2010

The Church Pension Group Annual Report

Statistical Highlights

Cumulative Clergy Pension Fund Operations

	Since Inception (1917)
Total assessments and original pledges received	$ 2,063,906,656
Investment income and gains (net of expenses and other deductions)	10,042,732,665
Total income	$12,106,639,321
Benefits paid for clergy and dependents	$ 3,664,109,519
Transfers to restricted and unrestricted net assets	$ 1,800,805,799

Participant Statistics

	2010	2007	2004
Active Fund Participants†			
Number			
Male	4,704	5,077	5,609
Female	2,500	2,331	2,277
Total	7,204	7,408	7,886
Participants' Average Age	53.6	53.3	53.1
Average Compensation	$64,871	$62,546	$58,216
Those Receiving Benefits			
Retirees			
Normal Retirement	3,379	3,165	2,727
Early Retirement	3,219	2,947	2,840
Disability Retirement	441	420	372
Total	7,039	6,532	5,939
Average Annual Pension Benefit	$29,023	$26,387	$19,925
Average Age	74.1	73.6	73.5
Surviving Spouses			
Number	2,565	2,535	2,516
Average Benefit	$19,096	$17,206	$12,493
Average Age	78.5	77.8	77.4

† Those for whom payments are made into plan. Participant statistics as of December 31, 2009.
Source: Buck Consultants, LLC Actuarial Reports

Ordinations by Calendar Year

	2009	2006	2003
Number of Individuals Ordained*	409‡	534	478
Average Age at Ordination	50	48	48

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

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

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The Board of Trustees

(back row) The Rev. Dr. Timothy Mitchell, The Rt. Rev. Wayne P. Wright,
Quintin E. Primo III, The Very Rev. George L.W. Werner, Margaret A. Niles, Esq.,
The Rt. Rev. Claude E. Payne, The Very Rev. Tracey Lind, Cecil Wray, Esq.,
The Rev. A. Thomas Blackmon, The Rev. Thomas James Brown
(middle row) Vincent C. Currie, Jr., The Rev. Dr. Randall Chase, Jr.,
James E. Bayne, The Hon. Martha B. Alexander, The Rt. Rev. Robert H. Johnson,
Deborah Harmon Hines, Ph.D., Sandra S. Swan, D.L.H., Diane B. Pollard,
The Rt. Rev. V. Gene Robinson, Edgar S. Starns, CPA, Canon Dr. Karen Noble Hanson
(front row) Barbara B. Creed, Esq., The Rt. Rev. Peter James Lee,
Katherine Tyler Scott, T. Dennis Sullivan

Dear Friends,

This past year was a significant one in the history of the Church Pension Group (CPG). As a result of actions taken at the 76th General Convention, CPG has deepened its relationship with The Episcopal Church, becoming in some way the employee benefits provider of nearly every Episcopal entity.

As we evolve and expand the ways we serve the Church, we will remain focused on four core values that inform our work: Fiscal Stewardship, Compassion, Mutual Respect, and Innovation.

Fiscal Stewardship

Our commitment to fiscal stewardship has at its heart the protection of our ability to continue to pay pension benefits. This commitment is defined by excellent investment practices, fiscal management disciplines, and risk management. Combined, these help ensure that we are able to meet our long term financial liabilities and preserve our financial strength.

The decline in the financial markets during late 2008 and early 2009 underscored the importance of fiscal stewardship — not only in times of scarcity but also in times of abundance. Throughout this time, the Clergy Pension Plan has remained fully funded, with assets in excess of liabilities. This has not been the case with the Episcopal Church Lay Employees' Retirement Plan (the Lay DB Plan); however, the Church Pension Fund, which is the sponsor of this plan, continues to monitor its funding status closely.

Compassion

For CPG, compassion means understanding the fundamental needs and expectations of those we serve, and translating these insights into opportunities for improvement across the organization. It means maintaining a dialogue with those we serve, and continually evaluating both our listening skills and the value of the benefits, products, educative tools, and services that we provide in response. Outreach to the people we serve is vital to this dialogue, and in addition to surveying our constituents to learn how to improve our service to them, we travel regularly around the Church to interact directly with them.

In 2009, CPG staff made a cumulative 3,556 visits to our constituents, including five dioceses in Province IX. Through Planning For Tomorrow and CREDO conferences, and one-on-one meetings in our New York office, at General Convention, and by phone, we were able to work with some 2,500 clergy and lay employees on their personal and financial journeys. The Church Insurance Agency Corporation assisted in completing more than 1,000 safety surveys as part of our Episcopal Safety Program. In addition, our Client Engagement staff responded to nearly 57,000 calls from clergy and lay employees during the year. CPG staff visited every Episcopal seminary to speak with members of their graduating classes.

