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The Church Pension Group Annual Report

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Statistical Highlights

Cumulative Clergy Pension Fund Operations

	Since Inception (1917)
Assessments and original pledges received	$ 2,147,958,494
Investment income and gains (net of expenses and other deductions)	11,025,955,236
Total income	$13,173,913,730
Benefits paid for clergy and dependents	$ 3,974,466,812
Transfers to restricted and unrestricted net assets	$ 1,845,346,615

Participant Statistics

	2011	2008	2005
Active Fund Participants†			
Number			
Male	4,505	5,099	5,444
Female	2,489	2,499	2,267
Total	6,994	7,598	7,711
Participants' Average Age	53.7	53.3	53.1
Average Compensation	$65,615	$62,930	$59,689
Those Receiving Benefits			
Retirees			
Normal Retirement	3,457	3,252	2,808
Early Retirement	3,426	3,097	2,931
Disability Retirement	459	438	378
Total	7,342	6,787	6,117
Average Annual Pension Benefit	$28,940	$27,162	$20,668
Average Age	74.1	73.7	73.4
Surviving Spouses			
Number	2,576	2,569	2,519
Average Benefit	$19,061	$17,626	$12,987
Average Age	78.6	78.1	77.6

† Those for whom payments are made into plan. Participant statistics as of December 31, 2010.
Source: Buck Consultants, LLC Actuarial Reports

Ordinations by Calendar Year

	2010	2008	2006
Number of Individuals Ordained*	338‡	412	561
Average Age at Ordination	48.55	48.63	48.42

* Includes both U.S. and non-U.S. ordinations under all canons.

‡ This figure may increase when additional information is received from dioceses.

A Message to the Church from T. Dennis Sullivan

Dear Friends,

Over the past seven years, I have had the great pleasure of working with many of you in service to the Episcopal Church. As my wife Susan and I prepare for the next chapter of our lives, I want you to know how profoundly grateful I am for the opportunity to serve you in this one.

Through countless face-to-face meetings, telephone conversations, and personal correspondence, I've been able to hear, firsthand, the real-life needs of the outstanding women, men, and institutions that make up the Episcopal Church. I have worked hard to keep the lines of communication open because I believe continuous dialogue is essential as we continue to serve the Church in long-standing and newer ways. We have accomplished great things together.

And so it is with deep gratitude and a sense of personal satisfaction that I write this final Annual Report message. In this year's report, you'll see that the Fund is in strong financial condition. You'll read about some of our most significant accomplishments, and also learn about the Church Pension Fund (CPF) Board's work to restate and reaffirm the shared mission of the Church Pension Fund. The report ends with the announcement of the CPF Board's election of my successor, Mary Kate Wold, and some biographical information about this talented professional.

Ms. Wold brings to CPG a deep understanding of finance and investments, a wealth of experience in employee benefits, and perhaps most importantly, a love of the Episcopal Church. I trust you will make her feel as welcomed as you did me, and that you will continue to collaborate with CPG as we endeavor to serve you in the decades ahead.

Faithfully,

T. Dennis Sullivan

The Board of Trustees

Dear Friends,

When Dennis Sullivan informed the CPF Board last year of his decision to retire, the trustees accepted his decision with regret, yet with deep gratitude for his accomplishments and inspired leadership. Since then, much time, prayer, and reflection have gone into the board's selection of Mary Kate Wold as his successor, and an extensive, thorough, and collaborative process was followed. This is described more fully on page 6 of this report.

The passage of Resolutions A138 (Lay Employee Pension System) and A177 (Denominational Health Plan) by the 76th General Convention, as well as their election of eight new CPF Trustees to participate in shaping the work of the board, gave us an opportunity to reconsider what we are called to do. As we move into a new era of leadership and service, we felt that a clear, shared sense of mission was particularly important not only in the new work that General Convention and Executive Council had called us to do, but in the leadership transition we were about to experience.

The new mission statement below is the result of a process of discernment that lasted more than a year. Led by Katherine Tyler Scott, Vice Chair of the board, it involved both the CPF Trustees and members of CPG's senior staff. While it reaffirms the basic values that have guided us over many years, it also includes some new ideas that are especially relevant to our work today.

> The Church Pension Fund aspires to be the trusted provider of comprehensive, cost-effective retirement, health and life insurance benefits to the Episcopal Church, its clergy and lay employees. Consistent with this central mission, the Church Pension Fund also serves the Episcopal Church through the development of other programs and services as approved from time to time by the General Convention and the Board of Trustees. The core values that guide the Church Pension Fund in fulfilling its mission are compassion, fiscal stewardship, mutual respect, service, and adaptability.
>
> All of the work of the Church Pension Fund emanates from the two Great Commandments — to love the Lord God with all our heart and all our might, and to love our neighbors as ourselves. We are called to care for the Body of Christ — the Church — by providing well for clergy and lay employees who serve the Church. This commitment continues to inspire and guide our work.

Implementation of Lay Employee Pension System and Denominational Health Plan

These two important programs continue to be rolled out across the Church, and CPG staff is helping diocesan and parish leadership understand the requirements of these Church-wide programs, evaluate the options within both, and enroll employers and employees. We understand that implementation is a process, and we are providing webinars, online tutorials and tools, printed information, and personal interactions with our staff to help the Church comply with these two important initiatives, both of which must be fully implemented by January 1, 2013.

Significant Accomplishments

- The Fund's Assets Available for Benefits continued to rebound during the past fiscal year, rising from $8.516 billion as of March 31, 2010 to $9.277 billion as of March 31, 2011.

- Church Life Insurance Corporation had a record year for annuity premiums with nearly $16M received, more than 15% higher than its previous record set in 2003.

- Through its new product partner, Protective Life, Church Life Insurance Corporation introduced a new series of individual life insurance products. Protective Life's new Secure-T series are universal life products which offer term-like, guaranteed premiums for specified durations at very competitive rates.

- A review of the investment options in the Lay DC Plan and RSVP Plan has resulted in changes effective as of market close on July 1, 2011: the American Century Inflation-Adjusted Bond Fund Institutional Class was added, the Fidelity® Disciplined Equity Fund was discontinued, and all existing balances in the Fidelity® Disciplined Equity Fund were transferred to the Fidelity® Dividend Growth Fund.

- An independent study reported that CPG delivered a strong performance in member customer satisfaction this year, scoring 94% for overall satisfaction.

- In the wake of the earthquake that devastated Haiti, CREDO Institute, Inc. held four *Strength for the Journey* conferences, jointly sponsored with CPF, that provided respite, recovery, and coping skills to ordained and lay leaders. Conference funding came from CPF's Unrestricted Gifts & Legacies Fund, which is comprised of gifts that generous individuals have made to CPF over many years.

- CPF had waived the obligation for churches in the Diocese of Haiti to pay pension assessments through 2010; we renewed that waiver through the end of 2011.

- Through the implementation of the Denominational Health Plan and continued focus on schools and other Episcopal institutions, the Medical Trust currently serves 91 dioceses and 40 institutions. These groups account for approximately 12,000 active households. Since 2009, 13 new dioceses and 20 new institutions have joined the Medical Trust, adding approximately 3,700 active families to the active medical book of business. There has been significant change in the demographics of the Medical Trust's active membership since 2009 through this growth, driving lower overall average age and a higher percentage of female participants.

- During the past year, CREDO Institute, Inc. held two eight-day *Strength for the Journey* conferences for lay employees and lay leaders in the reorganizing dioceses of Pittsburgh, San Joaquin, Fort Worth, and Quincy, following a similar conference for clergy in those dioceses in November 2009.

- CPG staff held a special collection in support of the efforts of Episcopal Relief and Development to assist the victims of the earthquake and tsunami in Japan.

Investment Performance

The CPF portfolio benefited from the recovery in worldwide financial markets, supported by our strong fiscal position and broad diversification strategy. Assets Available for Benefits stood at $9.277 billion at fiscal year-end.

Global equity markets continued to perform very well in the twelve months ended March 31, 2011. Investors were encouraged by strong economic growth worldwide, particularly in emerging economies. Corporate profits, especially in the U.S., surged, with profit margins near record highs. Over the past two years, the S&P 500 has returned 31.6% on an annual basis, the EAFE index of non-U.S. developed markets returned 30.6%, and emerging markets returned 46.5%. While the S&P remains 17% below its all-time high, this is the fourth-best two-year return for the S&P 500 in 50 years.

