the Inflation linked bonds returned 2.24% (net of investment management costs) compared to 1.97% for the benchmark.

GLOBAL REAL ESTATE SECURITIES

Fund A's global real estate securities component returned 4.33% (net of investment management costs) in the fourth quarter of 2017, compared to the custom benchmark return of 3.8%. The full year return 10.03% (net of investment management costs) versus the benchmark of 8.42%. U.S. REITs returned 2% while Global Ex U.S. REITs returned 6.6% for the quarter (benchmark returns).

The US REIT portfolio is actively managed by a single investment manager, and this portfolio performed well for the quarter (+1% relative). The largest drivers of relative performance were an underweight to healthcare related REITs and security selection within the self-storage sector. An underweight to regional malls and stock selection within regional malls were the largest performance detractors.

The Global Ex U.S. REIT portfolio is passively managed by a single manager, whose account showed slightly negative relative returns (-.18%) for the quarter. This account is exposed to fair value adjustments, which can impact relative returns. The account does participate in the securities lending program, which can be a source of positive attribution.

ALTERNATIVE INVESTMENTS

Absolute return

During the fourth quarter Fund A's absolute return positions generated positive returns. Gains were driven primarily in credit strategies as underlying Emerging Market and corporate credit hedge funds faired well. Underlying long market directional hedge funds experienced broad gains given the supportive macro-economic data experienced during the quarter. Global Macro based trading strategies had a fruitful quarter generally driven by long US Equity positions and short positions in U.S. and European rates. During the quarter we saw the volatility index of the overall market (VIX) tick up by over 16% from what has been a very low volatility year, this also aided the Global Macro positions. The only detractors during the quarter were direct commodity positions, despite the improving underlying economic activity levels.

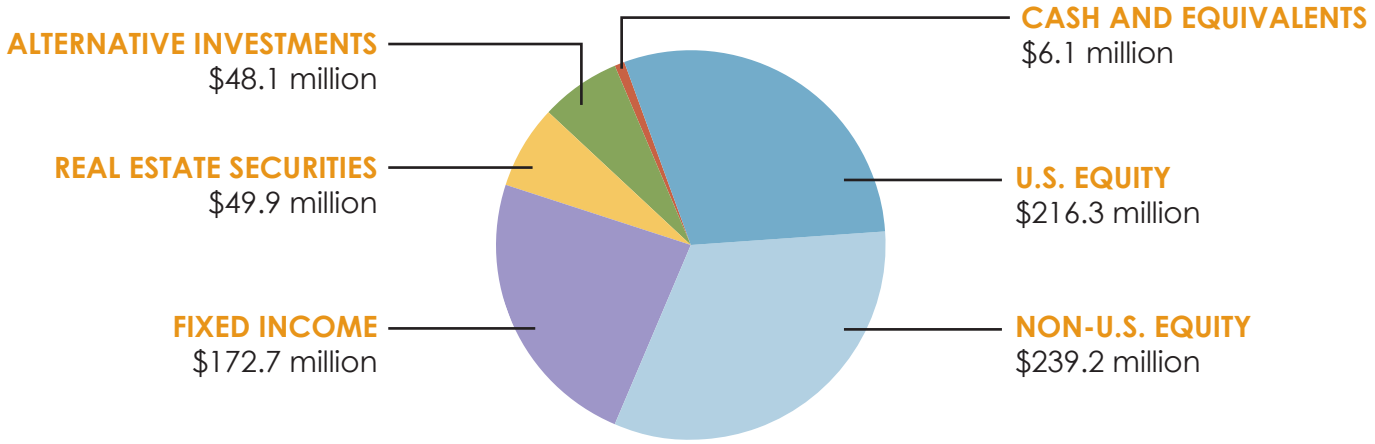
Global infrastructure

In general Infrastructure assets faired well during the fourth quarter and for the full calendar year of 2017. Fund A's infrastructure assets are global in nature and diversified across multiple business types. 38% of the portfolio is invested in Distributed / Regulated utilities, 36% in Contracted power and 26% in GDP sensitive assets such as rail, ports and aviation. The overall portfolio invests in stable long-lived assets to generate distributable cash flow. The current yield on this segment of the portfolio is 5.9%.

Private markets

Fund A's private markets allocation is in the process of building. During the prior quarter the Fund has entered into 2 active partnerships. The first allocations were made to Secondaries (purchasing existing private market commitments at discount levels) and the second into Distressed Debt strategies. The purchase of Secondary commitments has generated a positive return to Fund A of 18.68% IRR, for a multiple of the total allocation of 1.18x.

As of December 31, 2017, Fund A Assets totalled $735.8 million* and Fund A Investments totalled $732.3 million.**



* Total Assets includes investments, deposits between monthly valuation dates, and operating cash.
** Pie Chart is representative of Fund A Investment Assets only.