Mutual Respect

The Board and staff are committed to treating each other and all those we serve with respect and dignity. We also share an ongoing commitment to promoting, recognizing, and celebrating diversity. We take these goals extremely seriously, and continue to find ways to live into them as a company while supporting and encouraging staff members to do the same.

We strengthened our diversity presence internally and externally by expanding our utilization of underrepresented vendors as well as increasing the percentage of underrepresented employees in CPG's management. CPG's employee Diversity Council continues to identify diversity-related issues and recommended solutions which are then implemented company-wide; examples include a new group mentoring system being piloted this year, and increased development opportunities for all employees. And the CPG staff participated in important fund raising efforts this past year, including the Haitian and Chilean earthquake relief efforts and numerous outreach efforts for organizations as diverse as One Warm Coat, Harlem Textiles Workshop, Episcopal Charities of New York, The American Cancer Society, and Little Sisters of the Assumption Health Services.

Innovation

Identifying new ways of doing things for the benefit of our clients is part of our focus on understanding their needs and crafting appropriate solutions. One of the ways we are using innovative techniques to better serve the Church is the upcoming redesign of our website. Projected to be online early in the second quarter of 2011, the all-new *www.cpg.org* will reflect what we've learned through research, dialogue, and user testing with a range of our constituents, as well as industry best practices.

Another example is our increasing use of electronic communications, including this annual report. This is the second year that we have posted it on the CPG website, providing printed copies only on request. Surveys, updates, certain communications to church leadership, and some of our other communications that were previously printed and mailed are now disseminated electronically. This also allows us to be more environmentally friendly.

Understand, Evaluate, Enroll: Implementation of Lay Employee Pension System and Denominational Health Plan

These two important programs, established by the 76th General Convention, continue to be rolled out across the Church. Working in partnership with the Church, CPG staff is helping diocesan and parish leadership understand the requirements of these Church-wide programs, evaluate the options within both, and enroll employers and employees on a rolling basis.

General Convention Resolution A138 and its associated canon established the lay employee pension system and stipulated that all eligible lay employees are to receive a pension. This program is a major step forward in helping lay employees enjoy a more secure retirement. Because this system represents a significant change for some employers, and in an effort to be as pastoral as possible, the CPF Board of Trustees extended the deadline for compliance by a year to January 1, 2013.

Resolution A177 and its associated canon established the denominational health plan and stipulated parity between clergy and lay employees in the employer funding of healthcare benefits, as well as diocesan decision making in regard to plan design options offered, the inclusion of schools and other diocesan institutions, and the offering of domestic partner benefits. The deadline for compliance is January 1, 2013.

Significant Accomplishments

- The Fund's Assets Available for Benefits rebounded well during the past fiscal year, rising from $7.024 billion as of March 31, 2009 to $8.516 billion as of March 31, 2010.

- Recognizing that many retirees were experiencing increased financial pressure this year, the CPF Trustees approved a One-time Special Supplement for eligible clergy and lay beneficiaries of our defined benefit plans.

- A review of the investment options in the Episcopal Church Lay Employees' Defined Contribution Retirement Plan and the Episcopal Church Retirement Savings Plan (RSVP) resulted in the addition of four new funds: Spartan® 500 Index Fund, Fidelity Contrafund, Dodge & Cox Stock Fund, and Dodge & Cox Income Fund; the latter replaces the previously available BlackRock Total Return Portfolio II investment option.

- Church Life Insurance Corporation made individual life insurance more affordable by arranging with Protective Life Insurance Company, one of the nation's leading insurance companies, to issue this coverage.

- In the wake of the earthquake that devastated Haiti, CPF waived the obligation for churches in that diocese to pay pension assessments through 2010. CREDO Institute, Inc., working with Bishop Duracin, CREDO faculty, and mental health professionals, is planning a series of conferences offering respite and coping skills for Haitian clergy and their families and lay leaders. CPF Trustees and CPG staff personally supported the Diocese of Haiti with nearly $45,000 in donations to Episcopal Relief and Development; CPF provided matching funds from its Unrestricted Gifts and Legacies Fund.

- Effective January 1, 2010, CPF established the Emergency Medical Fund for Non-Domestic Dioceses, a five-year pilot program providing funding for emergency or high-cost medical expenses. Diocesan bishops in the non-domestic dioceses may request this assistance on behalf of their active clergy and lay employees scheduled to work 1,500 or more hours per year.

- In November 2009, CREDO Institute, Inc. held a special conference for clergy from the four reorganizing Episcopal Church dioceses of Fort Worth, Pittsburgh, Quincy, and San Joaquin. Called *Strength for the Journey*, the eight-day conference focused on spiritual renewal and wellness. Two additional eight-day conferences will be held in 2010 for lay leaders and lay employees from the four dioceses. Four overnight *Strength for the Journey* conferences designed for wider participation are planned for 2010, one in each of the four dioceses.