The Fund's strong financial condition through the 2008 – 2009 financial crisis enabled us to act opportunistically, while many institutional investors were constrained by their poor financial condition. Some of these investments have already had a positive impact on returns, while others will not have a meaningful impact for several years. In addition, the Fund's exposure to small capitalization U.S. stocks, emerging markets equities, and private equity, benefited performance in the 12 months ended March 31, 2011.

The left-hand exhibit on the opposite page shows the performance of the Fund over three time periods ending March 31, 2011. It compares portfolio performance with two key benchmarks: a passive composite of 67% S&P 500 and 33% Barclay's Capital bonds, and the Fund's investment goal of a return in excess of inflation of 4.5%. As you can see, Fund performance compares favorably with the passive composite benchmark return on a three–year and ten–year basis, but falls slightly below on a one–year basis. This was also the case last year. The Fund's diversification program acts to lessen the swings from the overall stock market, so it is not unusual that we would underperform this benchmark in a strong period for equities.

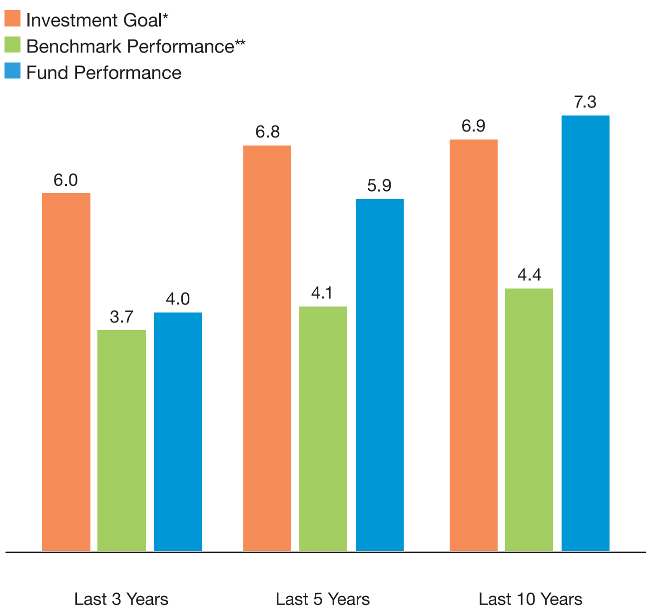
This diversification helped portfolio performance in 2008 and early 2009 during the worst of the financial crisis. The Fund's exposure to private equity and other diversifying assets has helped the performance over the longer term periods. The Fund exceeded its investment objective on a one–year basis, but it lagged on a three–year basis reflecting the generally poor returns from public equity markets. Importantly, however, the Fund exceeded its investment objective on a ten–year basis as well as the passive composite benchmark.

While weak by historical standards, the economic recovery in the U.S., which began in 2009, has continued into 2011. The unemployment rate, usually a lagging indicator, has finally begun to decline as corporations have started hiring again. As consumer balance sheets have improved, consumer spending has increased. Corporate profits remain very strong. As confidence returns, this bodes well for further increases in employment and capital spending. Two broader issues suggest some moderation in expectations, however. Globally, there are unresolved sovereign debt issues in Europe and inflation is becoming a risk in many emerging economies. Also, the economic recovery in the U.S. has, in part, reflected massive levels of both monetary and fiscal stimulus. At some point, quantitative easing will end and government spending will have to moderate.

As shown in the right–hand exhibit below, the Fund is in a strong financial condition with Additional Reserves of $2.346 billion in excess of Required Reserves. While the issues mentioned above could have an impact on financial markets, we believe the Fund is well positioned in terms of both financial strength and diversification. This should allow us to continue to take advantage of investment opportunities that arise from unsettled financial markets.

Investment Performance for Periods Ending March 31, 2011

Annualized Total Return in Percent (preliminary)

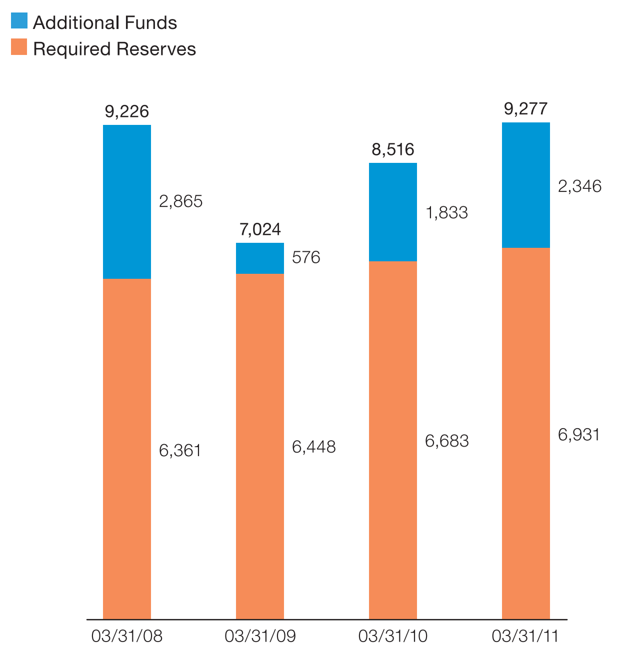


*Investment Goal is a return of 4.5% over inflation.

**From inception to 6/30/08, the benchmark consisted of 65% S&P 500 Index/35% Barclays Capital U.S. Government Credit Index. From 6/30/08 to present, the benchmark consists of 67% S&P 500 Index/33% Barclays Capital U.S. Government/Credit Index.

Assets Available for Benefits*

Dollars in Millions



*Total assets excluding non-benefit liabilities, assets commingled for investment purposes, legacy and gift funds, and investments in affiliated companies.

Management Transition

Mary Kate Wold

"I am honored and delighted to have the opportunity to lead this wonderful organization as it continues its mission of serving the clergy and lay employees of the Episcopal Church."

During the past seven years, Dennis Sullivan has been a superb leader of CPG. As he now enters retirement, the CPF Board is grateful to have found a worthy successor: Mary Kate Wold.

The process that led to her selection was rigorous, thoughtful, and prayerful. The board formed a President/CEO Selection Committee to oversee the selection process: Barbara B. Creed, Esq. (Chair), the Rt. Rev. Wayne P. Wright (Vice Chair), James E. Bayne, the Rev. Dr. Randall Chase, Jr., Vincent C. Currie, Jr., Canon Dr. Karen Noble Hanson, Deborah Harmon Hines, Ph.D., the Rt. Rev. Peter James Lee, the Rt. Rev. Claude E. Payne, Diane B. Pollard, Quintin E. Primo III, Katherine Tyler Scott, and Cecil Wray, Esq. The search firm of Korn/Ferry, a leader in the field of executive recruitment, worked with the CEO Selection Committee in the development of a detailed position description, and sourced and interviewed a wide range of highly qualified candidates. On April 28, 2011, the CEO Selection Committee recommended Ms. Wold to the full CPF Board, which approved their recommendation.

A finance and operating executive and former law firm partner, she most recently served as Senior Vice President, Finance, and a Principal Corporate Officer of Wyeth, one of the world's largest pharmaceutical companies, and led its Treasury, Tax, Procurement, and Business Process Outsourcing organizations.

As a member of the Wyeth Investment Committee, she was a fiduciary of that company's multi-billion-dollar defined benefit and defined contribution pension plans. She also served on Wyeth's Human Resources, Benefits, and Compensation Committee that had oversight responsibility for all of the company's benefit and healthcare plans. She led a reassessment of Wyeth's global insurance programs, and designed and implemented Wyeth's corporate-wide enterprise risk management system. As a member of numerous executive oversight committees, she provided direction across a spectrum of Wyeth's business and finance operations.

A faithful Episcopalian, Ms. Wold served on the vestry of Christ Church in Hudson, New York, and on the vestry and as Chancellor of St. Bartholomew's Church in New York City.

Please join us in welcoming Mary Kate Wold to this important leadership role, and in wishing Dennis Sullivan a productive and well-earned retirement.

As always, we thank you for your prayers and continued support as we pursue our ministry on your behalf.

