# A Commitment to Serve

# 2016 Annual Report

CHURCH PENSION GROUP

## The Church Pension Fund — At-A-Glance

**$5.7 Billion**
Benefits paid for clergy and dependents since inception in 1917[1]

**$100 Million**
Assessments received[2]

**$370 Million**
Annual benefits paid[3]

**90**
Percentage of every dollar collected by The Episcopal Church Medical Trust to pay claims

**$11.5 Billion**
Total CPF investment portfolio assets

**$900 Million**
Socially responsible investments made[4]

**17,461**
Lay Pension Plan participants[5]

**86,600**
Client interactions with CPG's Client Services group

**6,478**
Active Clergy Pension Plan participants[6]

**9,666**
Churches, dioceses, and other Episcopal organizations served

**2,300**
Number of active titles managed by Church Publishing Incorporated

**90**
Percentage of U.S. Episcopal churches insured by The Church Insurance Companies[7]

*[1]Since inception (1917) through March 31, 2016. [2]Includes clergy, lay employees and CPG staff; April 1, 2015 – March 31, 2016. [3]Includes pension and other benefits (medical supplement and life insurance) paid for clergy and dependents, lay employees and CPG staff; April 1, 2015 – March 31, 2016. [4]Current SRI investments through December 31, 2015. [5]The Episcopal Church Lay Employees' Retirement Plan (Lay DB Plan) Actuarial Valuation Report. The Episcopal Church Lay Employees' Defined Contribution Retirement Plan (Lay DC Plan) provided by Fidelity. Fidelity is the Trustee and Record keeper of the Lay DC Plan. [6]Those for whom assessments are paid into the plan. Participant statistics as of December 31, 2015. Source: Buck Consultants, LLC Actuarial Reports. [7]Includes property and liability protection.*

## A message from Mary Kate Wold

*"An important aspect of our work at CPG is looking ahead — intentionally exploring what the world, the economy, and the Church might look like over the next years and decades."*

Dear Friends:

Next year The Church Pension Fund (CPF) will celebrate 100 years of service to The Episcopal Church. While a great deal has changed since we paid our first pension benefit in 1917, our mission remains the same. CPF and its affiliates (collectively, the Church Pension Group, or CPG) support clergy and lay employees in their calling to spread the Gospel. We do this by providing retirement, health, and life insurance benefits; property and casualty insurance; and published works to the institutions and individuals who serve The Episcopal Church.

Given that our mission is to support current and future clergy and lay employees for decades into the future, an important aspect of our work at CPG is looking ahead — intentionally exploring what the world, the economy, and the Church might look like over the next years and decades. We closely monitor changing demographics and emerging trends in the Church and in our financial services industry, and we travel extensively throughout the Church to hear directly from our participants. We utilize the information we gather to prepare ourselves for whatever the future holds.

Informed by our research and with invaluable input from our participants, we have a number of important initiatives underway. For example, we are continuing to restructure our operations and hone the way we work to provide more seamless benefits delivery to our participants. We are in the process of revising The Church Pension Fund Clergy Pension Plan (the Clergy Pension Plan) to increase flexibility and better respond to the changing needs of the Church. We are fine-tuning our array of health plans offered by The Episcopal Church Medical Trust to increase affordability and competitiveness with local exchanges. And we are updating our education and wellness programs and expanding those offerings outside the United States and online.

Our investment portfolio, of course, is ultimately the engine that drives our ability to provide retirement, health and other benefits and services to our current and future participants. We take very seriously our responsibility to invest those funds wisely, and we strive to ensure that we have sufficient funds to withstand the threats that uncertain and volatile financial markets may present, now and well into the future.

It has been a busy year at CPG, and it takes talented people with a wide array of expertise to do the work that we are called to do. In this Annual Report, we highlight some of our work over the past year and introduce you to six employees who are representative of our team's commitment to serve. We hope you enjoy their stories.

We thank you for your continued confidence and support. It is indeed a privilege to be able to serve you.

Faithfully,

Mary Kate Wold

Mary Kate Wold
CEO and President

## A message from the CPF Board of Trustees

Dear Friends:

Each year the CPF Board evaluates the success of CPG with reference to three categories:

- Investment performance
- Fiscal management
- Client service

We are pleased to report that in 2015, CPG delivered very strong performance and exceeded its goals in every category. We are grateful to the entire team at CPG for continuing to support the Church so professionally and compassionately.

*"We are pleased to report that in 2015, CPG delivered very strong performance and exceeded its goals in every category."*

During 2015 the CPF Trustees participated, along with management, in a series of listening events around the Church. From those events, we learned a great deal that has informed our strategic discussions around the board table. As CPG looks to the future, we look forward to ongoing opportunities to hear directly from our participants.

In 2015 we welcomed the following six new members to the CPF Board, and they are bringing terrific enthusiasm and expertise to our conversations:

**The Rt. Rev. Clifton Daniel III,** Bishop Provisional of Pennsylvania, Philadelphia, PA

**Sandra F. McPhee, Esq.,** Attorney, Evanston, IL

**The Rt. Rev. Brian N. Prior,** Bishop of Minnesota, Minneapolis, MN

**The Rt. Rev. Gregory H. Rickel,** Bishop of Olympia, Seattle, WA

**Canon Anne M. Vickers, CFA,** Canon for Finance and Administration, Diocese of Southwest Florida, Tampa, FL

**The Rev. Canon Dr. Sandye A. Wilson,** Rector, The Episcopal Church of St. Andrew & Holy Communion, South Orange, NJ

We are blessed to be able to serve the Church through our work on the CPF Board, and we give thanks for your prayers and support.

Faithfully,

Barbara B. Creed, Esq.
Chair

The Rev. Dr. Timothy J. Mitchell, D. Min.
Vice Chair

Sandra S. Swan, D.L.H.
Vice Chair

Mary Kate Wold
CEO and President

**The CPF Board of Trustees**

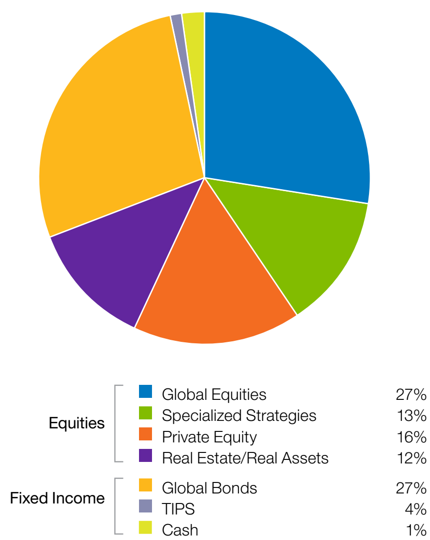
## A Year in Review

*"Our top priority is to cover the cost of benefits for those we serve in the present and those we will be privileged to serve in the future."*

**Investment Performance**
The Church Pension Fund (CPF) serves The Episcopal Church by providing access to benefits that are primarily funded by assessment payments to CPF and by returns on our investment portfolio. Our top priority is to cover the cost of benefits for those we serve in the present and those we will be privileged to serve in the future. We pursue that obligation through a long-term investment program employing a highly diversified global investment portfolio. (Exhibit A)

**Exhibit A**

**Asset Allocation**




As of March 31, 2016, CPF's investment portfolio assets were $11.5 billion, slightly above where they were on March 31, 2015. (Exhibit B) These assets include those of The Episcopal Church Lay Employees' Retirement Plan, which totaled $172.4 million and grew modestly as compared to March 31, 2015.

The CPF portfolio's return was essentially flat for the year ended March 31, 2016, at 0.1%. It has been a difficult period for the equity markets generally as investors' concerns regarding anemic growth in many economies and the collapse in crude oil prices drove most markets around the world down for the year. The large-cap segment of the U.S. market, as measured by the S&P 500 Index, managed a 1.8% return and was a notable exception. Indices measuring performance of the global equity markets as a whole, however, returned -4.3%, with small-cap U.S. equities (-9.8%) and emerging markets equities (-12.0%) leading the declines. A "flight to safety" among investors favored high-quality bonds, particularly in the final quarter of the past year, and U.S. investment-grade bonds provided a higher return than U.S. stocks. CPF's investments in private equity and private real estate were bright spots in an otherwise difficult year for equity-like investments.