- To better capitalize on the growing number of investment opportunities in Asia, CPF opened a Hong Kong office in April 2009. The office is headed by Senior Vice President Eric Mason, a highly experienced investment professional who has lived in Asia for 16 years. Eric reports to William L. Cobb, Executive Vice President, Chief Investment Officer, in New York.

Investment Performance

The CPF portfolio benefited from the global recovery in financial markets, supported by our strong fiscal position and broad diversification strategy. Assets Available for Benefits topped $8.5 billion at fiscal year-end.

The U.S. stock market staged a dramatic recovery in the fiscal year ended March 31, 2010, with the S&P 500 returning 49.8%. There was great uncertainty, and indeed fear, regarding the economy and the financial system in the second half of our fiscal 2009, driving the stock market to new lows in March of that year. The combination of attractive valuations and unprecedented stimulus from governments and central banks around the world encouraged investors. The U. S. stock market soared over 70% from the March 2009 lows. A similar pattern occurred in overseas markets, with the EAFE Index of developed markets returning 54.4% and emerging markets returning 81.1% in fiscal 2010.

In many ways, financial market returns in fiscal 2010 were a mirror image of fiscal 2009: the markets with the greatest declines in 2009 had the largest returns in 2010. For example, the S&P 500 declined 38.1% in fiscal 2009 and rose 49.8% in fiscal 2010; the EAFE Index declined 46.5% in 2009 and rose 54.4% in 2010, and emerging markets declined 47.1% in 2009 and rose 81.1% in 2010. While there was no place to hide in fiscal 2009, there were few asset classes where investors could lose money in fiscal 2010, with only Treasury securities (the one place to make money in 2009) showing a negative return. However, even with the recovery in stock markets around the world, most remain well below their previous highs.

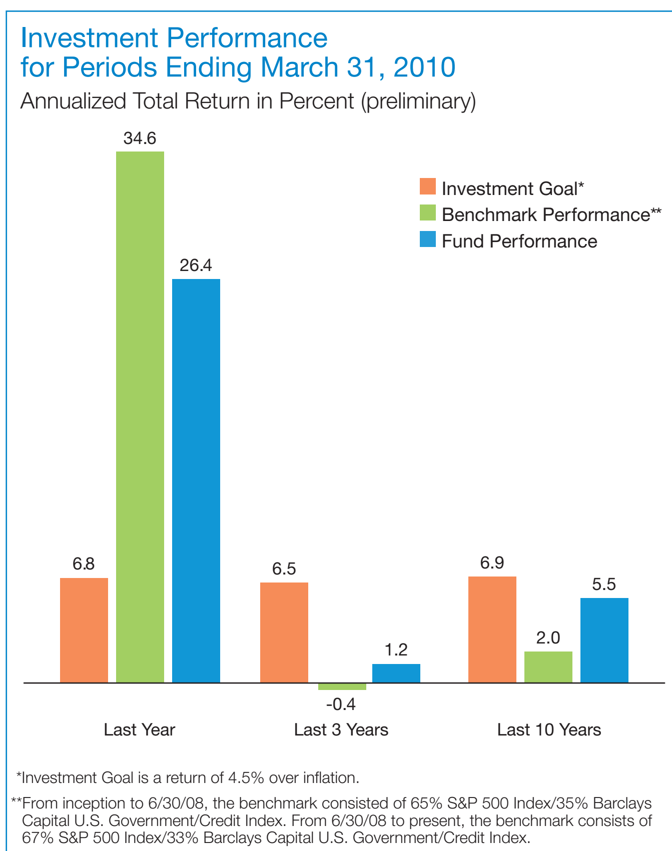
The CPF portfolio benefited from the global recovery. The Fund's strong fiscal position and broad diversification enabled us to avoid the financial and liquidity problems that many institutional investors experienced over the past few years. As a result, we were able to take advantage of opportunities presented by attractive valuations in early 2009. The Fund's meaningful exposure to non-U.S. equity markets, both developed and emerging, aided performance. Our investments in credit opportunities also paid off handsomely as the year progressed.

The left-hand exhibit below shows the performance of the Fund over three time periods through the end of fiscal 2010. It compares the portfolio return with two key benchmarks: a composite of 67% S&P 500 and 33% Barclay's Capital Government/Corporate bonds, and the Fund's investment goal of a return above inflation of 4.5%. As you can see, Fund performance compares favorably with the composite return on a three-year and ten-year basis but below the benchmark on a one-year basis. The Fund's diversification program acts to lessen the swings from the overall stock market so it is not unusual that we would underperform against this benchmark in such a strong year for equities. This diversification benefited the Fund significantly in fiscal 2009. Over the two-year period ended March 31, 2010 — a year of significant market decline followed by a year of significant recovery — the Fund outperformed the composite benchmark. While the Fund exceeded its investment objective on a one-year basis, it has lagged on both a three-year and ten-year basis, reflecting the generally poor returns from public equities globally.