Faithfully,

Peter James Lee

The Rt. Rev. Peter James Lee
Chair

Barbara B. Creed

Barbara B. Creed
Vice Chair

Katherine Tyler Scott

Katherine Tyler Scott
Vice Chair

T. Dennis Sullivan

T. Dennis Sullivan
President

Officers of the Board

(seated) Barbara B. Creed, The Rt. Rev. Peter James Lee
(standing) T. Dennis Sullivan, Katherine Tyler Scott

Combined Statements of Net Assets Available for Benefits

March 31	2011	2010
Assets		
Investments, at fair value:		
Equity securities, other than affiliated companies	$2,332,740,674	$2,359,603,310
Fixed income securities	2,491,660,498	2,411,945,160
Real estate and private equity	2,383,822,493	1,807,069,399
Alternative investments	1,917,174,016	1,800,726,413
Mortgage loans	14,307,202	20,375,147
Affiliated companies, equity interest	127,113,219	126,523,781
Short-term securities	39,546,544	26,789,137
Total Investments, at fair value	9,306,364,646	8,553,032,347
Receivables and Other Assets:		
Receivable from brokers	143,261,388	101,162,139
Notes receivable	1,515,655	1,956,439
Assessments receivable, less allowance for doubtful accounts (2011–$2,355,000; 2010–$3,686,000)	4,510,316	4,943,508
Accrued investment income and other assets	72,520,788	73,901,134
Home office building and improvements, less accumulated depreciation (2011–$12,086,000; 2010–$11,229,000)	16,812,991	17,989,856
Cash and Cash Equivalents	487,622,156	382,759,135
Total Assets	10,032,607,940	9,135,744,558
Liabilities		
International Clergy Pension Plan	109,965,127	104,911,323
Payable to brokers	234,362,415	129,178,794
Accrued expenses and other liabilities	111,102,120	109,006,596
Total Liabilities	455,429,662	343,096,713
Total Net Assets	$9,577,178,278	$8,792,647,845
Components of Net Assets		
Restricted Net Assets:		
Permanently Restricted Legacy and Gift Fund	$ 18,890,701	$ 16,793,467
Temporarily Restricted Legacy and Gift Fund	13,742,936	14,673,656
Total Restricted Net Assets	32,633,637	31,467,123
Unrestricted Net Assets:		
Designated for Major Medical Supplement Fund	938,014,528	944,925,722
Designated for Life Insurance Benefit Fund	183,688,404	174,254,296
Designated for Supplemental Pension Fund	43,376,877	42,854,675
Designated for investment in affiliated companies	127,113,219	126,523,781
Available for benefits:		
Designated for assessment deficiency	702,106,850	654,820,422
Net assets available for benefits:		
The Clergy Pension Plan	7,354,100,302	6,641,724,003
The Episcopal Church Lay Employees' Retirement Plan	103,375,338	93,826,464
Staff Retirement Plan of The Church Pension Fund and Affiliates	92,769,123	82,251,359
Total net assets available for benefits	7,550,244,763	6,817,801,826
Total Unrestricted Net Assets	9,544,544,641	8,761,180,722
Total Net Assets	$9,577,178,278	$8,792,647,845

See accompanying notes to financial statements.

Combined Statements of Changes in Net Assets Available for Benefits

Years Ended March 31	2011	2010
Additions to Net Assets		
Assessments	$ 93,608,276	$ 94,446,430
Interest	97,639,752	109,430,060
Dividends and other income	41,586,807	38,522,964
Net gain on real estate and private equity investments	380,243,037	15,761,239
Net gain on alternative investments	216,254,491	467,398,750
Net realized and unrealized investment gains on equity and fixed income securities	373,303,177	1,224,759,847
Total Additions to Net Assets	1,202,635,540	1,950,319,290
Deductions from Net Assets		
Benefits and Expenses:		
Pensions and other benefits	280,745,015	280,132,249
Medical supplement	25,505,459	24,974,484
Life insurance	13,197,395	15,678,246
Total benefits	319,447,869	320,784,979
Investment management and custodial fees	29,414,030	28,932,090
General and administrative	63,336,696	59,792,000
Enterprise-wide projects	4,625,295	4,885,415
General Convention Resolution projects	–	1,126,662
Total Benefits and Expenses	416,823,890	415,521,146
Other Deductions (additions)	1,281,217	(2,113,798)
Increase in Total Net Assets	784,530,433	1,536,911,942
(Increase) Decrease in Restricted and Unrestricted Net Assets		
(Increase) in Restricted Net Assets	(1,166,514)	(4,658,483)
Decrease in Major Medical Supplement Fund	6,911,194	9,435,580
(Increase) in Life Insurance Benefit Fund	(9,434,108)	(9,680,823)
(Increase) decrease in Supplemental Pension Fund	(522,202)	5,242,681
(Increase) in investment in affiliated companies	(589,438)	(10,712,933)
(Increase) decrease in assessment deficiency	(47,286,428)	3,431,500
Increase in Net Assets Available for Benefits	732,442,937	1,529,969,464
Net Assets Available for Benefits at Beginning of Year	6,817,801,826	5,287,832,362
Net Assets Available for Benefits at End of Year	$7,550,244,763	$6,817,801,826

See accompanying notes to financial statements.

Notes to Financial Statements

1. Organization

The Church Pension Fund (the "Fund") is a corporation chartered in 1914 by the Legislature of the State of New York. Its incorporators and their successors are broadly authorized, as Trustees of the Fund, to establish and administer the clergy pension system of the Episcopal Church, including pensions, insurance, annuities, accident, health and other programs. The Fund was established by the General Convention of the Episcopal Church; the Fund and its affiliates are official agencies of the Episcopal Church for these purposes and operate under the Canons of the Episcopal Church. Since 1914, the Fund has elected to be examined by the New York State Insurance Department.

The Fund began its operations on March 1, 1917. Subsequently, affiliates of the Fund were formed as its activities expanded. Major affiliates and their years of formation include: Church Publishing Incorporated, 1918; Church Life Insurance Corporation, 1922; The Church Insurance Company, 1929; The Church Insurance Agency Corporation, 1930; The Episcopal Church Clergy and Employees' Benefit Trust, 1978; The Church Insurance Company of Vermont, 1999; CREDO Institute, Inc., 2001; and The Church Insurance Company of New York, 2007. All operations of the Fund and its affiliates, informally known as the Church Pension Group, are governed by the Fund's Board of Trustees or by subsidiary Boards, which include Fund Trustees. Except for the President, all Fund Trustees serve without compensation and are elected by the General Convention from a slate of nominees. In general, Fund Trustees serve for a maximum of two consecutive six-year terms.

2. Description of the Plans

The Fund is the plan sponsor and the administrator of the Fund's Clergy Pension Plan (the "Clergy Plan"), The Episcopal Church Lay Employees' Retirement Plan (the "Lay Plan") and The Staff Retirement Plan of The Church Pension Fund and Affiliates (the "Staff Plan") (collectively referred to as the "Qualified Plans"). The following is a brief description of the Clergy Plan, the Lay Plan and the Staff Plan for general information purposes only. Participants in these plans should refer to the plan documents of their respective plan for more complete information. In the event of a conflict between this brief description and the terms of the plan documents, the terms of the plan documents shall govern.

The Clergy Plan is a defined benefit pension plan providing retirement, death and disability benefits to eligible clergy of the Episcopal Church. The Lay Plan is a defined benefit plan providing retirement, death and disability benefits to eligible lay employees of participating employers of the Episcopal Church. The Staff Plan is a defined benefit plan providing retirement and death benefits to eligible employees of the Fund and certain affiliates. The respective assets of these defined benefit plans are pooled for the benefit of all participants. As church plans, the Qualified Plans are exempt from Titles I and IV of the Employee Retirement Income Security Act of 1974 and, therefore, are not subject to Pension Benefit Guaranty Corporation requirements. These plans have long been recognized as exempt from federal income taxes. The Fund and certain of its affiliates are also exempt from certain federal, state and local income taxes. The Qualified Plans may be terminated by the Fund at any time. Upon termination of these plans, the Fund has the authority to distribute the plan assets in accordance with the terms of the respective plan documents.

The Fund maintains a master trust with an undivided ownership interest in the portion of the Fund's assets allocable to (1) the Clergy Plan benefits for retired participants and their dependents, (2) the Lay Plan benefits for participants and their dependents, and (3) the Staff Plan benefits for participants and their dependants. The master trust agreement names the Fund as trustee and the Northern Trust Company as custodian. The portion of the master trust (1) attributable to the Clergy Plan is funded, as necessary, to at least equal to the actuarial liability of the Clergy Plan benefits for retired participants and their dependents on an annual basis, and (2) attributable to the Lay Plan and the Staff Plan is funded at the discretion of the Fund. As of March 31, 2011 and 2010, master trust assets, which are included in the combined statements of net assets available for benefits, relating to the plan benefits described above, amounted to $3.3 billion and $3.2 billion, respectively.