**Exhibit B**

**CPF's Total Investments**
(Millions)

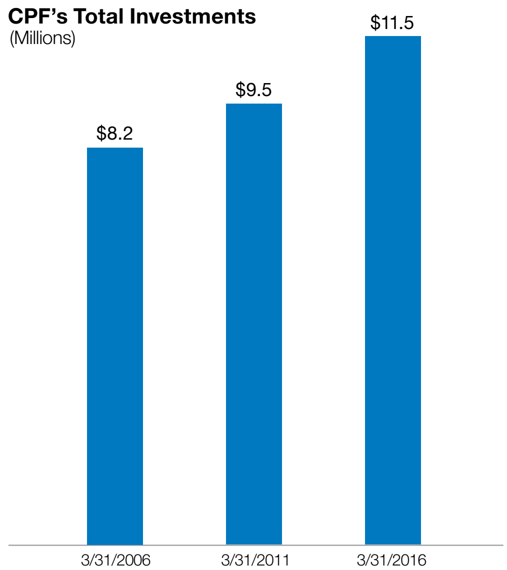


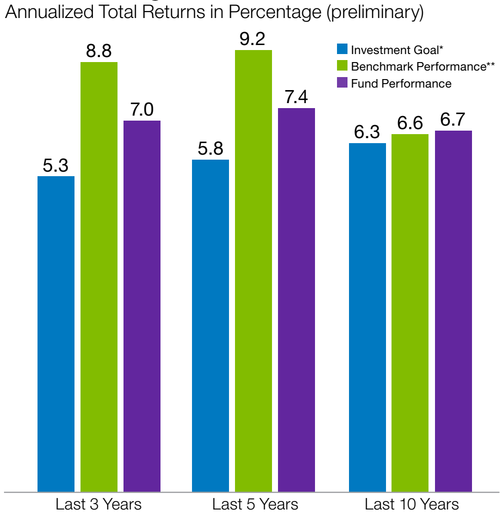

Exhibit C shows CPF's investment performance for the three-, five-, and 10-year periods ending March 31, 2016. It compares the portfolio's annualized returns with those of two key benchmarks: CPF's annualized investment goal of 4.5% over inflation and a passive composite of 67%

S&P 500 Index (large-cap U.S. stocks) and 33% Barclays Government/Credit Bond Index (U.S. government and investment-grade corporate bonds). For the longer 10-year period, CPF's return exceeded those of both benchmarks. For the three- and five-year periods, CPF's performance was ahead of the investment goal, but fell short of the passive benchmark.

As was the case in the most recent year, the large-cap U.S. stocks returns were significantly higher than those of other equity markets for all of these periods. This disparity accounted for much of the performance difference between CPF's globally diversified portfolio and the U.S.-only passive benchmark.

### Exhibit C

**Investment Performance for Periods Ending March 31, 2016**
Annualized Total Returns in Percentage (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.

We remain vigilant in monitoring the investment risks posed by an ever-changing environment, which is made even more challenging by the high valuations of many financial assets. CPF's strong fiduciary oversight continues to emphasize prudent diversification and a strong liquidity position, while we search globally for compelling investment opportunities.

We are keenly focused on our responsibility to honor our mission to serve current and future clergy and lay employees for decades into the future. Given the uncertainty and volatility of the financial markets over that period, we strive to ensure that our assets will be sufficient to weather future market disruptions and downturns without the need to reduce benefits. On a regular basis, we "stress test" our portfolio, using thousands of simulations of possible market conditions, to determine whether we are likely to have sufficient assets to meet this objective over multiple decades.

Our socially responsible investing (SRI) efforts, which are several decades old, have contributed positively to our returns. As described in the spring 2016 issue of ***Perspective***, we currently have more than $900 million placed in socially responsible investments and have already made investment decisions committing an additional $200 million over the next few years. Since 2000, we have realized proceeds of approximately $1.3 billion from SRI investments, and we have positively impacted lives and communities around the globe. One of the employees profiled in this report, Candice Dial, is dedicated to supporting our efforts in SRI. Please take a moment to read her story on page 12.

### SRI Spotlight:

**Silverlands** is a private equity fund that, as part of their development of agricultural businesses in Africa, supports indigenous farmers in the sub-Saharan region. Their efforts have been instrumental to improving the lives of thousands of people in the region. Their initiative to develop surplus silo storage space has added safe and dry storage options that can enable local farmers to sell their remaining crops during the off season, rather than having them go to waste. In addition, they have established a livestock improvement program that has greatly reduced the incidence of disease in small-scale herds of cattle, which has reduced cattle mortality rates to less than 1% and increased local ranchers' incomes. Silverlands also supports local training centers to improve the economic health of farmers through training in better practices, such as the use of conservation farming techniques, which have revitalized communities throughout the region.
Our investment in Silverlands is just one example that highlights how our SRI-related investments have had a meaningful impact on the lives of others.

## Improving Client Service

Our commitment to serve is perhaps most apparent in our ongoing interactions with clients. For the period ended March 31, 2016, we paid $370 million in benefits[1] to clergy and their dependents, received more than 58,000 phone calls in our call center, and processed more than 28,600 transactions. In total, we had more than 86,700 interactions with our clients. On a weekly basis, we survey clients to collect feedback. Our results in 2015 were favorable, with scores placing us at the highest level of client satisfaction when compared with similar companies. Our Client Services team was also recognized for its performance by the International Customer Management Institute, a leading provider of resources for customer management professionals.

*"Our commitment to serve is perhaps most apparent in our ongoing interactions with clients."*

We realize there are always opportunities to improve the service experience with CPG, and we are pursuing them. In the meantime, we are pleased to have achieved such scores and recognition because they confirm that we are fulfilling our mission with the levels of professionalism, compassion, and trustworthiness that you should expect from us.

In 2015, we underwent a major reorganization of client-facing teams that resulted in new reporting lines, new job responsibilities, new processes, and new supporting technology — all to move us toward a more seamless delivery of service to our clients. We all know that change, even positive change, can feel uncomfortable at times. We appreciate your candid feedback as we strive for continuous improvement.


## Pension Plan Revision Initiative Underway

Three years ago, the CPF Board and CPG management team began studying emerging clergy deployment trends around the Church, and we started a review of the Clergy Pension Plan to meet the changing needs of the Church. Last summer, we were pleased that the General Convention endorsed that effort, asking us to work to revise the way benefits are determined in order to be responsive to the changing nature of church leadership.

As described in the spring 2016 issue of ***Perspective***, we are redesigning the Clergy Pension Plan to ensure that it provides meaningful benefits that provide greater flexibility to meet changing needs, including the needs of eligible part-time and interim clergy and those who experience longer breaks in service.

It is an iterative process, and we continue to draw on the wisdom of our Board of Trustees and many individuals from around the Church. We have hosted a series of listening events that have included webinars, focus groups, and provincial bishop and Client Council meetings, where we have sought input on prospective revisions to plan provisions, such as eligibility and benefit formulas. In addition, our Research group has conducted surveys to gather additional insights that have been extremely valuable. We wish to thank the many clergy stakeholders and other Church leaders who have participated in these events.

*"It is an iterative process, and we continue to draw on the wisdom of our Board of Trustees and many individuals from around the Church."*

As the development phase of this initiative comes to an end, we will validate the proposed revisions through additional listening sessions and surveys.

We also are studying the plans we administer for non-domestic dioceses as outlined by General Convention Resolution 2015-A181, which asked CPF to study the compensation and costs and fees of all employee benefits for clergy and lay employees in the dioceses of Province IX. We look forward to presenting our work at the next General Convention in 2018.

## Expanding Our Commitment to Serve Through Education

This past year, we made a concerted effort to expand our reach to clergy around the Church by developing new programs for non-domestic dioceses and for seminarians. Our Education & Wellness team developed and delivered customized programs that support the well-being of these groups, in addition to serving active and retired clergy in the domestic dioceses.

Over the past year, we held more than 10 international conferences around the world.

[1] Includes pension and other benefits, medical supplement, and life insurance.

In addition, we collaborated with The Episcopal Church Foundation (ECF), which received a three-year grant as part of the Lilly Endowment's Initiative to Address the Economic Challenges Facing Pastoral Leaders, to create a two-day conference for seminarians to jumpstart their professional careers as priests. During the conference, which will be available in the fall of 2016, ECF will instruct seminarians about leadership, vestry relationship management, and parish finances. CPG will instruct them on strategies for tending to their personal financial, physical, and emotional health. Our seminary programs will serve individuals attending Episcopal and non-Episcopal seminaries because we have learned that about half of Episcopal priests attended seminaries outside of the denomination.

We are also using technology to expand our reach. Earlier this year, following requests to develop an online education platform, we launched an online learning center on *www.cpg.org.* We are currently developing educational resources and information on financial issues and wellness topics for this learning center. While this platform offers individuals the flexibility to learn on their own time, we also remain committed to our in-person programs. As you may have read in the spring 2016 issue of ***Perspective***, our Education & Wellness programs are being led by Senior Vice President, Kathy Floyd, who has a wealth of experience in developing engaging, effective learning programs. Please read the ***interview*** with Kathy to learn more.

*"This past year, we made a concerted effort to expand our reach to clergy around the Church by developing new programs for non-domestic dioceses and seminarians."*

**Spotlight on Church Publishing Incorporated**

Church Publishing Incorporated (CPI) is the oldest affiliate of CPF, with almost 100 years of service to the Church. Since its beginning, CPI has produced the Church's official worship materials, including *The Hymnal 1982*. It also publishes the *Episcopal Clerical Directory* and *The Episcopal Church Annual*. From its roots in liturgy and worship, CPI has grown to be a multifaceted publisher of books, music, church supplies, and digital ministry resources for both The Episcopal Church and the broader ecumenical marketplace.

In 2015, CPI revamped its website to improve the customer experience and promote retail sales among clergy and lay audiences. It also adopted a digital workflow, a competitive advantage that has helped to quicken the time from concept to finished product. Currently, 90% of CPI's book titles are published concurrently in print and ebook form and are available via Amazon, Kindle, Google Play, and other leading web resellers. CPI also offers digital ministry resources for worship planning, such as *The Rite Stuff* and *Rite Worship*.