A year ago, we wrote, "These are clearly very challenging times, with a great deal of uncertainty with respect to the economic and investment outlook." The same can be said again this year. But we also said that the unprecedented fiscal and monetary responses gave us comfort that the recession would eventually end. While it has not ended officially, and unemployment is still high, the worst does appear to be behind us. The concern has moved from "How deep will the recession be?" to "How rapid will the recovery be?" While many have argued that the market is ahead of the economy (and we do not disagree), the market clearly overreacted on the downside in late 2008 and early 2009. The stock market advance is, in part, a recovery for that overreaction.

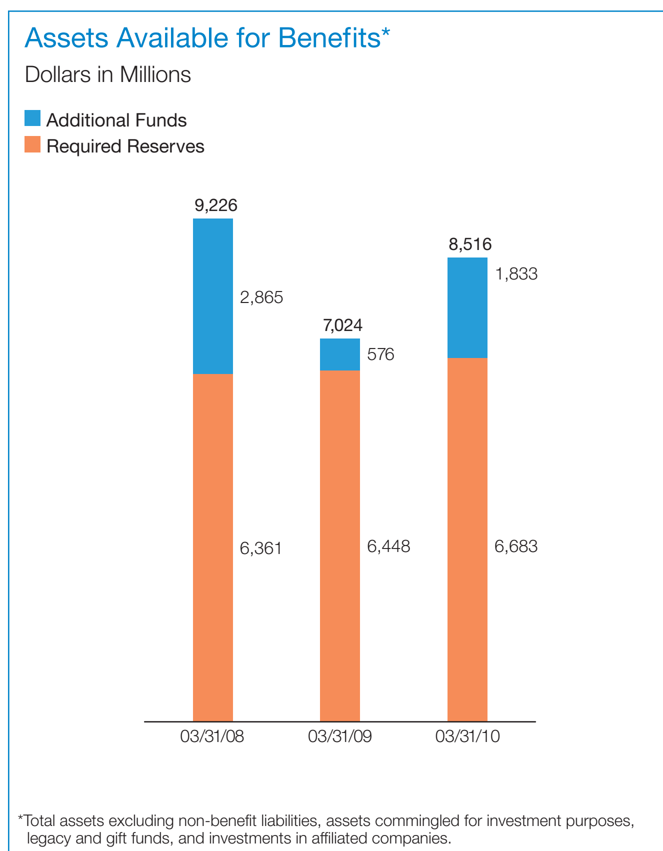
We also said, a year ago, "While economic and market events can be disturbing, they also provide the foundation for very attractive return opportunities and the Fund is in a strong position to take advantage of them." In addition to the credit-related investments mentioned earlier, we were in a strong enough position financially to add to equities in early 2009 at a time when many institutions were forced to sell.

As shown in the right-hand exhibit below, the Fund is in a strong financial condition, with Additional Funds of $1.833 billion in excess of Required Reserves. We do not know what the next several months will bring, but we believe the investment portfolio is well-positioned for the long term. While financial market volatility can be unsettling, we continue to believe that it can provide interesting and compelling investment opportunities, and the Fund's strong position allows us to take advantage of those opportunities.



*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.



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

Management Transition

Early in June, Dennis Sullivan informed the CPF Board of his decision to retire. The trustees accepted Mr. Sullivan's decision with great regret and with gratitude for his inspired leadership. The Rt. Rev. Peter James Lee, expressing the sentiment of the Board, said, "We will miss him, but we respect and honor his decision to take time for himself and his wife, Susan, in the prime of their lives. CPG has an outstanding senior management team, and Mr. Sullivan himself will remain at the helm until a new President and CEO is in place."

The Board has formed a CEO Selection Committee to oversee the selection process: Barbara B. Creed, Esq. (Chair), the Rt. Rev. Wayne Wright (Vice Chair), James E. Bayne, the Rev. Dr. Randall Chase, Vincent C. Currie, Canon Dr. Karen Nobel Hanson, Deborah Harmon Hines, Ph.D., the Rt. Rev. Peter James Lee, the Rt. Rev. Claude E. Payne, Diane B. Pollard, Quintin E. Primo III, Katherine Tyler Scott, and Cecil Wray, Esq. Periodic updates on the search process will be posted on the CPG website.