3. Basis of Presentation and Summary of Significant Accounting Principles

Basis of Presentation

The accompanying financial statements have been prepared on a combined basis for the Fund and the Qualified Plans in accordance with U.S. generally accepted accounting principles ("GAAP"). All inter-plan balances have been eliminated in these combined financial statements.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the financial statements and accompanying notes. The fair value of investments and accumulated plan benefits represent the most significant estimates and assumptions. Actual results could differ significantly from these estimates and assumptions.

Summary of Significant Accounting Principles

The following are the significant accounting policies followed by the Fund and the Qualified Plans:

i) Investments – Investments are stated at fair value. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

Fair values of financial instruments are determined using valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Fair values are generally measured using quoted prices in active markets for identical assets or other inputs, such as quoted prices for similar assets that are observable, either directly or indirectly. In those instances where observable inputs are not available, fair values are measured using unobservable inputs for the asset. Unobservable inputs reflect management's own assumptions about the assumptions that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances. Fair value estimates derived from unobservable inputs are significantly affected by the assumptions used, including the discount rates and the estimated amounts and timing of future cash flows. The derived fair value estimates cannot be substantiated by comparison to independent markets and are not necessarily indicative of the amounts that would be realized in a current market exchange.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 — Unadjusted quoted prices in active markets for identical assets.

Level 2 — Other inputs that are observable for the asset, either directly or indirectly, including investments measured at net asset values ("NAV") which can be withdrawn within 90 days from the balance sheet date.

Level 3 — Inputs that are unobservable, including investments measured at NAV which cannot be withdrawn within 90 days from the balance sheet date.

Investments in real estate and private equity limited partnerships are carried at fair value. The fair value of these investments is based upon the Fund's share of the fair value of the partnership while giving consideration, from a market participant's perspective, to the features that are unique to the Fund's partnership agreements. Because of the inherent uncertainty of the valuations of these investments, the estimated fair values may differ, perhaps materially, from the values that would have been used had a ready market for the investments existed.

The fair value of mortgage loans is determined by the discounted cash flow method, taking into account prepayment risk.

The carrying value of affiliated companies is determined using the equity method of accounting which approximates fair value.

Investments with original maturities of one year or less are classified as short-term securities and are carried at cost, which approximates market value.

All investment transactions are recorded on a trade date basis. Realized capital gains and losses on the sales of investments are computed on the first-in, first-out basis. Unrealized capital gains and losses are recorded in the period in which they occurred. Interest income is recorded on an accrual basis. Dividend income is recorded on the ex-dividend date.

ii) Home Office Building and Improvements – The investment in the organization's home office building and improvements is carried at cost less accumulated depreciation. The home office building and improvements are depreciated on a straight-line basis over their estimated useful lives which range from 10 years to 40 years.

iii) Cash and Cash Equivalents – Cash and cash equivalents represent short-term highly liquid investments with original maturities of three months or less and are carried at cost, which approximates fair value.

iv) Basis of Accounting – These financial statements are prepared based on the accrual basis of accounting.

v) Net Assets – Net assets are classified as unrestricted, temporarily restricted and permanently restricted. Unrestricted net assets are net assets that are not subject to donor-imposed restrictions. All gifts, grants and bequests are considered unrestricted unless specifically restricted by the donor. Temporarily restricted net assets are net assets that are subject to donor-imposed restrictions either for use during a specified time period or for a particular purpose. When a donor-imposed restriction is fulfilled or when a time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets. Permanently restricted net assets are net assets that are subject to permanent donor-imposed restrictions.

vi) Adoption of New Accounting Pronouncement – Effective April 1, 2009, the Fund and the Qualified Plans adopted guidance issued by the FASB which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. The guidance prescribes a recognition threshold and measurement approach for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The adoption of this guidance did not have a significant effect on the financial position of the Fund and the Qualified Plans.

In September 2009, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update 2009-12, *Estimating the Fair Value of Investments in Investment Companies That Have Calculated Net Asset Value per Share* ("ASU 2009-12"). ASU 2009-12 amends the FASB Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820"), to provide application guidance for estimating the fair value of investments in private equity, real estate and alternative investments. The amended guidance also requires additional disclosures to better enable users of the financial statements to understand the nature and risks of the reporting entity's private equity, real estate and alternative investments. ASU 2009-12 was effective for periods ending after December 31, 2009. The Fund and the

Qualified Plans adopted ASU 2009-12 effective March 31, 2010 and the adoption of this standard resulted in additional financial statement disclosures; however, there was no impact to the amounts reported in the Fund's combined financial statements.

In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements*. This guidance updated the disclosure requirements of ASC 820 to require additional disclosures related to the amounts and reasons for significant transfers between levels in the fair value hierarchy, the expansion of fair value disclosures by each class of asset, disclosure of the policy for the recognition of transfers between levels in the fair value hierarchy and the disclosure of valuation techniques for all Level 2 and Level 3 assets. ASU 2010-06 was effective for periods beginning after December 15, 2009. The Fund and the Qualified Plans adopted ASU 2010-06 effective April 1, 2010 and the additional financial statement disclosures are included in Note 4 and Note 5.

vii) Reclassifications – Certain 2010 amounts in the Fund's combined financial statements have been reclassified to conform to the 2011 financial statement presentation.

4. Investments

Equity Securities

Equity securities include direct investments in the common stocks of a wide range of unaffiliated companies which include domestic and foreign corporations and holdings in large as well as midsize and small companies.

The net appreciation in fair value for the years ended March 31, 2011 and 2010 and the fair value of investments in equity securities by asset class as of March 31, 2011 and 2010, are summarized as follows:

March 31, 2011 (in thousands)	Net Appreciation in Fair Value During Year	Fair Value End of Year
U.S. large capitalization/ broadly diversified	$ 107,331	$ 1,043,721
U.S. small capitalization	70,971	326,278
Sector strategies	7,897	73,619
Total U.S. equities	186,199	1,443,618
Emerging markets	28,287	208,427
Other international	60,592	680,696
Totals	$ 275,078	$ 2,332,741

March 31, 2010 (in thousands)	Net Appreciation in Fair Value During Year	Fair Value End of Year
U.S. large capitalization/ broadly diversified	$ 423,816	$ 1,006,600
U.S. small capitalization	114,989	309,422
Sector strategies	28,550	86,849
Total U.S. equities	567,355	1,402,871
Emerging markets	130,639	241,897
Other international	266,450	714,836
Totals	$ 964,444	$ 2,359,604

Fixed Income Securities

The net appreciation (depreciation) in fair value for the years ended March 31, 2011 and 2010 and the fair value of investments in fixed income securities by asset class as of March 31, 2011 and 2010 are summarized as follows:

March 31, 2011 (in thousands)	Net Appreciation (Depreciation) in Fair Value During Year	Fair Value End of Year
U.S. Treasury and obligations of U.S. government corporations and agencies	$ 54,356	$ 1,098,221
Corporate	37,029	1,162,346
Loan-backed	5,259	62,282
Foreign governments	(140)	108,963
Asset-backed	1,721	59,849
Totals	$ 98,225	$ 2,491,661

March 31, 2010 (in thousands)		
U.S. Treasury and obligations of U.S. government corporations and agencies	$ 10,909	$ 1,032,048
Corporate	223,175	1,177,204
Loan-backed	20,678	67,066
Foreign governments	1,387	95,388
Asset-backed	4,167	40,239
Totals	$ 260,316	$ 2,411,945

Derivative Financial Investments

Futures contracts are used primarily to maintain the Fund's asset allocation within ranges determined by the Investment Committee. Such futures contracts trade on recognized exchanges and margin requirements are met by pledging cash and cash equivalents. The contractual amount of the open futures contracts aggregated approximately $19 million short and $29 million long at March 31, 2011 and 2010, respectively.

The contractual amounts of these instruments are indications of the open transactions and do not represent the level of market or credit risk to the portfolio. Since some of the futures held are adjusting market risk elsewhere in the portfolio, the measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are considered.

Market risks to the portfolio are caused primarily by changes in U.S. interest rates or in the value of U.S. equity markets.

With respect to credit risk, futures contracts require daily cash settlement, thus limiting the cash receipt or payment to the change in fair value of the underlying instrument. Accordingly, the amount of credit risk represents a one-day receivable. Settlements, which resulted in gains of $3 million and $49 million for the years ended March 31, 2011 and 2010, respectively, are recorded in the accompanying financial statements as a component of realized investment gains and losses.