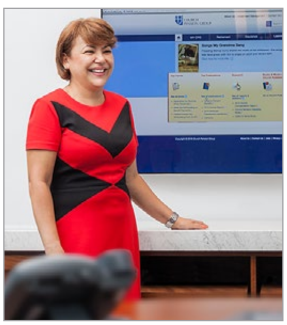
*"From its roots in liturgy and worship, CPI has grown to be a multifaceted publisher of books, music, church supplies, and digital ministry resources for both The Episcopal Church and the broader ecumenical marketplace."*

CPI is proud of its role as publisher of the Church's official worship materials, and is excited by the prospect of revising these materials in response to requests made at the 78th General Convention by the Church's Standing Commission on Liturgy and Music. Nearly 100 years since its founding, CPI's relevance is evident in the popular response to recent publications, such as those authored by ***Presiding Bishop Michael Curry***.

*CPG's corporate philosophy of committed service to The Episcopal Church is based on our corporate values of professionalism, compassion, and trustworthiness. Our employees embody these values in all that they do in service to the Church.*

*The following employee profiles highlight just a few of our colleagues whose intellectual capital and expertise have enabled us to build a professional financial services organization focused on meeting the pension and other benefits needs of the Church, its clergy, and lay employees. Our ability to recruit and retain individuals who are not only talented, but maintain a desire to give back, has been the foundation of our success.*

## A Commitment to Serve



**Nelida Rivera**

International Disability Team Lead

Client Services

When clergy or bishops in The Episcopal Church's non-domestic dioceses have complex pension plan questions or struggle to pay for medical treatments, Nelida Rivera is often the first person they call.

Nelida is passionate about her work with CPG's international clients. She is the liaison for CPG's Fund for Medical Assistance (FMA) that makes emergency grants to clergy and lay employees in the non-domestic dioceses who have extraordinary medical needs that cannot be met through government-provided health plans in their countries.

Nelida joined CPG in 1997 after working with TIAA-CREF and with *El Diario La Prensa*, a popular Spanish-language newspaper. With a degree in accounting, Nelida enjoyed her accounting roles at TIAA-CREF and *El Diario*, but she craved more challenge and a deeper connection to her work. She has found both in her work at CPG.

Nelida recalls a situation with an elderly priest from a non-domestic diocese: "The bishop called me because the priest needed help paying for hospice care, and I recognized the priest's name. I had met him during a visit to the diocese. I remembered that he had a disabled adult son and an elderly wife. I knew he would be very concerned about their care upon his death."

Nelida guided the bishop and the family through the process of applying for a grant from the FMA. She also gathered all of the son's medical evaluations, presented his case to The Church Pension Fund Medical Board, and helped the priest secure CPF's surviving disabled child benefit for his son. "I believe the priest's last days were easier because he was assured that his son would be cared for after his death," says Nelida.

"When everyone is working collaboratively, we get to provide great service. Our clients feel they can call and speak to me at any time — it's a gift to me," Nelida says.

**Ted Elias**

Vice President, Organizational Development

Human Resources

For Ted Elias, the decision to join CPG was an easy one. The job description was for a new position, created to meet a need within the organization for greater professional development among managers and employees. "I felt my past financial services experience at TIAA-CREF, JP Morgan Chase, and Citibank suited me well for this new position," says Ted.

As Vice President of Organizational Development, Ted's purview at CPG encompasses succession planning, leadership development, diversity, and wellness, and extends to initiatives like organizational health and change management.

One of CPG's core values is professionalism. We place a high value on maintaining a highly professional workforce that understands the needs of those we serve. When clients need help, we want to make sure that CPG has a confident, well-trained, and well-led team to support them. Ensuring our employees are getting the development and coaching they need to meet and exceed expectations is paramount to our success.

Ted's team has developed a comprehensive development program for CPG's managers. This program, called LEAD (Leadership Effectiveness and Development), is helping CPG to develop current managers and future leaders of the organization. Ted says, "I spend a lot of time helping CPG look to the future, and one of the best ways to ensure that CPG is prepared is through the personal development of those individuals who will lead the organization in the years ahead."

Ted has also helped CPG manage succession planning. When Executive Vice President and Chief Operating Officer Jim Morrison announced his retirement, Ted worked with the Executive Leadership Team to identify an internal successor — Frank Armstrong — and implement a transition plan that enabled Frank to hit the ground running. Ted says, "I am very proud of the fact that we were able to fill such a significant role with an internal candidate. Frank has provided continuity at a time of change at CPG, which is a tremendous benefit to our organization and our clients."

At its core, Ted's job is about employee engagement. "There's no question that employees who are engaged in their work are more likely to give that extra effort when providing service to clients," notes Ted.

**Renee Ward**

Deputy General Counsel and Assistant Secretary

Legal

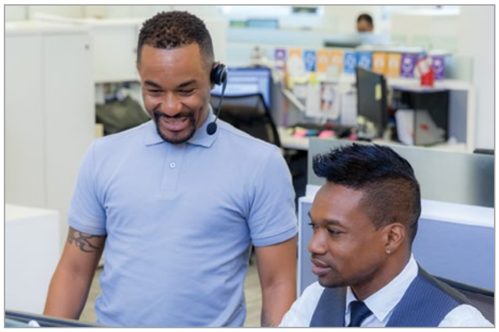
As CPG's Deputy General Counsel and Assistant Secretary, Renee Ward works in a remarkable variety of areas. She's responsible for the legal oversight of CPG's pension and medical plans; she works closely with the tax department; she consults with the Human Resources department on employment matters; and she works with CPG's Chief Legal Officer on board governance. She also serves as the secretary of the Church Benefits Association (CBA), a group of approximately 50 denominational pension organizations whose mission is to promote excellence through education, collaboration, and fellowship among its members. (CPG's CEO and President, Mary Kate Wold, is the chair of the CBA board.)

Renee began her legal career at the law firm of Morgan, Lewis & Bockius as an associate in the employee benefits department. CPG was one of her clients at Morgan Lewis, where she found the church plan work to be very interesting and challenging and liked the CPG employees with whom she worked.

When she had the opportunity to join CPG in 2004, Renee was not particularly looking to leave Morgan Lewis. "I felt strongly that this was a calling, so I took a leap of faith. I accepted the offer, and 12 years later I feel very fortunate and blessed to be here."

Renee offers an example of how her work directly impacts CPG's clients. "When I first joined CPG, one of my main responsibilities was to review and approve Qualified Domestic Relations Orders (QDRO) — the legal document that assigns a portion of a cleric's pension benefit to a former spouse upon divorce. I was able to guide our clients through the arduous task of understanding our pension plan and finalizing their QDROs. I was glad to provide guidance during a very difficult time in their lives."

When asked what keeps her engaged, Renee explains, "There's a saying that 'if you find a job you love, you'll never work another day of your life.' For me, it's as simple as that. I find the legal work interesting and challenging. I enjoy working with my CPG colleagues. And I am motivated by CPG's mission. I feel blessed to have found a job that I love."



**Tobias Ruffin**

Manager

Client Services

There is perhaps no greater example of CPG living into its mission than when we are on the phone with clients, listening to their needs, answering their questions, and helping them understand their plan benefits.

CPG employees take these interactions very seriously, perhaps none more so than Tobias Ruffin, a manager in our Client Services group. Not only does he administer the rules of CPG's defined benefits plans, but he also gives clients valuable information so that they can make informed decisions.

Solving problems and answering client questions is all in a day's work. It is important that our employees on the front line are well versed in CPG's various plans and benefits. "We're here to answer questions and help them find solutions," says Tobias, who describes himself as a "people person."

Tobias recalls assisting a cleric who was anxious about his retirement. "During the latter part of his service with the Church, he accepted a position in a smaller parish as a calling from God. While he understood the importance of serving the Church in this position, it came at a cost to him personally because he knew he would receive a reduction in his compensation."

The reduced compensation, which fell below the hypothetical minimum compensation, negatively impacted the cleric's credited service for a number of years and made him ineligible for various ancillary benefits. In addition, the cleric was completing his retirement forms a bit late.

"I was able to expedite a retirement package to him to ensure that he received his benefits in a timely manner. Before doing so, I reminded him that he could make personal payments into his make-up account, which would allow him to maximize his benefits," says Tobias.

The cleric did not have significant savings and was not sure he could make personal payments before receiving his retirement benefits. However, Tobias helped him understand that he would start receiving his pension payments soon after his forms were completed and processed. With that assurance, the cleric made the personal payments, which made him eligible for an increased resettlement benefit and a life insurance benefit that he had thought he was ineligible to receive.

Tobias notes, "I always put myself in the shoes of our clients, and ask, 'How would I want to be treated?' Finding answers and solving problems is what we do. No matter the challenge, we are here to help."





**Candice Dial**

Associate, Socially Responsible Investing

Investments

Candice Dial came to CPG from a for-profit financial institution. She joined CPG because she wanted to use her talents to do more than make a profit — she wanted to make a difference. Candice was hired as the first employee to be fully dedicated to Socially Responsible Investing (SRI).

“When I joined CPG, I learned that SRI had been a part of CPF’s investment portfolio for many years. However, in recent years, the world of SRI has grown dramatically, offering new opportunities.”

She adds, “Whenever I review an SRI opportunity, I ask two questions: 1) Will this investment help ensure that our clients continue to receive the benefits they are expecting? 2) What positive impact will this investment have on society? For example, will it help protect our natural resources or provide support for those at the bottom of the socioeconomic pyramid?”