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

Faithfully,

The Rt. Rev. Peter James Lee
Chair

Barbara B. Creed
Vice Chair

Katherine Tyler Scott
Vice Chair

T. Dennis Sullivan
President and CEO

Officers of the Board

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

Combined Statements of Net Assets Available for Benefits

March 31	2010	2009
Assets		
Investments, at fair value:		
Equity securities, other than affiliated companies	$2,409,603,310	$1,778,526,213
Fixed income securities	2,411,945,160	2,250,026,935
Real estate and private equity	1,807,069,399	1,586,958,582
Alternative investments	1,750,726,413	1,322,114,099
Mortgage loans	20,375,147	24,712,665
Affiliated companies, equity interest	126,523,781	115,810,848
Short-term securities	319,359,243	259,002,702
Total Investments, at fair value	8,845,602,453	7,337,152,044
Receivables and Other Assets:		
Receivable from brokers	101,162,139	204,871,852
Notes receivable	1,956,439	2,005,485
Assessments receivable, less allowance for doubtful accounts (2010–$3,686,000; 2009–$2,488,000)	4,943,508	3,970,249
Accrued investment income and other assets	73,901,134	79,299,186
Home office building and improvements, less accumulated depreciation (2010–$11,229,000; 2009–$9,781,000)	17,989,856	18,807,389
Cash and Cash Equivalents	90,189,029	104,964,224
Total Assets	9,135,744,558	7,751,070,429
Liabilities		
International Clergy Pension Plan	104,911,323	91,025,729
Payable to brokers	129,178,794	292,468,127
Accrued expenses and other liabilities	109,006,596	111,840,670
Total Liabilities	343,096,713	495,334,526
Total Net Assets	$8,792,647,845	$7,255,735,903
Components of Net Assets		
Restricted Net Assets:		
Permanently Restricted Legacy and Gift Fund	$ 16,793,467	$ 13,498,706
Temporarily Restricted Legacy and Gift Fund	14,673,656	13,309,934
Total Restricted Net Assets	31,467,123	26,808,640
Unrestricted Net Assets:		
Designated for Major Medical Supplement Fund	944,925,722	954,361,302
Designated for Life Insurance Benefit Fund	174,254,296	164,573,473
Designated for Supplemental Pension Fund	42,854,675	48,097,356
Designated for investment in affiliated companies	126,523,781	115,810,848
Available for benefits:		
Designated for assessment deficiency	654,820,422	658,251,922
Net assets available for benefits:		
The Clergy Pension Plan	6,641,724,003	5,158,748,945
The Episcopal Church Lay Employees' Retirement Plan	93,826,464	64,513,137
Staff Retirement Plan of The Church Pension Fund and Affiliates	82,251,359	64,570,280
Total net assets available for benefits	6,817,801,826	5,287,832,362
Total Unrestricted Net Assets	8,761,180,722	7,228,927,263
Total Net Assets	$8,792,647,845	$7,255,735,903

See accompanying notes to financial statements.

The Church Pension Fund

Combined Statements of Changes in Net Assets Available for Benefits

Years Ended March 31	2010	2009
Additions to Net Assets		
Assessments	$ 94,446,430	$ 96,141,935
Interest	109,430,060	148,614,972
Dividends and other income	38,522,964	64,747,978
Net gain (loss) on real estate and private equity investments	15,761,239	(386,677,616)
Net gain (loss) on alternative investments	467,398,750	(336,855,728)
Net realized and unrealized investment gains (losses) on equity and fixed income securities	1,224,759,847	(1,408,064,972)
Total Additions (Deductions) to Net Assets	1,950,319,290	(1,822,093,431)
Deductions from Net Assets		
Benefits and Expenses:		
Pensions and other benefits	280,132,249	260,332,459
Medical supplement	24,974,484	23,583,857
Life insurance	15,678,246	10,541,448
Total benefits	320,784,979	294,457,764
Investment management and custodial fees	28,932,090	27,625,052
General and administrative	59,792,000	52,725,485
Enterprise-wide projects	4,885,415	8,604,841
General Convention Resolution projects	1,126,662	1,505,772
Total Benefits and Expenses	415,521,146	384,918,914
Other (Additions) Deductions	(2,113,798)	51,495,563
Increase (Decrease) in Total Net Assets	1,536,911,942	(2,258,507,908)
(Increase) Decrease in Restricted and Unrestricted Net Assets		
(Increase) decrease in Restricted Net Assets	(4,658,483)	7,071,364
Decrease in Major Medical Supplemental Fund	9,435,580	27,217,822
(Increase) in Life Insurance Benefit Fund	(9,680,823)	(82,977,480)
Decrease (increase) in Supplemental Pension Fund	5,242,681	(599,799)
(Increase) in investment in affiliated companies	(10,712,933)	(519,356)
Decrease in assessment deficiency	3,431,500	67,634,643
Increase (Decrease) in Net Assets Available for Benefits	1,529,969,464	(2,240,680,714)
Net Assets Available for Benefits at Beginning of Year	5,287,832,362	7,528,513,076
Net Assets Available for Benefits at End of Year	$6,817,801,826	$5,287,832,362

See accompanying notes to financial statements.