Real Estate and Private Equity Investments

Certain financial information for the years ended March 31, 2011 and 2010 and the fair values of investments in real estate and private equity limited partnerships by asset class as of March 31, 2011 and 2010 are summarized as follows:

March 31, 2011 (in thousands)	Fair Value Beginning of Year	Contributions	Operating Results & Net Capital Gains (Losses)	Distributions	Fair Value End of Year
Real estate:					
North America	$ 532,518	$ 135,980	$ 49,117	$ (52,474)	$ 665,141
Europe	108,088	27,928	803	(7,938)	128,881
Asia	96,818	63,571	39,234	(19,802)	179,821
Other	82,176	67,006	(10,473)	(37,145)	101,564
Total real estate	819,600	294,485	78,681	(117,359)	1,075,407
Private equity:					
North America	597,110	128,878	187,195	(159,676)	753,507
Europe	189,422	56,240	42,161	(33,995)	253,828
Asia	92,381	35,831	33,327	(8,987)	152,552
Other	108,556	32,298	35,923	(28,249)	148,528
Total private equity	987,469	253,247	298,606	(230,907)	1,308,415
Totals	$1,807,069	$ 547,732	$ 377,287	$ (348,266)	$ 2,383,822

March 31, 2010 (in thousands)					
Real estate:					
North America	$ 568,896	$ 93,992	$(112,012)	$ (18,358)	$ 532,518
Europe	82,589	26,605	3,906	(5,012)	108,088
Asia	116,033	16,268	(33,766)	(1,717)	96,818
Other	50,512	41,554	3,510	(13,400)	82,176
Total real estate	818,030	178,419	(138,362)	(38,487)	819,600
Private equity:					
North America	451,669	85,565	132,906	(73,030)	597,110
Europe	154,171	38,460	8,884	(12,093)	189,422
Asia	45,661	25,698	24,190	(3,168)	92,381
Other	117,428	26,772	(22,789)	(12,855)	108,556
Total private equity	768,929	176,495	143,191	(101,146)	987,469
Totals	$1,586,959	$ 354,914	$ 4,829	$ (139,633)	$ 1,807,069

Real estate limited partnerships include investments across all major property types including commercial properties, such as office, retail, multi-family, hotel and land, residential properties and real and other assets such as energy, materials and timber. As of March 31, 2011 and 2010, investments in commercial properties, residential properties and real and other assets, were 54%, 18% and 28%, respectively, and 55%, 16% and 29%, respectively, of the portfolio.

Private equity limited partnerships include strategies focused on venture capital, growth equity and buyout transactions across many industry sectors. As of March 31, 2011 and 2010, investments in venture capital and growth equity and buyout transactions were 44% and 56%, respectively, and 41% and 59%, respectively, of the portfolio.

The net gain on investments in real estate and private equity limited partnerships for the fiscal years ended March 31, 2011 and 2010 include realized and unrealized gains and losses, operating results, investment management fees and other expenses and are summarized in the following table:

March 31 (in thousands)	2011	2010
Net realized capital gains	$ 106,072	$ 7,046
Net unrealized capital gains (losses)	271,441	(1,787)
Operating results	(226)	(430)
Operating results and net capital gains	377,287	4,829
Direct fees and other income	2,956	10,932
Net gains on real estate and private equity investments	$ 380,243	$ 15,761

These investments in limited partnerships are subject to "lock-up" provisions, generally ranging from 8 to 10 years from inception at which time we expect our entire investment to have been liquidated.

At March 31, 2011, the Fund had open investment commitments to limited partnerships of $1.3 billion which are expected to be funded during future years. In this regard, from April 1, 2011 through April 30, 2011, the Fund invested an additional $16.8 million and made $30 million in additional commitments in limited partnerships. Although there is a secondary market in limited partnerships, most of these investments are illiquid and there may be penalties should the Fund not fulfill its funding and holding period commitments.

Alternative Investments

Alternative investments include marketable alternatives such as investments in hedge funds and absolute return strategies. Alternative investments primarily include investments in (1) long/short equity hedge funds, that invest primarily in long and short equity securities, (2) credit/distressed debt securities that are generally rated below investment grade with managers that invest in debt or debt related securities or claims associated with companies, assets or sellers whose financial conditions are stressed, distressed or in default, and (3) multi-strategy hedge funds that pursue multiple strategies and capture market opportunities. The net appreciation in fair value for the year, the fair value, unfunded commitments, redemption frequency (if currently eligible) and redemption notice period of these alternative investments by asset class at the year end are summarized as follows:

March 31, 2011 (in thousands)	Net Appreciation in Fair Value During Year	Fair Value End of Year	Unfunded Commitments	Redemption Frequency*	Redemption Notice Period
Long/short equity	$ 71,005	$ 587,204	$ –	Q/A	30–90 days
Credit/distressed debt	39,563	395,079	131,099	None	None
Multi-strategy	45,593	467,797	–	SA/A	60–180 days
Other	60,093	467,094	14,876	M/Q/SA/A	15–90 days
Totals	$ 216,254	$1,917,174	$145,975		

March 31, 2010 (in thousands)	Net Appreciation in Fair Value During Year	Fair Value End of Year	Unfunded Commitments	Redemption Frequency*	Redemption Notice Period
Long/short equity	$ 79,940	$ 540,851	$ –	M/Q	30–90 days
Credit/distressed debt	87,453	351,739	126,649	None	None
Multi-strategy	115,320	437,852	–	Q/SA	60–180 days
Other	184,686	470,284	7,842	M/Q/SA/A	15–90 days
Totals	$ 467,399	$1,800,726	$134,491		

*Monthly ("M"), Quarterly ("Q"), Semi-Annually ("SA"), Annually ("A")

Certain of the investments in the limited partnerships are subject to withdrawal "gate" or suspension provisions as defined in the limited partnerships' agreement. The general partner and/or investment manager of the limited partnerships may restrict or suspend withdrawal requests for various reasons, including, but not limited to, insufficient liquidity at the limited partnership to satisfy withdrawal requests or to preserve the capital interests of the limited partners not withdrawing from the limited partnerships. As of March 31, 2011, none of the investment managers of the limited partnerships have such restrictions on withdrawals.

Affiliated Companies

Investments in affiliated companies represent an important use of the Fund's assets. The wholly owned affiliated companies carry out significant activities that the Trustees, upon the advice and request of the Episcopal Church, have concluded further the Fund's mission.

The financial results of The Church Insurance Company and Church Life Insurance Corporation are prepared on a statutory basis of accounting prescribed by the New York State Insurance Department which is not materially different from the fair value of these entities which is required under GAAP. The other affiliates are reported on a GAAP basis of accounting.

The primary activities and financial status of each of the major affiliates are described in the sections below for calendar years 2010 and 2009.

The Church Insurance Companies[1]

Today, more than 80% of Episcopal Church institutions rely on the Church Insurance Companies for their commercial package coverage. The Church Insurance Agency Corporation (the "Agency") provides insurance products and risk-management services to Episcopal institutions. The Agency accesses a broad range of products tailored for the special needs of Episcopal institutions through its sister companies or through its product partners. The Church Insurance Companies have provided property and liability coverage for church institutions since 1929. The Church Insurance Company of Vermont and The Church Insurance Company of New York are single-parent captive insurance companies incorporated in 1999 and 2007, respectively, to allow church institutions to benefit from the coverage flexibility and potential cost advantages of this risk-financing approach. Effective November 24, 2009, the Agency entered into a service agreement with the United Methodist Property and Casualty Trust ("PACT"), a Washington, D.C. captive reinsurance company, to provide certain agency services. T. Dennis Sullivan is the President and D. Roderick Webster is Senior Vice President and General Manager of The Church Insurance Companies.

In 2010, The Church Insurance Companies' combined operations had a net income of $4.2 million.

Financial Summary

December 31 (in thousands)	2010	2009
Assets	$ 217,573	$ 196,587
Liabilities	142,229	126,340
Capital and surplus	75,344	70,247
Earned premiums	42,303	30,031
Net income	4,248	3,123

[1] "The Church Insurance Companies" means, collectively, The Church Insurance Agency Corporation, The Church Insurance Company, The Church Insurance Company of New York and The Church Insurance Company of Vermont.

Church Life Insurance Corporation

Since 1922, Church Life Insurance Corporation ("Church Life") has provided life insurance protection and retirement savings plans to clergy and lay workers who serve the Episcopal Church and to their families. The products Church Life offers include individual and group annuities, IRAs and life insurance coverage. T. Dennis Sullivan is the President and James E. Thomas is Senior Vice President and General Manager of Church Life.