Candice spends a lot of time traveling in search of these new opportunities. She also works with various members of CPG’s investment group to perform due diligence to ensure that the target returns and risk of an SRI investment are in line with other similar investments that do not have an SRI component. Once an investment is made, Candice tracks its performance. She also attends annual shareholder meetings.

Because it can be challenging to identify SRI opportunities that meet CPG’s strict investment criteria, Candice is working on developing a global peer network of like-minded SRI investors. This will enable her to collaborate with other investors, introduce and share new opportunities, and promote the SRI investing space to the greater institutional investment community. Her goal is to show other institutions how they can invest with a social purpose without sacrificing returns. “I think we have found that socially responsible investing can result in positive returns for everyone involved — for the beneficiaries who depend on us and for the communities where we invest.”

**Jeff Cianci**

Vice President,
Tax Management

Finance and Audit

For Jeff Cianci, the continual opportunity to learn something new has made his role as CPG's Vice President of Tax "a dream job." Jeff joined CPG in 2008 after spending more than 20 years in public accounting serving non-profit clients. He is responsible for tax and compliance requirements at CPG.

Because the organization is multifaceted, Jeff's function is not one "where you do the same thing every day." He may be called on to deal with state insurance matters concerning Church Life Insurance Corporation and then pivot to international tax reporting for a foreign investment. "The organization has many lines of business, so it keeps things interesting."

Jeff enjoys the challenge of staying current with changes in tax legislation. He says, "Many of our businesses and corporate units have tax compliance requirements, so they seek our assistance in satisfying these obligations. We have to keep on top of the laws we're subject to and make sure we're meeting our objectives, so that nothing we do presents a risk to CPG."

Jeff's commitment to serve extends to the members and participants in CPG's benefit programs. "We want to make sure any tax impact imposed on the client for any benefits they receive is accurate. If they are getting a pension distribution, we have to report properly to them whether it is taxable or not taxable, in a complete and accurate format," Jeff explains.

"Questions from participants occasionally find their way to our department, and we have to provide answers to assist them," notes Jeff. "For example, beneficiaries of our pension plans who reside outside of the United States often have questions regarding certain U.S. tax forms. We often explain the purpose of the form and what information must be provided to ensure that the appropriate amount of U.S. income tax is withheld from their benefit payments.

"After the federal government imposed new individual reporting requirements under the Affordable Care Act, the tax department interacted with colleagues around CPG to ensure that everyone who participated in one of our health plans would receive a tax form so they would be compliant for individual tax purposes."

Because the government's tax treatment of benefits often varies for Church entities and those participating in CPG-sponsored benefit plans, the general tax rules often do not apply. "One of the things I learned when I got here," says Jeff, "is that whatever you think the normal answer is, you have to dig deeper. If there is an exception, you have to see how it affects a clergyperson or the Church."

## Statistical Highlights

### Cumulative Clergy Pension Plan Operations

| | Since Inception (1917) through March 31, 2016 |
|---|---|
| Assessments and original pledges received | $ 2,563,870,000 |
| Investment income and gains (net of expenses and other deductions) | 14,039,389,000 |
| **Total Income** | **$16,603,259,000** |
| Benefits paid for clergy and dependents | $ 5,665,492,000 |

### Clergy Pension Plan Participant Statistics

| | 2016 | 2013 | 2010 |
|---|---|---|---|
| Active Participants† | | | |
| Number | | | |
| Male | 4,011 | 4,344 | 4,704 |
| Female | 2,467 | 2,480 | 2,500 |
| **Total** | **6,478** | **6,824** | **7,204** |
| Participants' Average Age | 54.0 | 53.9 | 53.6 |
| **Average Compensation** | **$70,332** | **$66,675** | **$64,871** |
| Those Receiving Benefits | | | |
| Retirees | | | |
| Normal Retirement | 3,914 | 3,624 | 3,379 |
| Early Retirement | 3,606 | 3,553 | 3,219 |
| Disability Retirement | 447 | 459 | 441 |
| **Total** | **7,967** | **7,636** | **7,039** |
| Average Annual Pension Benefit | $30,420 | $29,888 | $29,023 |
| Average Age | 75.1 | 74.6 | 74.1 |
| Surviving Spouses | | | |
| Number | 2,681 | 2,578 | 2,565 |
| Average Annual Pension Benefit | $20,834 | $20,249 | $19,096 |
| Average Age | 79.3 | 78.8 | 78.5 |

†Those for whom assessments are paid into the plan.
Participant statistics as of December 31, 2015.
Source: Buck Consultants, LLC Actuarial Reports

### Ordinations by Calendar Year

| | 2015 | 2012 | 2009 |
|---|---|---|---|
| Number of Individuals Ordained* | 342** | 337 | 395 |
| Average Age at Ordination | 49.8 | 48.7 | 50.8 |

*Includes both U.S. and non-U.S. ordinations under all Canons
**This figure may increase when additional information is received from dioceses.

# Combined Statements of Net Assets Available for Benefits

| March 31 | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| *Investments, at fair value:* | $11,468,936,977 | $11,386,798,571 |
| *Receivables and Other Assets:* | | |
| Receivable from brokers | 24,435,854 | 42,928,656 |
| Assessments receivable, less allowance for doubtful accounts (2016 - $1,326,000; 2015 - $1,154,000) | 3,959,624 | 4,084,269 |
| Accrued investment income and other assets | 73,844,681 | 78,015,333 |
| Cash and cash equivalents | 302,144,614 | 626,958,000 |
| *Total Assets* | 11,873,321,750 | 12,138,784,829 |
| **Liabilities** | | |
| International Clergy Pension Plan | 152,996,693 | 157,622,084 |
| Payable to brokers | 66,747,472 | 79,708,164 |
| Accrued expenses and other liabilities | 218,032,364 | 216,045,520 |
| *Total Liabilities* | 437,776,529 | 453,375,768 |
| *Total Net Assets* | $11,435,545,221 | $11,685,409,061 |
| **Components of Net Assets** | | |
| *Restricted Net Assets:* | | |
| Permanently Restricted Legacy and Gift Fund | $ 26,116,928 | $ 25,867,214 |
| Temporarily Restricted Legacy and Gift Fund | 18,152,917 | 17,763,558 |
| *Total Restricted Net Assets* | 44,269,845 | 43,630,772 |
| *Unrestricted Net Assets:* | | |
| Designated for Medicare Supplement Subsidy Fund | 1,063,993,980 | 1,159,273,078 |
| Designated for Clergy Life Insurance Benefit Fund | 222,955,656 | 231,447,865 |
| Designated for Benefit Equalization Plan Fund | 49,524,255 | 33,518,556 |
| Designated for investment in affiliated companies | 114,488,675 | 109,382,645 |
| Available for benefits: | | |
| Designated for assessment deficiency | 1,327,783,640 | 1,453,570,905 |
| Net assets available for benefits: | | |
| The Clergy Plan | 8,300,861,265 | 8,358,801,111 |
| The Episcopal Church Lay Employees' Retirement Plan | 147,226,725 | 145,468,194 |
| Staff Retirement Plan of The Church Pension Fund and Affiliates | 164,441,180 | 150,315,935 |
| Total net assets available for benefits | 8,612,529,170 | 8,654,585,240 |
| *Total Unrestricted Net Assets* | 11,391,275,376 | 11,641,778,289 |
| *Total Net Assets* | $11,435,545,221 | $11,685,409,061 |

See accompanying notes to financial statements.

# Combined Statements of Changes in Net Assets Available for Benefits

| Years Ended March 31 | 2016 | 2015 |
|---|---|---|
| **Additions to Net Assets** | | |
| Assessments | $ 100,340,222 | $ 102,021,790 |
| Interest | 117,417,214 | 98,688,172 |
| Dividends and other income | 39,585,081 | 42,491,240 |
| Net (depreciation) appreciation in fair value of investments | (17,100,029) | 822,101,987 |
| *Total Additions to Net Assets* | 240,242,488 | 1,065,303,189 |
| **Deductions from Net Assets** | | |
| *Benefits and Expenses:* | | |
| Pensions and other benefits | 321,294,675 | 313,954,151 |
| Medical supplement | 32,750,191 | 31,304,951 |
| Life insurance | 15,656,643 | 15,056,166 |
| Total benefits | 369,701,509 | 360,315,268 |
| Investment management and custodial fees | 41,154,285 | 41,468,096 |
| General and administrative | 80,567,089 | 72,737,673 |
| *Total Benefits and Expenses* | 491,422,883 | 474,521,037 |
| *Other Deductions (Additions):* | | |
| International Clergy Pension Plan | (4,448,211) | 17,714,028 |
| Other Liabilities | 3,131,656 | 77,766,343 |
| *(Decrease) Increase in Total Net Assets* | (249,863,840) | 495,301,781 |
| **Decrease (Increase) in Restricted and Unrestricted Net Assets** | | |
| (Increase) in Restricted Net Assets | (639,073) | (3,440,257) |
| Decrease (increase) in Medicare Supplement Subsidy Fund | 95,279,098 | (215,322,779) |
| Decrease (increase) in Clergy Life Insurance Benefit Fund | 8,492,209 | (15,917,976) |
| (Increase) in Benefit Equalization Plan Fund | (16,005,699) | (11,680,215) |
| (Increase) decrease in investment in affiliated companies | (5,106,030) | 2,402,024 |
| Decrease (increase) in assessment deficiency | 125,787,265 | (523,106,669) |
| *(Decrease) in Net Assets Available for Benefits* | (42,056,070) | (271,764,091) |
| *Net Assets Available for Benefits at Beginning of Year* | 8,654,585,240 | 8,926,349,331 |
| *Net Assets Available for Benefits at End of Year* | $ 8,612,529,170 | $ 8,654,585,240 |

See accompanying notes to financial statements.