Notes to Financial Statements

1. Organization

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

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

2. Description of the Plans

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

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

The Fund maintains a master trust with an undivided ownership interest in the portion of the Fund's assets allocable to (1) the Clergy Plan benefits for retired participants and their dependents, (2) the Lay Plan benefits for retired participants and their dependents, and (3) the Staff Plan benefits for retired participants and their dependents. The master trust agreement names the Fund as trustee and the Northern Trust Company as custodian. The portion of the master trust (1) attributable to the Clergy Plan is funded, as necessary, to at least equal to the actuarial liability of the Clergy Plan benefits for retired participants and their dependents on an annual basis, and (2) attributable to the Lay Plan and the Staff Plan is funded at the discretion of the Fund. As of March 31, 2010 and 2009, master trust assets, which are included in the combined statements of net assets available for benefits, relating to the plan benefits described above, amounted to $3.2 billion and $3.1 billion, respectively.

3. Basis of Presentation and Summary of Significant Accounting Principles

Basis of Presentation

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

The Fund was notified in early 2008 by the New York State Insurance Department that the annual audited financial statements for retirement systems and pension funds which are required to be examined by the New York State Insurance Department must now be prepared on a GAAP basis of accounting instead of the statutory basis of accounting previously required by the New York State Insurance Department. The Fund adopted this change in basis of accounting effective April 1, 2008. The cumulative effect of the adoption of this change in basis of accounting was to decrease the net assets available for benefits by $585.3 million. The adoption of this change in basis of accounting did not have a significant effect on the funding position of the Fund and the Qualified Plans.

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

Summary of Significant Accounting Principles

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

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

Effective April 1, 2008, the Fund and the Qualified Plans adopted new guidance issued by the Financial Accounting Standards Board (the "FASB") related to fair value measurements and related disclosures. The new guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance applies whenever other accounting pronouncements require or permit assets or liabilities to be measured at fair value. The guidance does not expand the use of fair value to any new circumstances. The adoption of this guidance did not have a significant effect on the financial position of the Fund and the Qualified Plans.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The FASB issued Accounting Standards Update 2009-12, *Estimating the Fair Value of Investments in Investment Companies That Have Calculated Net Asset Value per Share* ("ASU 2009-12"). ASU 2009-12 amends the FASB Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, to provide application guidance for estimating the fair value of investments in private equity, real estate and alternative investments.

The amended guidance also requires additional disclosures to better enable users of the financial statements to understand the nature and risks of the reporting entity's private equity, real estate and alternative investments. The adoption of this standard resulted in additional financial statement disclosures; however, there was no impact to the amounts reported in the Fund's combined financial statements.

vii) Reclassifications — Certain 2009 amounts in the Fund's combined financial statements have been reclassified to conform to the 2010 financial statement presentation.

4. Investments

Equity Securities

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

The net appreciation (depreciation) in fair value during the year and the fair value at the year end of investments in common stocks are summarized as follows:

March 31 (in thousands)	2010	2009
Net appreciation (depreciation) in fair value during year	$ 964,444	$(1,150,336)
Fair value end of year	$2,409,603	$ 1,778,526

Fixed Income Securities

The net appreciation (depreciation) in fair value during the year and the fair value at the year end of investments in fixed income securities are summarized as follows:

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

March 31, 2009 (in thousands)	Net Appreciation (Depreciation) in Fair Value During Year	Fair Value End of Year
U.S. Treasury and obligations of U.S. government corporations and agencies	$ (1,821)	$1,019,834
Corporate	(182,958)	942,346
Loan-backed	(34,866)	99,906
Foreign governments	(33,381)	111,667
Asset-backed	(4,703)	76,274
Totals	$ (257,729)	$2,250,027

Derivative Financial Investments

Futures contracts are used primarily to maintain the Fund's asset allocation within ranges determined by the Investment Committee. Such futures contracts trade on recognized exchanges and margin requirements are met by pledging cash and cash equivalents. The contractual amount of the open futures contracts aggregated approximately $29 million and $81 million at March 31, 2010 and 2009, respectively.

The contractual amounts of these instruments are indications of the open transactions and do not represent the level of market or credit risk to the portfolio. Since some of the futures held are adjusting market risk elsewhere in the portfolio, the measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are considered. Market risks to the portfolio are caused primarily by changes in U.S. interest rates or in the value of U.S. equity markets.

With respect to credit risk, futures contracts require daily cash settlement, thus limiting the cash receipt or payment to the change in fair value of the underlying instrument. Accordingly, the amount of credit risk represents a one-day receivable. Settlements, which resulted in gains of $49 million and $9 million for the years ended March 31, 2010 and 2009, respectively, are recorded in the accompanying financial statements as a component of realized investment gains and losses.