At the end of 2010, Church Life maintained $1,491.1 million of in-force insurance for its clergy and lay beneficiaries; assets totaled $237.1 million; and the net income for the year was $4.2 million, including $944 thousand of investment gains.

Financial Summary

December 31 (in thousands)	2010	2009
Assets	$ 237,132	$ 219,533
Liabilities	198,198	184,223
Capital and surplus	38,934	35,310
Insurance in force	1,491,126	1,467,316
Earned premiums	36,224	35,005
Net income	4,224	2,283
Dividend paid to the Fund	1,200	500

Church Publishing Incorporated

Since 1918, Church Publishing Incorporated ("Church Publishing") has produced the official worship materials of the Episcopal Church. In addition to basic and gift editions of prayer books and hymnals, Church Publishing now has an extensive title list in the fields of liturgy, theology, curriculum, church history, homiletics and Anglican spirituality. Church Publishing also offers a growing list of Episcopal-related recorded music products, vestments, church resources, liturgical and musical software and online services. T. Dennis Sullivan is the President and Davis Perkins is Senior Vice President and Publisher of Church Publishing.

In 2010, total revenues were $6.5 million and Church Publishing had a net loss of $7.8 million.

Financial Summary

December 31 (in thousands)	2010	2009
Assets	$ 13,544	$ 20,079
Liabilities	9,849	8,538
Capital	3,695	11,541
Revenue	6,530	8,159
Net loss	(7,846)	(4,993)

CREDO Institute, Inc.

Since 2001, CREDO Institute, Inc. ("CREDO") has provided opportunities for Episcopal clergy to examine significant areas of their lives and to discern prayerfully the future direction of their vocations as they respond to God's call in a lifelong process of practice and transformation. CREDO accomplishes this by organizing conferences led by prominent clergy and lay individuals from around the country. These conferences provide clergy and lay participants the opportunity to reflect on spiritual, vocational, health and financial aspects of their lives. CREDO receives substantially all of its funding from the Fund. William S. Craddock, Jr., is Senior Vice President and the Managing Director of CREDO.

Financial Summary

December 31 (in thousands)	2010	2009
Assets	$ 12,158	$ 17,871
Liabilities	830	692
Net assets	11,328	17,179
Support and revenue from third parties	537	699
Support and revenue from the Fund	838	4,908
Change in net assets	(5,851)	(601)

The Episcopal Church Clergy and Employees' Benefit Trust ("The Benefit Trust")

The Benefit Trust, now in its thirty-third year, funds the health plan options that are offered by The Episcopal Church Medical Trust. The Episcopal Church Medical Trust provides active and retired clergy and employees of the Episcopal Church and their dependents with a broad array of health plan options and serves as the plan sponsor and administrator of such plans. The Episcopal Church Medical Trust offers a wide variety of managed care plans, self-funded preferred provider and indemnity plans and mental health and dental care plans. For retired participants The Episcopal Church Medical Trust offers Medicare supplement plans, as well as Medicare HMOs in selected regions of the country.

The Benefit Trust is not a subsidiary of the Fund. Accordingly, its assets, liabilities and financial results are not included in the Statement of Net Assets Available for Benefits. T. Dennis Sullivan is the President and Frank Armstrong is Senior Vice President and General Manager of The Episcopal Church Medical Trust.

Financial Summary

December 31 (in thousands)	2010	2009
Assets	$ 42,925	$ 40,941
Liabilities	21,603	20,215
Accumulated surplus	21,322	20,726
Revenues	163,259	142,546
Benefits provided	162,736	133,173
Net income	523	9,857

5. Fair Value Measurements

The following table provides information about the financial assets measured at fair value by asset class as of March 31, 2011 and 2010.

March 31, 2011 (in thousands)	Level 1	Level 2	Level 3	Total
Equity securities:				
U.S. large capitalization/ broadly diversified	$ 919,733	$ 123,988	$ –	$1,043,721
U.S. small capitalization	325,770	508	–	326,278
Sector strategies	73,619	–	–	73,619
Total U.S. equities	1,319,122	124,496	–	1,443,618
Emerging markets	6,421	202,006	–	208,427
Other international	101,351	579,345	–	680,696
Totals	1,426,894	905,847	–	2,332,741
Fixed income securities:				
U.S. Treasury and obligations of U.S. government corporations and agencies	–	1,095,329	2,892	1,098,221
Corporate	–	996,745	165,601	1,162,346
Loan-backed	–	62,141	141	62,282
Foreign governments	–	95,537	13,426	108,963
Asset-backed	–	58,893	956	59,849
Totals	–	2,308,645	183,016	2,491,661
Real estate and private equity	–	–	2,383,822	2,383,822
Alternative investments:				
Long/short equity	–	405,824	181,380	587,204
Credit/distressed debt	–	254	394,825	395,079
Multi-strategy	–	–	467,797	467,797
Other	–	151,293	315,801	467,094
Totals	–	557,371	1,359,803	1,917,174
Mortgage loans	–	–	14,307	14,307
Affiliated companies	–	–	127,113	127,113
Short-term securities	–	39,547	–	39,547
Total assets at fair value	$1,426,894	$3,811,410	$4,068,061	$9,306,365

March 31, 2010 (in thousands)	Level 1	Level 2	Level 3	Total
Equity securities:				
U.S. large capitalization/ broadly diversified	$ 897,059	$ 109,443	$ 98	$1,006,600
U.S. small capitalization	309,422	–	–	309,422
Sector strategies	86,849	–	–	86,849
Total U.S. equities	1,293,330	109,443	98	1,402,871
Emerging markets	5,545	236,352	–	241,897
Other international	234,645	480,191	–	714,836
Totals	1,533,520	825,986	98	2,359,604
Fixed income securities:				
U.S. Treasury and obligations of U.S. government corporations and agencies	–	1,024,206	7,842	1,032,048
Corporate	13	1,027,151	150,040	1,177,204
Loan-backed	–	66,035	1,031	67,066
Foreign governments	2,661	59,241	33,486	95,388
Asset-backed	–	39,669	570	40,239
Totals	2,674	2,216,302	192,969	2,411,945
Real estate and private equity	–	–	1,807,069	1,807,069
Alternative investments:				
Long/short equity	–	398,753	142,098	540,851
Credit/distressed debt	–	570	351,169	351,739
Multi-strategy	–	–	437,852	437,852
Other	–	177,530	292,754	470,284
Totals	–	576,853	1,223,873	1,800,726
Mortgage loans	–	–	20,375	20,375
Affiliated companies	–	–	126,524	126,524
Short-term securities	–	26,789	–	26,789
Total assets at fair value	$1,536,194	$ 3,645,930	$ 3,370,908	$ 8,553,032

The following tables summarize the changes in financial assets classified in Level 3 by asset class for the year-ended March 31, 2011. Gains and losses reported in this table may include changes in fair value that are attributable to both observable and unobservable inputs.

	Fixed Income Securities					
March 31, 2011 (in thousands)	U.S. Treasury and Obligations of U.S. Government	Corporate	Loan-backed	Foreign Governments	Asset-backed	Total
Balance at April 1, 2010	$ 7,842	$150,040	$1,031	$ 33,486	$ 570	$192,969
Transfers into Level 3	–	8	–	–	–	8
Transfers out of Level 3	(7,842)	(1,538)	(674)	(23,193)	(570)	(33,817)
Total gains/(losses) included in Statement of Changes in Net Assets Available for Benefits, net	–	3,880	(1)	1,062	29	4,970
Purchases	2,893	16,095	–	2,261	927	22,176
Sales	–	(2,869)	–	(190)	–	(3,059)
Settlements	(1)	(15)	(215)	–	–	(231)
Balance at March 31, 2011	$ 2,892	$165,601	$ 141	$ 13,426	$ 956	$183,016

March 31, 2011 (in thousands)	Alternative Investments Long/ Short Equity	Credit/ Distressed Debt	Multi-strategy	Other	Total
Balance at April 1, 2010	$142,098	$351,169	$ 437,852	$292,754	$1,223,873
Transfers into Level 3	–	–	–	–	–
Transfers out of Level 3	–	–	–	–	–
Total gains included in Statement of Changes in Net Assets Available for Benefits, net	33,885	32,452	45,592	31,856	143,785
Purchases	20,000	44,914	–	124,355	189,269
Sales	(14,603)	–	–	–	(14,603)
Settlements	–	(33,710)	(15,647)	(133,164)	(182,521)
Balance at March 31, 2011	$181,380	$394,825	$ 467,797	$315,801	$1,359,803

March 31, 2011 (in thousands)	Equity Securities	Real Estate and Private Equity	Mortgage Loans	Affiliated Companies
Balance at April 1, 2010	$ 98	$1,807,069	$ 20,375	$ 126,524
Transfers into Level 3	–	–	–	–
Transfers out of Level 3	–	–	–	–
Total gains/(losses) included in Statement of Changes in Net Assets Available for Benefits, net	(98)	377,287	629	1,114
Purchases	–	547,732	–	1,500
Sales	–	–	–	(2,025)
Settlements	–	(348,266)	(6,697)	–
Balance at March 31, 2011	$ –	$2,383,822	$ 14,307	$ 127,113

6. International Clergy Pension Plan

The International Clergy Pension Plan ("ICPP") is a nonqualified, multiple-employer plan administered by the Fund on behalf of the retirement plans of certain Anglican churches outside the fifty United States that were previously part of the Episcopal Church and overseas dioceses of the Episcopal Church. Nonqualified plans are not subject to Section 401(a) of the Internal Revenue Code which, among other things, requires that the assets be held in a trust.