# Notes to Financial Statements

## 1. Organization

The Church Pension Fund ("CPF") is a not-for-profit corporation chartered in 1914 by the Legislature of the State of New York. CPF is authorized by the Canons of The Episcopal Church to establish and administer the clergy pension system of The Episcopal Church, including pension, life and health benefits, as well as the lay employee pension system and the denominational health plan of The Episcopal Church. Since its founding, CPF has elected to be examined by the New York State Department of Financial Services.

CPF began its operations on March 1, 1917. Subsequently, affiliates of CPF 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; Church Pension Group Services Corporation, 2002; and The Church Insurance Company of New York, 2007.

All operations of CPF and its affiliates, informally known as the Church Pension Group, are governed by CPF's Board of Trustees. Except for the Chief Executive Officer ("CEO"), all CPF Trustees serve without compensation and are elected by the General Convention from a slate of nominees submitted by the Joint Standing Committee on Nominations of The Episcopal Church.

## 2. Description of the Plans

CPF's assets are used to fund a defined benefit plan and related benefits for eligible clergy of The Episcopal Church (the "Clergy Plan") and their beneficiaries. A portion of these assets are held in The Church Pension Fund Clergy Pension Plan, which is sponsored and administered by CPF. CPF is also the plan sponsor and administrator of 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"). The Church Pension Fund Clergy Pension Plan, the Lay Plan and the Staff Plan are 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 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 CPF and certain affiliates. The respective assets of these defined benefit plans are pooled, solely for investment purposes, 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 or guarantees. These plans have long been recognized as exempt from federal income taxes. CPF and certain of its affiliates are also exempt from certain federal, state and local income taxes. The Qualified Plans may be terminated by CPF at any time. Upon termination of any of these plans, CPF has the obligation to distribute the plan assets in accordance with the terms of the applicable plan documents.

The Qualified Plans qualify as church plans under Section 414(e) of the Internal Revenue Code (the "Code"). The Lay Plan and the Staff Plan have received determination letters from the Internal Revenue Service, most recently in 2014, stating that the plans are qualified under Section 401(a) of the Code and, therefore, the related trust is exempt from taxation under Section 501(a) of the Code. The Qualified Plans are required to operate in conformity with the Code to maintain their qualification. CPF believes the Qualified Plans are being operated in compliance with their applicable requirements of the Code and, therefore, believes that the Qualified Plans, as amended, are qualified and the related trust is tax exempt.

Accounting principles generally accepted in the United States ("GAAP") require CPF and the Qualified Plans to evaluate uncertain tax positions taken by CPF and the Qualified Plans. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the Internal Revenue Service. There were no uncertain tax positions taken by CPF or the Qualified Plans as of March 31, 2016 and 2015.

CPF maintains a master trust with an undivided ownership interest in the portion of CPF'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 dependents. The master trust agreement names CPF as trustee and the Northern Trust Company as custodian.

The portion of the master trust (1) attributable to The Church Pension Fund Clergy Pension Plan is funded, as necessary, to be at least equal to the actuarial liability of the Clergy Plan benefits for retired participants and their dependents on an annual basis, (2) attributable to the Lay Plan is funded by assessments paid by participating employers, and (3) attributable to the Staff Plan is funded at the discretion of CPF. As of March 31, 2016 and 2015, the master trust assets included in the combined statements of net assets available for benefits, relating to the plan benefits described above, amounted to $3.4 billion and $3.4 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 CPF and the Qualified Plans in accordance with GAAP. All inter-plan balances have been eliminated in these combined financial statements.

The preparation of financial statements in conformity with accounting principles generally accepted 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 benefit obligations 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 CPF 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 — Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability, including investments which can be withdrawn within 90 days from the balance sheet date. Level 2 inputs include (1) quoted prices for similar assets and liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in markets that are not active, (3) observable inputs other than quoted prices that are used in the valuation of the asset or liabilities (for example, interest rate and yield curve quotes at commonly quoted intervals), and (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

Investments in limited partnerships are carried at fair value. The fair value of these investments is based upon CPF'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 CPF'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 carrying value of affiliated companies is determined using the equity method of accounting, which approximates fair 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) 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.

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

*iv) 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.

*v) Adoption of New Accounting Pronouncements* – In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent), ("ASU 2015-07")*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by Accounting Standards Codification 820, *Fair Value Measurement*. Disclosures about investments in certain entities that calculate net asset value per share are limited under ASU 2015-07 to those investments for which the entity has elected to estimate the fair value using the net asset value practical expedient. ASU 2015-07 is effective for entities (other than public business entities) for fiscal years beginning after December 15, 2016, with retrospective application to all periods presented. Early application is permitted. Management has elected to adopt ASU 2015-07 early.

In July 2015, the FASB issued ASU 2015-12, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient*. Part I of the ASU eliminates the requirements to measure the fair value of fully benefit-responsive investment contracts and provide certain disclosures. Contract value is the only required measure for fully benefit-responsive investment contracts. Part II of the ASU eliminates the requirements to disclose individual investments that represent 5 percent or more of net assets available for benefits and the net appreciation or depreciation in fair value of investments by general type. It also simplifies the level of disaggregation of investments that are measured using fair value. Plans will continue to disaggregate investments that are measured using fair value by general type; however, plans are no longer required to also disaggregate investments by nature, characteristics and risks. Further, the disclosure of information about fair value measurements shall be provided by general type of plan asset. Part III of the ASU allows a plan with a fiscal year end that doesn't coincide with the end of a calendar month to measure its investments and investment-related accounts using the month end closest to its fiscal year end. The ASU is effective for fiscal years beginning after December 15, 2015. Parts I and II are to be applied retrospectively. Part III is to be applied prospectively. Plans can early adopt any of the ASU's three parts without early adopting the other parts. Management has elected to adopt Part II of the ASU early. Parts I and III are not applicable to CPF and the Qualified Plans.

*vi) Reclassifications* – Certain 2015 amounts in CPF's combined financial statements have been reclassified to conform to the 2016 financial statement presentation.

## 4. Investments

The fair value of investments as of March 31, 2016 and 2015 summarized by general investment type are as follows:

| March 31 (in thousands) | 2016 | 2015 |
|---|---|---|
| Common & preferred stocks | $ 1,131,075 | $ 1,190,222 |
| Registered investment companies | 239,920 | 303,292 |
| U.S. Treasury securities | 1,219,260 | 1,128,587 |
| Municipal securities | 38,567 | 39,872 |
| Corporate bonds | 781,438 | 715,684 |
| Foreign government securities | 183,080 | 176,962 |
| Limited partnership interests: | | |
| Real estate | 1,378,616 | 1,330,017 |
| Private equity | 1,825,387 | 1,904,371 |
| Other alternative investments | 1,860,353 | 1,857,233 |
| Commingled funds | 2,595,530 | 2,526,566 |
| Affiliated companies, equity interest | 215,711 | 213,993 |
| Totals | $11,468,937 | $11,386,799 |

As of March 31, 2016 and 2015, CPF is not exposed to any significant concentration of risk within its investment portfolio.

Common and preferred stocks include direct investments in the common and preferred 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.

Registered investment companies include mutual funds which invest in bond and equity securities.

U.S. Treasury and Municipal securities consist primarily of securities issued or guaranteed by the U.S. government, or its designated agencies, and state and local governments.

Corporate bonds include investment securities issued by a corporate entity at a stated interest rate payable on a particular future date, such as bonds, commercial paper, convertible bonds, collateralized mortgage obligations, debentures and zero coupon bonds.

Foreign government securities include government securities and structured debt securities.

Limited partnership interests include investments in real estate, private equity and other alternative investments.

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.

Private equity limited partnerships include strategies focused on venture capital and growth equity/buyout transactions across many industry sectors.

Other alternative investment limited partnerships primarily include investments in hedge funds and absolute return strategies, such as (1) long/short equity hedge funds, which 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 redemption frequency is bi-monthly, quarterly, and annually and the redemption notice period can be from 30-180 days.

Certain of the other alternative investments in limited partnerships are subject to withdrawal "gate" or suspension provisions as defined in the limited partnerships' agreement. The general partners and/or investment managers of the limited partnerships may restrict or suspend withdrawal requests for various reasons, including, but not limited to, insufficient liquidity at the limited partnerships to satisfy withdrawal requests or to preserve the capital interests of the limited partners not withdrawing from the limited partnerships. As of March 31, 2016, none of the limited partnerships had any restrictions on withdrawals.

Limited partnership investments generally span a minimum of 10 years, during which committed capital is contributed and distributions are made when income is earned or investments are liquidated.