Real Estate and Private Equity Investments

Certain financial information for fiscal 2010 and 2009 and the fair values of investments in real estate and private equity limited partnerships are summarized as follows:

2010 (in thousands)	Fair Value Beginning of Year	Contributions	Operating Results & Net Capital Gains (Losses)	Distributions	Fair Value End of Year
Real estate	$ 818,030	$181,687	$(126,488)	$ (53,629)	$ 819,600
Private equity	768,929	173,227	131,317	(86,004)	987,469
Totals	$1,586,959	$354,914	$ 4,829	$(139,633)	$1,807,069

2009 (in thousands)	Fair Value Beginning of Year	Contributions	Operating Results & Net Capital Gains (Losses)	Distributions	Fair Value End of Year
Real estate	$ 816,936	$233,200	$(166,406)	$ (65,700)	$ 818,030
Private equity	829,929	226,222	(223,952)	(63,270)	768,929
Totals	$1,646,865	$459,422	$(390,358)	$(128,970)	$1,586,959

The net gain (loss) on investments in real estate and private equity limited partnerships for the fiscal years ended March 31, 2010 and 2009 include realized and unrealized gains and losses, operating results, investment management fees and other expenses and are summarized in the following table:

March 31 (in thousands)	2010	2009
Net realized capital gains	$ 7,046	$ 45,310
Net unrealized capital losses	(1,787)	(435,644)
Operating results	(430)	(24)
Operating results and and net capital losses	4,829	(390,358)
Direct fees and other income	10,932	3,680
Net gains (losses) on real estate and private equity investments	$ 15,761	$ (386,678)

Private equity limited partnerships include strategies focused on venture capital, growth equity and buyout transactions across many industry sectors. Real estate limited partnerships include investments across all major property types including office, retail, multi-family, hotel and land. Investments in all these limited partnerships are primarily located in the U.S. with some investments in Europe, Asia and South America.

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

At March 31, 2010, the Fund had open investment commitments to limited partnerships of $1.5 billion which are expected to be funded during future years. In this regard, from April 1, 2010 through April 30, 2010, the Fund invested an additional $19 million and made no new additional commitments in limited partnerships. Although there is a secondary market in limited partnerships, most of these investments are illiquid and there may be penalties should the Fund not fulfill its funding and holding period commitments.

Alternative Investments

Alternative investments include marketable alternatives such as investments in hedge funds and absolute return strategies.

The net appreciation (depreciation) in fair value during the year and the fair value at the year end of these alternative investments are summarized as follows:

March 31 (in thousands)	2010	2009
Cost	$1,119,609	$1,139,812
Unrealized:		
Appreciation	652,538	317,889
Depreciation	(21,421)	(135,587)
Fair Value	$1,750,726	$1,322,114

Alternative investments primarily include investments in long/short equity, stressed/distressed debt securities, corporate restructurings, relative value, risk and fixed income arbitrage and other special situation strategies.

A majority of our alternative investments are subject to withdrawal provisions, generally ranging from quarterly to annually; however, specialized credit strategies are subject to longer "lock-up" provisions generally ranging up to 10 years at which time we expect our entire investment to have been liquidated.

Certain of the investments in the limited partnerships are subject to withdrawal "gate" or suspension provisions as defined in the limited partnerships' agreement. The general partner and/or investment manager of the limited partnerships may restrict or suspend withdrawal requests for various reasons, including, but not limited to, insufficient liquidity at the limited partnership to satisfy withdrawal requests or to preserve the capital interests of the limited partners not withdrawing from the limited partnerships. As of March 31, 2010, none of the investment managers of the limited partnerships have such restrictions on withdrawals.

Affiliated Companies

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

The financial results of The Church Insurance Company and Church Life Insurance Corporation are prepared on a statutory basis of accounting prescribed by the New York State Insurance Department which is not materially different from the fair value of these entities which is required under GAAP. The other affiliates are reported on a GAAP basis of accounting. The primary activities and financial status of each of the major affiliates are described in the sections below for calendar years 2009 and 2008.

The Church Insurance Companies[1]

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

In 2009, The Church Insurance Companies' combined operations had a net income of $6.5 million.

Financial Summary

December 31 (in thousands)	2009	2008
Assets	$ 197,021	$ 198,827
Liabilities	123,312	134,883
Capital and surplus	73,709	63,944
Earned premiums	30,031	38,223
Net income	6,485	1,268

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

Church Life Insurance Corporation

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

At the end of 2009, Church Life maintained $1,467.3 million of in-force insurance for its clergy and lay beneficiaries; assets totaled $219.5 million; and the net income for the year was $2.3 million after deducting $1.5 million of investment losses.