FUND A INVESTMENT PORTFOLIO PERFORMANCE (%) AS OF DECEMBER 31, 2017

		Q4 (%)	YTD (%)	1 YR (%)	3 YRS (%)	5 YRS (%)	10 YRS (%)	SINCE INCEPTION	INCEPTION DATE
TOTAL FUND A[1]		**3.53**	**16.32**	**16.32**	**7.03**	**8.84**	**5.79**	**5.12**	**07/01/99**
65% MSCI ACWI / 35% BC Aggregate		3.84	16.44	16.44	6.92	7.80	4.77	5.28	
EQUITIES	**Social Purpose US Equity Portfolio[2]**	**5.57**	**20.15**	**20.15**	**9.59**	**15.22**	**8.25**	**5.86**	**07/01/99**
	Russell 3000 Index[3]	6.34	21.13	21.13	11.12	15.58	8.69	6.29	
	Social Purpose Non-US Equity Portfolio	**4.49**	**29.58**	**29.58**	**9.65**	**8.46**	**2.50**	**7.36**	**04/01/04**
	MSCI ACWI ex USA IMI Index[9]	5.23	27.81	27.81	8.38	7.22	2.04	6.82	
FIXED-INCOME	**Social Purpose Investment Grade Bond Portfolio[2]**	**0.41**	**3.62**	**3.62**	**2.29**	**2.15**	**4.12**	**6.60**	**07/01/99**
	Portico Fixed Income Benchmark[4]	0.43	3.75	3.75	2.41	2.27	4.32	N/A	
	Inflation Indexed Bond Portfolio	**0.56**	**2.24**	**2.24**	**1.85**	**-0.10**	**-**	**2.26**	**06/01/11**
	Citi US 1-10 Year Inflation Linked Index[5]	0.54	1.97	1.97	1.78	-0.12	7.31	N/A	
	Social Purpose High Yield Bond Portfolio	**0.50**	**7.03**	**7.03**	**5.79**	**5.22**	**7.39**	**7.38**	**07/01/03**
	Citi BB & B-Rated Issues Index[6]	0.57	6.91	6.91	5.62	5.14	7.31	N/A	
REAL ESTATE	**Global Real Estate Securities Portfolio**	**4.33**	**10.03**	**10.03**	**5.31**	**7.24**	**6.48**	**8.67**	**03/01/04**
	Portico REIT Benchmark[7]	3.82	8.42	8.42	4.78	7.52	6.29	N/A	
ALTERNATIVE INVESTMENTS	**Absolute Return Fund**	**1.58**	**-**	**-**	**-**	**-**	**-**	**2.45**	**08/01/17**
	HFRI Fund of Funds Index	2.02	7.73	7.73	2.56	3.97	1.07	3.33	
	Private Infrastructure Fund[8]	**NM**	**-**	**-**	**-**	**-**	**-**	**NM**	**10/01/17**
	S&P Global Infrastructure Index	1.86	20.13	20.13	6.15	9.22	3.42	1.86	
	Private Markets Fund[8]	**NM**	**-**	**-**	**-**	**-**	**-**	**NM**	**09/01/17**
	Cambridge Private Equity Index	0.00	12.92	12.92	10.53	1273	9.38	0.00	

1. Total Fund A returns are net of investment manager and custodian fees and expenses but exclude the administrative fee of 60 basis points (0.60%). Refer to the Disclosure Statement for total fees and expenses. Returns for the sub-asset classes are net of investment manager and custodian fees and expenses as reported by the investment managers.
2. 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.
3. The U.S. equity benchmark changed from the Dow Jones Total Stock Market Index to the Russell 3000 in October 2011.
4. 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.
5. 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.
6. 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.
7. 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.
8. Returns for Private Infrastructure and Private Markets will be reported on a quarter lag.
9. The Non-US Equity pool has been benchmarked to the MSCI All-Country World xUS IMI since 7/1/2012, prior to that the benchmark was the standard MSCI All-Country World xUS Index.

ELCA Foundation
Evangelical Lutheran Church in America

8765 West Higgins Road
Chicago, Illinois 60631-4101

CONTACT US

For more information contact:
Christina Jackson-Skelton
President, Endowment Fund of the ELCA

Annette C. Shoemaker
Director, ELCA Foundation

800-638-3522 • fax 773-380-2775
elcafoundation@elca.org
ELCA.org/endowmentinvesting

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. The ELCA promotes investment in the Endowment Fund Pooled Trust through the ELCA Foundation.

Fund A is administered by the ELCA.

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. Fund A Investments, 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.

The Investment Advisor (Portico Benefit Services), investment managers and/or the investments Fund A directly invested in are not 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.