At March 31, 2016, CPF had open investment commitments to limited partnerships of $1.6 billion which are expected to be funded during future years. In this regard, from April 1, 2016 through April 30, 2016, CPF invested an additional $30 million in and made $57 million of new commitments to limited partnerships. Most limited partnership investments are illiquid; however, there is a secondary market in limited partnership interests. There may be penalties should CPF not fulfill its funding commitments; however, CPF maintains adequate liquidity to ensure that all unfunded commitments are met.

Commingled funds include funds which invest in (1) long and short equity securities, or (2) debt or debt related securities or claims associated with companies, assets or sellers whose financial conditions are stressed, distressed or in default. The redemption frequency is daily, monthly, quarterly, semi-annually and annually and the redemption notice period can be from 5-90 days.

## Derivative Financial Investments

Futures contracts are used primarily to maintain CPF's asset allocation within ranges determined by the Investment Committee of CPF's Board of Trustees. 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 $58 million short and $477 million long at March 31, 2016 and 2015, 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 by changes in interest rates or in the value of 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 a loss of $11 million and a gain of $6 million for the years ended March 31, 2016 and 2015, respectively, are recorded in the accompanying financial statements as a component of net (depreciation) appreciation in fair value of investments.

## Affiliated Companies

All of the affiliated companies other than The Episcopal Church Clergy and Employees' Benefit Trust are wholly-owned by CPF. 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 Department of Financial Services. This statutory basis of accounting results in a value of these companies that is not materially different from the fair value that would be 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 the years ended December 31, 2015 and 2014, except for Church Publishing Incorporated, which is described for the years ended March 31, 2016 and 2015.

## Church Pension Group Services Corporation

Church Pension Group Services Corporation ("CPGSC") provides certain services, primarily personnel and facilities related, to CPF and its affiliated companies on a cost-reimbursement basis. Church Pension Group 34th Street, LLC is a wholly-owned subsidiary of CPGSC that owns the condominium office space that is the headquarters of the Church Pension Group. As of March 31, 2016 and 2015, the fair value of the condominium office space was $101 million and $105 million, respectively. CPGSC also does business as The Episcopal Church Medical Trust and is the sponsor of the health plan options funded by The Episcopal Church Clergy and Employees' Benefit Trust. Mary Katherine Wold is the President and Frank P. Armstrong is Executive Vice President and Chief Operating Officer of CPGSC.

## The Church Insurance Companies[1]

The Church Insurance Companies have provided property and liability coverage for Episcopal Church institutions since 1929. Today, more than 90% of Episcopal Church dioceses and churches rely on the Church Insurance Companies for their commercial package insurance coverage. The Church Insurance Agency Corporation (the "Agency") provides insurance agency and risk-management services to Episcopal Church and Methodist institutions. The Agency accesses a broad range of property, casualty and other insurance products tailored for the special needs of Episcopal Church institutions through its sister companies, The Church Insurance Company of Vermont ("CICVT") and The Church Insurance Company of New York ("CICNY"), or through its product partners. CICVT and CICNY are single-parent captive insurance companies incorporated in 1999 and 2007, respectively, to allow Episcopal Church institutions to benefit from the coverage flexibility and potential cost advantages of this shared risk-financing approach. On August 23, 2012, Church Insurance Services LLC, ("CIS"), a Delaware limited liability company and wholly-owned subsidiary of CICVT, was formed to further the covenant relationship between The Episcopal Church and The United Methodist Church and the charitable and religious purposes of CICVT by providing certain insurance-related services to The United Methodist Insurance Corporation, a Vermont captive insurance company affiliated with The United Methodist Church. On October 1, 2012, Agency and CIS entered into services agreements with The United Methodist Insurance Corporation to provide insurance agency and other insurance-related services to The United Methodist Insurance Corporation. Mary Katherine Wold is the President and D. Roderick Webster is Senior Vice President and General Manager of each of the Church Insurance Companies.

### Financial Summary

| December 31 (in thousands) | 2015 | 2014 |
|---|---|---|
| Assets | $ 223,933 | $ 208,188 |
| Liabilities | 159,769 | 147,418 |
| Capital and surplus | 64,164 | 60,770 |
| Earned premiums | 49,237 | 46,865 |
| Net income (loss) | 5,057 | (4,812) |

[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 products 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. Mary Katherine Wold is the President of Church Life.

### Financial Summary

| December 31 (in thousands) | 2015 | 2014 |
|---|---|---|
| Assets | $ 291,666 | $ 287,479 |
| Liabilities | 238,340 | 235,781 |
| Capital and surplus | 53,326 | 51,698 |
| Insurance in force | 1,545,511 | 1,537,900 |
| Earned premiums | 35,415 | 33,691 |
| Net income | 2,062 | 1,464 |

### Church Publishing Incorporated

Since 1918, Church Publishing Incorporated ("Church Publishing") has produced the official worship materials of The Episcopal Church. In addition to basic, gift and online editions of prayer books and hymnals, Church Publishing now has a backlist of some 850 books in the fields of liturgy, theology, church leadership, homiletics and Anglican spirituality. All of Church Publishing's new titles are also available as e-Books. Church Publishing also offers a growing list of Episcopal-related church resources, liturgical and musical software, online services and apps. Church Publishing publishes resources on behalf of the Standing Commission on Liturgy and Music, (such as *Daily Prayer for All Seasons* and *Great Cloud of Witnesses*) and makes those resources available as free PDFs. Church Publishing also publishes the venerable *Church Annual* and the *Episcopal Clerical Directory*. Church Publishing offers an array of faith formation materials, such as Living the Good News via digital download, *Weaving God's Promises*, *Godly Play*, the "*Embracing*" series of videos intended for group study, and the new "*Pilgrim*" series. Mary Katherine Wold is the President and Davis Perkins is Senior Vice President and Publisher of Church Publishing.

#### Financial Summary

| March 31 (in thousands) | 2016 | 2015 |
|---|---|---|
| Assets | $ 5,990 | $ 10,357 |
| Liabilities | 9,620 | 12,727 |
| Capital | (3,630) | (2,370) |
| Revenue | 4,260 | 4,257 |
| Net loss | (1,820) | (2,816) |
| Capital contribution received from CPF | 560 | 600 |

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

Since 1978, The Benefit Trust has funded the health plan options that are offered by The Episcopal Church Medical Trust. The Episcopal Church Medical Trust provides eligible 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 variety of self-funded plan offerings, providing comprehensive medical, behavioral health, prescription drug, vision and dental benefits. The Episcopal Church Medical Trust also offers certain insured managed care plans in selected regions of the country. 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 CPF. Accordingly, its assets, liabilities and financial results are not included in the Combined Statements of Net Assets Available for Benefits. Mary Katherine Wold is the President of The Episcopal Church Medical Trust.

#### Financial Summary

| December 31 (in thousands) | 2015 | 2014 |
|---|---|---|
| Assets | $ 56,703 | $ 53,720 |
| Liabilities | 33,641 | 32,106 |
| Accumulated surplus | 23,061 | 21,614 |
| Revenues | 233,682 | 225,068 |
| Net income (loss) | 2,570 | (4,480) |

## 5. Fair Value Measurements

The following tables provide information about the financial assets measured at fair value by general type as of March 31, 2016 and 2015.

| | Assets at Fair Value | | | |
|---|---|---|---|---|
| March 31, 2016 (in thousands) | Level 1 | Level 2 | Level 3 | Total |
| Common & preferred stock | $1,131,075 | $ – | $ – | $ 1,131,075 |
| Registered investment companies | 239,920 | – | – | 239,920 |
| U.S. Treasury securities | – | 1,219,260 | – | 1,219,260 |
| Municipal securities | – | 38,567 | – | 38,567 |
| Corporate bonds | – | 781,438 | – | 781,438 |
| Foreign government securities | – | 183,080 | – | 183,080 |
| Limited partnership interests: | | | | |
| Real estate | – | – | 1,378,616 | 1,378,616 |
| Private equity | – | – | 1,825,387 | 1,825,387 |
| Other alternative investments | – | 817,160 | 1,043,193 | 1,860,353 |
| Affiliated companies | – | – | 215,711 | 215,711 |
| | $1,370,995 | $3,039,505 | $4,462,907 | 8,873,407 |
| Investments measured at net asset value | | | | |
| Commingled funds | | | | 2,595,530 |
| Total assets at fair value | | | | $11,468,937 |

| March 31, 2015 (in thousands) | Assets at Fair Value Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Common & preferred stock | $1,190,222 | $ – | $ – | $ 1,190,222 |
| Registered investment companies | 303,292 | – | – | 303,292 |
| U.S. Treasury securities | – | 1,128,587 | – | 1,128,587 |
| Municipal securities | – | 39,872 | – | 39,872 |
| Corporate bonds | – | 715,684 | – | 715,684 |
| Foreign government securities | – | 176,962 | – | 176,962 |
| Limited partnership interests: | | | | |
| Real estate | – | – | 1,330,017 | 1,330,017 |
| Private equity | – | – | 1,904,371 | 1,904,371 |
| Other alternative investments | – | 850,960 | 1,006,273 | 1,857,233 |
| Affiliated companies | – | – | 213,993 | 213,993 |
| | $1,493,514 | $2,912,065 | $4,454,654 | 8,860,233 |
| Investments measured at net asset value | | | | |
| Commingled funds | | | | 2,526,566 |
| Total assets at fair value | | | | $11,386,799 |