In 2004 and 2005, the Fund entered into administrative and investment agreements with the Episcopal Church of Liberia and Iglesia Anglicana de México, each of which sponsors its respective portion of the ICPP. In 2009, the Fund extended the administrative and investment agreement with the Episcopal Church of Liberia through December 31, 2012. The Fund also administers and invests the assets of the retirement plans sponsored by overseas dioceses of the Episcopal Church. The assets of the ICPP are held by the Fund outside the master trust (see page 9). The actuarial liabilities of all plans included in the ICPP are determined annually by an actuarial consulting firm, Buck Consultants, a Xerox Company, and total $107.0 million and $102.9 million at March 31, 2011 and March 31, 2010, respectively.

7. Restricted and Unrestricted Funds

The Permanently and Temporarily Restricted Legacy and Gift Funds stem from bequests and contributions received by the Fund from individuals for the purpose of supporting the tax-exempt purposes of the Fund. The principal balance of the temporarily restricted account is available for use at the discretion of the Trustees; the principal balance of the permanently restricted account is maintained in accordance with the wishes of the benefactors.

The Major Medical Supplement Fund, the Life Insurance Benefit Fund and the Supplemental Pension Fund are entirely discretionary with no specific assets designated against them. The Trustees have reserved the right, at their discretion, to change or discontinue the benefits provided by these discretionary funds depending on future financial and economic conditions and investment performance.

The Major Medical Supplement Fund was established in 1987 in recognition of the rising costs of medical care for pension beneficiaries. In its early years, this program provided eligible beneficiaries enrolled in Medicare with a major medical supplement to that government program. As medical care for retirement age individuals increased in complexity and expense, the Trustees' approach to this entirely discretionary benefit has moved towards making a specific dollar contribution for each eligible plan member. This dollar contribution can be used to cover some or all of the cost of a Medicare supplement program offered by The Medical Trust.

The amount of the Major Medical Supplement Fund is based upon an actuarial analysis performed by Hewitt Associates LLC, healthcare actuaries to the fund. Hewitt's calculation is based on the current dollar amount provided for each eligible plan member and the Fund's goal of increasing the dollar amount of this discretionary subsidy to contribute to increases in medical costs. The calculation uses an increased medical inflation rate assumption for future years. Additionally, it uses an interest rate which is the same as the interest rate used in calculating the accumulated plan benefit obligations for the Qualified Plans.

The Medical Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted on December 8, 2003. The Act introduced a prescription drug benefit under Medicare, as well as a federal subsidy to sponsors of retiree healthcare plans that provide a benefit that is at least equivalent to Medicare. Final regulations governing key elements of the Act were released in January 2005 and the calculation of the Major Medical Supplement Fund reflects the effect of the Act and the regulations.

The Life Insurance Benefit Fund was established to provide for the estimated annual insurance premiums of eligible beneficiaries in the Clergy Plan with life insurance during active service and when retired.

The Supplemental Pension Fund is a provision for benefits to those participants in the clergy plan whose pension payments would be limited by certain sections of the Internal Revenue Code (the "Code") to an amount below their entitlement under the present benefit formula. Subject to certain other provisions of the Code, the supplemental provision provides for payment of the difference between the Code limitation and such participant's earned benefits.

The following charts summarize the activities of the Restricted and Unrestricted Funds for the years ended March 31, 2011 and 2010.

	Increase/(Decrease) in Restricted and Unrestricted Funds				
March 31, 2011 (in thousands)	Beginning Balance	Assessments and Investment Gains	Benefits & Expenses	Transfers From/To Net Assets	March 31 Balance
Permanently Restricted Legacy & Gifts	$ 16,793	$ 2,092	$ –	$ 6	$ 18,891
Temporarily Restricted Legacy & Gifts	14,674	1,579	(2,566)	56	13,743
Major Medical Supplement	944,926	–	(25,505)	18,594	938,015
Life Insurance Benefit	174,254	–	(13,197)	22,631	183,688
Supplemental Pension	42,855	–	(859)	1,381	43,377
Total Restricted and Unrestricted Funds	$1,193,502	$ 3,671	$ (42,127)	$ 42,668	$1,197,714

March 31, 2010 (in thousands)	Beginning Balance	Assessments and Investment Gains	Benefits & Expenses	Transfers From/To Net Assets	March 31 Balance
Permanently Restricted Legacy & Gifts	$ 13,499	$ 3,286	$ –	$ 8	$ 16,793
Temporarily Restricted Legacy & Gifts	13,310	3,107	(1,986)	243	14,674
Major Medical Supplement	954,361	–	(24,974)	15,539	944,926
Life Insurance Benefit	164,574	–	(15,678)	25,358	174,254
Supplemental Pension	48,097	–	(842)	(4,400)	42,855
Total Restricted and Unrestricted Funds	$1,193,841	$ 6,393	$ (43,480)	$ 36,748	$1,193,502

8. Accumulated Plan Benefit Obligations

Buck Consultants, a Xerox Company, is an actuarial consulting firm that estimates the actuarial present value of the accumulated plan benefits earned by the participants in the Clergy Plan, the Lay Plan and the Staff Plan to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal or retirement) between the valuation date and the expected date of payment.

Accumulated plan benefit obligations are the estimated future periodic payments, including lump-sum distributions that are attributable, under the plan provisions for services rendered by the plan participants through to the valuation date. Accumulated plan benefit obligations include benefits that are expected to be paid to: (a) retired or terminated participants or their beneficiaries and (b) present participants or their beneficiaries which are based on assumptions for future compensation levels, rates of mortality and disability, and other factors. The effect of plan amendments on the accumulated plan benefit obligations are recognized during the years in which such amendments become effective.

The significant assumptions underlying the actuarial estimates are as follows:

- Interest rate: 5.50% and 5.75% per annum for the years-ended March 31, 2011 and 2010, respectively, compounded annually and developed considering annualized yields for long-term government and long-term, high quality corporate bonds that reflect the duration of the pension obligations.
- Cost of living adjustment: 3% per annum. Cost-of-living adjustments are not guaranteed. The Board of Trustees grants cost-of-living adjustments at its discretion.
- Vesting: After five years of credited service.
- Retirement (Clergy Plan): Normal, at age 65 and after; early, with no reduction at 55 and after 30 years of credited service;

- reduced benefits at age 60 with less than 30 years of credited service; compulsory, at age 72.
- Mortality (Clergy Plan): The George B. Buck 1995 Mortality Table is used for participants born before 1930 and for spouses and beneficiaries. The George B. Buck 1995 Mortality Table set back 3 years is used for participants born after 1929. Special mortality tables are used for disability retirements and pensioned children over age 25. No mortality is assumed for pensioned children under age 25.

These actuarial assumptions are based on the presumption that the Qualified Plans will continue. If a plan were to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefit obligations.