The following tables summarize the changes in financial assets classified in Level 3 by general type for the years ended March 31, 2016 and 2015. Gains and losses reported in this table may include changes in fair value that are attributable to both observable and unobservable inputs.

| March 31, 2016 (in thousands) | Level 3 Real Estate | Private Equity | Other Alternative Investments | Affiliated Companies | Total |
|---|---|---|---|---|---|
| Balance at April 1, 2015 | $1,330,017 | $1,904,371 | $1,006,273 | $ 213,993 | $4,454,654 |
| Transfers into Level 3 | – | – | – | – | – |
| Transfers out of Level 3 | – | – | – | – | – |
| Total gains/(losses) included in Statement of Changes in Net Assets Available for Benefits, net | 50,846 | 228,032 | (54,334) | (3,800) | 220,744 |
| Purchases | 319,497 | 142,475 | 161,078 | 5,518 | 628,568 |
| Sales | (321,744) | (449,491) | (4,140) | – | (775,375) |
| Settlements | – | – | (65,684) | – | (65,684) |
| Balance at March 31, 2016 | $1,378,616 | $1,825,387 | $1,043,193 | $ 215,711 | $4,462,907 |

| March 31, 2015 (in thousands) | Real Estate | Private Equity | Other Alternative Investments | Affiliated Companies | Total |
|---|---|---|---|---|---|
| Balance at April 1, 2014 | $1,448,840 | $1,780,301 | $ 996,883 | $ 214,490 | $4,440,514 |
| Transfers into Level 3 | – | – | – | – | – |
| Transfers out of Level 3 | – | – | – | – | – |
| Total gains/(losses) included in Statement of Changes in Net Assets Available for Benefits, net | 18,310 | 402,732 | 58,153 | (4,883) | 474,312 |
| Purchases | 179,546 | 238,418 | 39,893 | 5,886 | 463,743 |
| Sales | (316,679) | (517,080) | (9,639) | (1,500) | (844,898) |
| Settlements | – | – | (79,017) | – | (79,017) |
| Balance at March 31, 2015 | $1,330,017 | $1,904,371 | $1,006,273 | $ 213,993 | $4,454,654 |

Limited Partnership interests in real estate, private equity and other alternative investments with a fair value of $4.2 billion are primarily valued by using CPF's proportionate share of the limited partnership's equity value as derived from the financial statements provided by the investment managers. This requires a significant amount of judgment by management due to the absence of readily available quoted market prices and the long-term nature of the investments. There are no significant related unobservable inputs.

Affiliated companies with a fair value of $216 million are valued by using the underlying financial statements of the Affiliates. There are no significant related unobservable inputs.

## 6. International Clergy Pension Plan

The International Clergy Pension Plan ("ICPP") represents the liabilities associated with a group of non-qualified, multiple-employer retirement plans that are administered by CPF on behalf of dioceses of The Episcopal Church that are located outside the 50 United States and certain Anglican churches located outside the 50 United States that were previously part of The Episcopal Church. Non-qualified 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. Accordingly, the assets of these plans are held by CPF outside the master trust (see page 17).

CPF has administrative and investment agreements with The Episcopal Church of Liberia, Iglesia Anglicana de México and each of the five dioceses of the Iglesia Anglicana de la Region Central de America ("IARCA"), each of which sponsors its plan. The actuarial liabilities of all plans included in the ICPP are determined annually by an actuarial consulting firm, Buck Consultants, a Xerox Company, and totaled $149.1 million and $154.1 million at March 31, 2016 and March 31, 2015, respectively.

## 7. Restricted and Unrestricted Net Assets

The Permanently and Temporarily Restricted Legacy and Gift Funds stem from bequests and contributions received by CPF from individuals for the purpose of supporting the tax-exempt purposes of CPF. A portion of the principal balance of the temporarily restricted account must be maintained and spent only in accordance with the wishes of the beneficiaries, but the remainder is available for use at the discretion of CPF, in accordance with its tax-exempt purposes; the entire principal balance of the permanently restricted account is maintained in accordance with the wishes of the benefactors.

The Medicare Supplement Subsidy Fund represents the estimated amount of a discretionary benefit that CPF has provided to eligible participants in the Clergy Plan and their eligible spouses to subsidize some or all of the cost to purchase a Medicare Supplement Health Plan offered by The Episcopal Church Medical Trust. CPF has reserved the right, in its discretion, to change or discontinue this discretionary benefit.

The amount of the Medicare Supplement Subsidy Fund is based upon an actuarial analysis performed by Hewitt Associates, LLC, operating as Aon Hewitt, healthcare actuaries for CPF. Hewitt's calculation is based on the current dollar amount of this discretionary subsidy, the expected participation rate for eligible plan members and CPF'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 to discount these estimated payments, which is the same as the interest rate used in calculating the accumulated plan benefit obligations for the Clergy Plan, the Lay Plan and the Staff Plan.

The Clergy Life Insurance Benefit Fund represents the estimated liability for future annual insurance premiums required to provide eligible participants in the Clergy Plan with life insurance during active service and when retired.

The Benefit Equalization Plan Fund represents the estimated liability for the benefit provided to those participants in the Clergy Plan whose pension payments would be limited by certain sections of the Code to an amount below their entitlement under the present benefit formula. Subject to certain other provisions of the Code, the Benefit Equalization Plan provides for payment of the difference between the Code limitation and such participant's earned benefits.

No specific assets are designated to fund the Medicare Supplement Subsidy Fund, Clergy Life Insurance Benefit Fund, or the Benefit Equalization Plan Fund payments.

The following charts summarize the activities of these Restricted and Unrestricted Net Assets described above for the years ended March 31, 2016 and 2015.

| | | Increase/(Decrease) in Restricted and Unrestricted Net Assets | | | |
|---|---|---|---|---|---|
| March 31, 2016 (in thousands) | Beginning of Year | Contributions and Investment Gains | Benefits and Expenses Paid | Benefits Accumulated | End of Year |
| Permanently Restricted Legacy & Gift | $ 25,867 | $ 343 | $ (98) | $ 5 | $ 26,117 |
| Temporarily Restricted Legacy & Gift | 17,763 | 442 | (52) | – | 18,153 |
| Medicare Supplement Subsidy | 1,159,273 | – | (32,750) | (62,529) | 1,063,994 |
| Clergy Life Insurance Benefit | 231,448 | – | (15,343) | 6,850 | 222,955 |
| Benefit Equalization Plan | 33,519 | – | (1,960) | 17,965 | 49,524 |
| Total | $1,467,870 | $ 785 | $ (50,203) | $ (37,709) | $1,380,743 |

| March 31, 2015 (in thousands) | Beginning of Year | Contributions and Investment Gains | Benefits and Expenses Paid | Benefits Accumulated | End of Year |
|---|---|---|---|---|---|
| Permanently Restricted Legacy & Gift | $ 23,861 | $ 2,106 | $ (100) | $ – | $ 25,867 |
| Temporarily Restricted Legacy & Gift | 16,329 | 1,502 | (68) | – | 17,763 |
| Medicare Supplement Subsidy | 943,950 | – | (31,305) | 246,628 | 1,159,273 |
| Clergy Life Insurance Benefit | 215,530 | – | (14,913) | 30,831 | 231,448 |
| Benefit Equalization Plan | 21,839 | – | (1,185) | 12,865 | 33,519 |
| Total | $1,221,509 | $ 3,608 | $ (47,571) | $ 290,324 | $1,467,870 |

The amount designated for investment in affiliated companies represents the investment in affiliated companies, at fair value, excluding the condominium office space that is the headquarters of the Church Pension Group. This asset is not restricted from use by CPF and, as of March 2016 and 2015, had a fair value of $101 million and $105 million, respectively.

## 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 benefit obligations owed to 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, to services rendered by the plan participants 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 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: 4.125% and 3.875% per annum for the years-ended March 31, 2016 and 2015, 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 for the Clergy Plan and the Staff Plan and 0% for the Lay Plan. Cost-of-living adjustments are not guaranteed. The CPF Board of Trustees grants cost-of-living adjustments at its discretion. The decision is made annually.
- Vesting (Clergy Plan): After five years of credited service.
- Retirement (Clergy Plan): Normal, at age 65 and after; early, with no reduction at age 55 with 30 years of credited service; reduced benefits at age 60 with less than 30 years of credited service; compulsory, at age 72.

Mortality for the years ended March 31, 2016 and 2015:

- Clergy Plan: The RP-2014 Employee White-Collar Mortality Table was used for participants and the RP-2014 Healthy Annuitant White-Collar Mortality Table was used for retirees, spouses and beneficiaries. Special mortality tables were used for disability retirements and pensioned children over age 25. No mortality is assumed for pensioned children under age 25.
- Lay Plan: The RP-2014 Employee Total Mortality Table was used for participants and the RP-2014 Healthy Annuitant Total Mortality Table was used for retirees, spouses and beneficiaries.
- Staff Plan: The RP-2014 Employee White-Collar Mortality Table was used for participants and the RP-2014 Healthy Annuitant White-Collar Mortality Table was used for retirees, spouses and beneficiaries.

Improvement in mortality was projected on a generational basis for the years ended March 31, 2016 and 2015, respectively, using Scale MP-2014 and Scale AA Improvement.

These actuarial assumptions are based on the presumption that the Clergy Plan, the Lay Plan and the Staff Plan 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 benefit obligations of the Clergy Plan, the Lay Plan and the Staff Plan as of March 31, 2016 and 2015 are summarized as follows:

| March 31, 2016 (in thousands) | Clergy Plan | Lay Plan | Staff Plan |
|---|---|---|---|
| Vested benefits: | | | |
| Actuarial present value of accumulated plan benefit obligations for retired participants and their dependents | $ 4,450,393 | $ 92,069 | $ 79,354 |
| Actuarial present value of accumulated plan benefit obligations for participants not yet retired and their dependents | 2,089,287 | 106,074 | 138,023 |
| Nonvested benefits: | 176,298 | 3,187 | 23,528 |
| Total | $ 6,715,978 | $ 201,330 | $240,905 |

| March 31, 2015 (in thousands) | Clergy Plan | Lay Plan | Staff Plan |
|---|---|---|---|
| Vested benefits: | | | |
| Actuarial present value of accumulated plan benefit obligations for retired participants and their dependents | $ 4,535,231 | $ 88,710 | $ 73,475 |
| Actuarial present value of accumulated plan benefit obligations for participants not yet retired and their dependents | 2,216,166 | 108,414 | 136,677 |
| Nonvested benefits: | 186,406 | 3,282 | 21,866 |
| Total | $ 6,937,803 | $ 200,406 | $232,018 |

The amount designated for assessment deficiency represents 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 Clergy Plan, the Lay Plan and the Staff Plan. The assumptions used to estimate the assessment deficiency are consistent with the assumptions used in the estimates of the actuarial present value of the accumulated plan benefit obligations.

The net increase (decrease) in the actuarial present value of the accumulated plan benefit obligations of the Clergy Plan, the Lay Plan and the Staff Plan for the years ended March 31, 2016 and 2015 are summarized as follows:

| March 31, 2016 (in thousands) | Clergy Plan | Lay Plan | Staff Plan |
|---|---|---|---|
| Actuarial present value of accumulated plan benefit obligations at beginning of year | $ 6,937,803 | $ 200,406 | $ 232,018 |
| Increase (decrease) during the year attributable to: | | | |
| Change in actuarial assumptions | (235,822) | (6,615) | (11,496) |
| Plan amendments | (138,108) | – | (2,223) |
| Benefits accumulated | 193,260 | 7,931 | 17,909 |
| Increase for interest due to decrease in the discount period | 263,003 | 7,612 | 8,910 |
| Benefits paid | (304,158) | (8,004) | (4,213) |
| Net (decrease) increase | (221,825) | 924 | 8,887 |
| Actuarial present value of accumulated plan benefit obligations at end of year | $ 6,715,978 | $ 201,330 | $240,905 |

| March 31, 2015 (in thousands) | Clergy Plan | Lay Plan | Staff Plan |
|---|---|---|---|
| Actuarial present value of accumulated plan benefit obligations at beginning of year | $ 5,821,173 | $ 162,682 | $ 164,429 |
| Increase (decrease) during the year attributable to: | | | |
| Change in actuarial assumptions | 1,059,060 | 30,507 | (1,658) |
| Plan amendments | (50,778) | – | 53,012 |
| Benefits accumulated | 143,905 | 7,499 | 12,739 |
| Increase for interest due to decrease in the discount period | 262,416 | 7,350 | 7,513 |
| Benefits paid | (297,973) | (7,632) | (4,017) |
| Net increase | 1,116,630 | 37,724 | 67,589 |
| Actuarial present value of accumulated plan benefit obligations at end of year | $ 6,937,803 | $ 200,406 | $ 232,018 |

## 9. Funding

Participating employers pay assessments to CPF on behalf of the eligible participants in each respective plan. The assessments for the participants in the Clergy Plan are equal to 18% of the applicable participants' compensation, which includes salaries, other cash compensation and the value of housing. The assessments for the participants in the Lay Plan are equal to 9% of the participants' compensation. The assessments for the participants in the Staff Plan are currently, at minimum, equal to 15% of the participants' compensation.

Assessments paid to CPF on behalf of the participants in the Clergy Plan, the Lay Plan and the Staff Plan were $83 million, $5 million and $13 million, respectively, during the year ended March 31, 2016 and $84 million, $5 million and $14 million, respectively, during the year ended March 31, 2015

The funding position of the Clergy Plan, the Lay Plan and the Staff Plan as of March 31, 2016 and 2015 are summarized as follows:

| March 31, 2016 (in thousands) | Clergy Plan | Lay Plan | Staff Plan |
|---|---|---|---|
| Net assets available for pension benefits after amount designated for assessment deficiency | $ 8,300,861 | $ 147,227 | $ 164,441 |
| Actuarial present value of accumulated plan benefit obligations | 6,715,978 | 201,330 | 240,905 |
| Surplus (Deficit) | $ 1,584,883 | $ (54,103) | $ (76,464) |

| March 31, 2015 (in thousands) | Clergy Plan | Lay Plan | Staff Plan |
|---|---|---|---|
| Net assets available for pension benefits after amount designated for assessment deficiency | $ 8,358,801 | $ 145,468 | $ 150,316 |
| Actuarial present value of accumulated plan benefit obligations | 6,937,803 | 200,406 | 232,018 |
| Surplus (Deficit) | $ 1,420,998 | $ (54,938) | $ (81,702) |

The excess of the plan benefit obligations over the plan net assets for the Staff Plan was included in other liabilities in the accompanying combined statements of net assets available for benefits, as it relates to eligible employees of CPF and certain affiliates.

## 10. Expenses

The accompanying financial statements of CPF for the years ended March 31, 2016 and 2015 include cash compensation expenses of $50.8 million and $47.7 million, respectively. In the same respective years, an additional $9.9 million and $10.3 million in cash compensation expenses were incurred by affiliates of CPF.

The executive compensation philosophy of CPF is established by the Compensation, Diversity and Workplace Values Committee of the Board of Trustees. The total remuneration of certain key officers of CPF and its affiliates is approved by the Compensation, Diversity and Workplace Values Committee of the Board of Trustees. In addition, the total remuneration paid to the Chief Executive Officer and President is ratified by the full board.

As part of approving the total compensation of certain key officers, the Board of Trustees reviews the remuneration targets for functionally comparable positions in other financial services organizations and not-for-profits with similar complexity, as well as 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 CPF include officers' cash compensation, totaling $21.0 million and $21.4 million for the fiscal years ended March 31, 2016 and 2015, respectively. In the same respective years, an additional $8.6 million and $8.9 million in officers' cash compensation expenses were incurred by affiliates of CPF.

The cash compensation for the five current officers of CPF receiving the highest total cash compensation for the year ended March 31, 2016 was as follows:

| | |
|---|---|
| Mary Katherine Wold, CEO & President | $1,482,900 |
| Executive Vice Presidents: | |
| Roger A. Sayler, Chief Investment Officer | $1,054,400 |
| Jimmy W. Morrison, Chief Operating Officer | $ 906,800 |
| Managing Directors: | |
| Helen Fox-O'Brien, Investment Department | $ 933,500 |
| Alan Snoddy, Investment Department | $ 910,800 |

CPF 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 CPF. Total employer matching contributions under this plan were $1.9 million and $1.8 million for the years ended March 31, 2016 and 2015, respectively.

CPF and its affiliated companies also provide healthcare and life insurance benefits for eligible retired employees. CPF accrues the cost of providing these benefits during the active service period of the employee. For the years ended March 31, 2016 and 2015, CPF and its affiliates recorded expenses of $1.2 million and $1.2 million, respectively, for these benefits and interest expense net of interest income. This obligation is estimated at $38.5 million and $38.0 million as of March 31, 2016 and 2015, respectively. For measuring the expected post-retirement healthcare benefit obligation, average annual rates of increase in the per capita claims cost for 2016 and 2015 were assumed to be 7.25% and 7.5%, respectively. The increases in medical costs are assumed to decrease annually to 4.75% in 2023 and remain at that level thereafter. The weighted average discount rates used in determining the expected post-retirement benefit obligation were 4.125% and 3.875% at March 31, 2016 and 2015, respectively. If the healthcare cost trend rate were increased by 1%, the accumulated post-retirement benefit obligation as of March 31, 2016 would increase by approximately $0.6 million.

## 11. Subsequent Events

CPF has performed an evaluation of subsequent events through June 24, 2016, which is the date the financial statements were available to be 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 financial statements of The Church Pension Fund, The Church Pension Fund Clergy Pension Plan, 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", which comprise the combined statements of net assets available for benefits as of March 31, 2016 and 2015, and the related combined statements of changes in net assets available for benefits for the years then ended, and the related notes to the combined financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial status of the Church Pension Group at March 31, 2016 and 2015, and the combined changes in its financial status for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

June 24, 2016

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*Includes officers of The Church Pension Fund and officers of affiliated companies which include The Church Agency Corporation, The Church Insurance Company of New York, The Church Insurance Company of Vermont, Church Life Insurance Corporation, The Episcopal Church Medical Trust, and Church Publishing Incorporated.

# Principal Outside Advisors

### Custodian
The Northern Trust Company

### Independent Auditors
Ernst & Young LLP

### Pension Actuary
Buck Consultants, a Xerox Company

### Health Plan Actuary
Aon Hewitt



As of March 31, 2016.

# The Church Pension Fund Board of Trustees

CHURCH
PENSION GROUP

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