The actuarial present value of the accumulated plan benefits of the Clergy Plan, the Lay Plan and the Staff Plan as of March 31, 2011 and 2010 are summarized as follows:

March 31, 2011 (in thousands)	Clergy Plan	Lay Plan	Staff Plan
Vested benefits:			
Actuarial present value of benefits for retired participants and their dependents	$3,206,274	$ 74,138	$ 38,146
Actuarial present value of benefits for participants not yet retired and their dependents	1,658,458	86,408	67,093
Nonvested benefits:	143,304	3,914	12,269
Total	$5,008,036	$164,460	$117,508

March 31, 2010 (in thousands)	Clergy Plan	Lay Plan	Staff Plan
Vested benefits:			
Actuarial present value of benefits for retired participants and their dependents	$3,026,891	$ 66,912	$ 38,488
Actuarial present value of benefits for participants not yet retired and their dependents	1,635,999	79,918	55,760
Nonvested benefits:	145,404	3,889	11,354
Total	$4,808,294	$150,719	$105,602

The net increase in the actuarial present value of accumulated plan benefits of the Clergy Plan, the Lay Plan, and the Staff Plan for the years ended March 31, 2011 and 2010 are summarized as follows:

March 31, 2011 (in thousands)	Clergy Plan	Lay Plan	Staff Plan
Actuarial present value of accumulated plan benefits at beginning of year	$4,808,294	$150,719	$105,602
Increase during the year attributable to:			
Change in actuarial assumptions	141,604	5,208	4,457
Benefits accumulated	56,020	6,140	4,452
Increase for interest due to decrease in the discount period	268,914	8,493	5,987
Benefits paid	(266,796)	(6,100)	(2,990)
Net increase	199,742	13,741	11,906
Actuarial present value of accumulated plan benefits at end of year	$5,008,036	$164,460	$117,508

March 31, 2010 (in thousands)	Clergy Plan	Lay Plan	Staff Plan
Actuarial present value of accumulated plan benefits at beginning of year	$4,583,111	$128,512	$ 92,620
Increase during the year attributable to:			
Change in actuarial assumptions	134,514	4,699	3,888
Benefits accumulated	85,160	15,634	6,574
Increase for interest due to decrease in the discount period	267,249	7,543	5,470
Benefits paid	(261,740)	(5,669)	(2,950)
Net increase	225,183	22,207	12,982
Actuarial present value of accumulated plan benefits at end of year	$4,808,294	$150,719	$105,602

The amount designated for assessment deficiencies represents an allocation of assets for the actuarial present value of the estimated amount to be paid out in benefits in excess of the estimated amount to be received in assessments in connection with the Qualified Plans. The estimated amount to be paid out in benefits assumes an annual cost-of-living adjustment and the estimated amount to be received in assessments assumes an annual age-related compensation increase consistent with the assumptions used in the estimates of the actuarial present value of the accumulated plan benefits.

9. Funding

Participating employers pay assessments to the Qualified Plans on behalf of the eligible participants in each respective plan. The assessments for the Clergy Plan are equal to 18% of the participants' compensation, which includes salaries, other cash compensation and the value of housing. The assessments for the Lay Plan are equal to 9% of the participants' compensation. The assessments paid to the Staff Plan are currently 10% of the participants' compensation.

The funding position of the Clergy Plan, the Lay Plan and the Staff Plan as of March 31, 2011 and 2010 are summarized as follows:

March 31, 2011 (in thousands)	Clergy Plan	Lay Plan	Staff Plan
Net assets available for pension benefits after amount designated for assessment deficiency	$7,354,100	$103,375	$ 92,769
Actuarial present value of accumulated plan benefits	5,008,036	164,460	117,508
Surplus (Deficit)	$2,346,064	$ (61,085)	$ (24,739)

March 31, 2010 (in thousands)			
Net assets available for pension benefits after amount designated for assessment deficiency	$6,641,724	$ 93,826	$ 82,251
Actuarial present value of accumulated plan benefits	4,808,294	150,719	105,602
Surplus (Deficit)	$1,833,430	$ (56,893)	$ (23,351)

10. Expenses

The Fund shares many of its expenses, including staff compensation, with its affiliates on the basis of allocations reviewed with the Board of Trustees. The accompanying financial statements for the Fund for the years ended March 31, 2011 and 2010, include cash compensation expenses of $36.2 million and $33.8 million, respectively. In the same respective years, an additional $13.3 million and $12.9 million in cash compensation expenses were incurred by affiliates of the Fund.

The compensation philosophy of the officers of the Fund and its affiliates is established by the Compensation Committee of the Board of Trustees and approved by the full board. The total remuneration of certain key officers of the Fund and its affiliates is approved by the Compensation Committee of the Board of Trustees. In addition, the total remuneration paid to the President and Chief Executive Officer is ratified by the full board. The rationale for the total remuneration paid to the key officers involves two elements: (1) market data that is representative of functionally comparable positions in organizations similar to the Fund and its affiliates and (2) individual and corporate performance. Supplemental retirement and life insurance benefits are provided to certain officers under the terms of individual agreements. The accompanying financial statements of the Fund include officers' cash compensation, totaling $16.2 million and $15.6 million for the fiscal years ended March 31, 2011 and 2010, respectively. In the same respective years, an additional $8.6 million and $7.5 million in officers' cash compensation expenses were incurred by affiliates of the Fund.

The cash compensation for the five current officers of the Fund receiving the highest total cash compensation for the year ended March 31, 2011 was as follows:

T. Dennis Sullivan, President & CEO	$1,118,000
Executive Vice Presidents:	
William L. Cobb, Jr., Chief Investment Officer	$1,163,000
Jim W. Morrison, Chief Operating Officer for Benefits and Risk Bearing Business	$675,000
Senior Vice Presidents:	
Helen Fox-O'Brien, Investment Department	$960,000
Alan Snoddy, Investment Department	$875,000

The Fund and its affiliated companies have a non-contributory defined benefit staff retirement plan, described above as the Staff Plan (see page 9), covering substantially all of its lay employees. The Staff Plan is reviewed annually by the consulting actuaries, Buck Consultants, a Xerox Company. As of March 31, 2011, the plan benefit obligations were $139.5 million. The assumed rate of return used in the above calculations was 5.50%. The net assets available for plan benefits as of March 31, 2011 were $114.8 million. The excess of the plan benefit obligations over the plan net assets was recorded as a liability in the accompanying statements of net assets available for benefits. The Fund pledged a contribution of $4.7 million to the Staff Plan in the fiscal year ended 2011 and $4.5 million to the Staff Plan in the fiscal year ended 2010.

The Fund and its affiliated companies have a defined contribution plan for eligible employees, under which employees may contribute up to 100% of their salaries, subject to federal limitations. The first 6% of their contributions is matched 75% by the Fund. Total employer matching contributions under this plan were $1.6 million and $1.3 million for the years ended March 31, 2011 and 2010, respectively.

The Fund and its affiliated companies also provide healthcare and life insurance benefits for eligible retired employees. The Fund accrues the cost of providing these benefits during the active service period of the employee. For the years ended March 31, 2011 and 2010, the Fund and its affiliates recorded expenses of $2.5 million and $2.1 million, respectively, for benefits and interest expense net of interest income. The Fund has initiated a program to fund its obligation for this benefit by contributing to a post-retirement benefit investment account. At March 31, 2011, the amount in this account, which is included in the combined statements of net assets available for benefits, was $19.1 million to fund obligations of $31.3 million.

For measuring the expected post-retirement benefit obligation, average annual rates of increase in the per capita claims cost were assumed for the fiscal years beginning April 1, 2011 and 2010 for medical costs of 7.0% and 7.5%, respectively. The increases in medical rates were assumed to decrease annually to 3.25% in the fiscal year beginning April 1, 2019 and remain at that level thereafter. The weighted average discount rates used in determining the accumulated post-retirement benefit obligation were 5.50% and 5.75% at March 31, 2011 and 2010, respectively. If the healthcare cost trend rate were increased by 1%, the accumulated post-retirement benefit obligation as of March 31, 2011 would increase by approximately $3.0 million.

11. Subsequent Events

The Fund has performed an evaluation of subsequent events through July 18, 2011, which is the date the financial statements were issued. No significant subsequent events were identified.

Report of Independent Auditors

To the Board of Trustees of The Church Pension Fund

We have audited the accompanying combined statements of net assets available for benefits of The Church Pension Fund, The Episcopal Church Lay Employees' Retirement Plan and The Staff Retirement Plan of The Church Pension Fund and Affiliates, collectively referred to as the "Church Pension Group," as of March 31, 2011 and 2010, and the related combined statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Church Pension Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Church Pension Group's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Church Pension Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial status of the Church Pension Group at March 31, 2011 and 2010, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

July 18, 2011

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Pension Actuary
Buck Consultants, a Xerox Company

Health Plan Actuary
Hewitt Associates

As of March 31, 2011

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As of March 31, 2011

CHURCH
PENSION GROUP

445 Fifth Avenue
New York, NY 10016
(800) 223-6602
www.cpg.org