Financial Summary

December 31 (in thousands)	2009	2008
Assets	$ 219,533	$ 205,902
Liabilities	184,223	174,426
Capital and surplus	35,310	31,476
Insurance in force	1,467,316	1,040,690
Earned premiums	35,005	25,359
Net income (loss)	2,283	(3,118)
Dividend paid to the Fund	500	–

Church Publishing Incorporated

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

In 2009, total revenues were $8.2 million and Church Publishing had a net loss of $5.0 million.

Financial Summary

December 31 (in thousands)	2009	2008
Assets	$ 20,079	$ 25,628
Liabilities	8,538	9,094
Capital	11,541	16,534
Revenue	8,159	8,186
Net loss	(4,993)	(4,932)
Capital contribution received from the Fund	–	12,000

CREDO Institute, Inc.

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

Financial Summary

December 31 (in thousands)	2009	2008
Assets	$ 17,871	$ 18,545
Liabilities	692	765
Net assets	17,179	17,780
Support and revenue from third parties	699	1,731
Support and revenue from the Fund	4,908	5,187
Change in net assets	(601)	(4,465)

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

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

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

Financial Summary

December 31 (in thousands)	2009	2008
Assets	$ 40,941	$ 28,851
Liabilities	20,215	17,982
Accumulated surplus	20,726	10,869
Revenues	142,546	126,324
Benefits provided	133,173	119,115
Net income	9,857	6,770

5. Fair Value Measurements

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

March 31, 2010 (in thousands)	Level 1	Level 2	Level 3	Total
Equity securities	$1,533,520	$ 875,986	$ 98	$2,409,604
Fixed income securities	2,674	2,216,302	192,969	2,411,945
Real estate and private equity	–	–	1,807,069	1,807,069
Alternative investments	–	526,853	1,223,873	1,750,726
Mortgage loans	–	–	20,375	20,375
Affiliated companies	–	–	126,524	126,524
Short-term securities	292,570	26,789	–	319,359
Total assets at fair value	$1,828,764	$3,645,930	$3,370,908	$8,845,602

The following table summarizes the changes in financial assets classified in Level 3 for the year ended March 31, 2010. Gains and losses reported in this table may include changes in fair value that are attributable to both observable and unobservable inputs.

2010 (in thousands)	Real Estate and Private Equity	Alternative Investments	Other Securities	Affiliated Companies	Total
Balance at April 1, 2009	$1,586,959	$1,322,114	$210,004	$115,810	$3,234,887
Total losses included in Statement of Changes in Net Assets Available for Benefits, net	4,829	467,405	42,322	11,639	526,195
Contributions (distributions), net	215,281	(38,793)	(32,909)	(925)	142,654
Transfers from Level 3	–	(526,853)	(5,975)	–	(532,828)
Balance at March 31, 2010	$1,807,069	$1,223,873	$213,442	$126,524	$3,370,908

6. International Clergy Pension Plan

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

In 2004 and 2005, the Fund entered into administrative and investment agreements with The Episcopal Church of Liberia and Iglesia Anglicana de México, each of which sponsors its respective portion of the ICPP. In 2009, the Fund extended the administrative and investment agreement with the Episcopal Church of Liberia through December 31, 2012. The Fund also administers and invests the assets of the retirement plans sponsored by overseas dioceses of The Episcopal Church. The assets of the ICPP are held by the Fund outside the master trust (see page 9). The actuarial liabilities of all plans included in the ICPP are determined annually by an actuarial consulting firm, Buck Consultants, a Xerox Company, and total $102.8 million and $90.0 million at March 31, 2010 and March 31, 2009, respectively.

7. Restricted And Unrestricted Funds

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

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

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

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

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

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

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

The following charts summarize the activities of the Restricted and Unrestricted Funds for the years ended March 31, 2010 and 2009.

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

2009 (in thousands)	Beginning Balance	Assessments and Investment Gains (Losses)	Benefits & Expenses	Transfers From/To Net Assets	March 31 Balance
Permanently Restricted Legacy & Gifts	$ 17,495	$ (3,146)	$ –	$ (850)	$ 13,499
Temporarily Restricted Legacy & Gifts	16,385	(1,775)	(1,548)	248	13,310
Major Medical Supplement	981,579	–	(23,584)	(3,634)	954,361
Life Insurance Benefit	81,596	–	(10,541)	93,519	164,574
Supplemental Pension	47,498	–	(765)	1,364	48,097
Total Restricted and Unrestricted Funds	$1,144,553	$ (4,921)	$ (36,438)	$90,647	$1,193,841

8. Accumulated Plan Benefit Obligations

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

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

The significant assumptions underlying the actuarial estimates are as follows:

- Interest rate: 5.75% and 6% per annum for the years ended March 31, 2010 and 2009, respectively, compounded annually and developed considering annualized yields for long-term government and long-term, high quality corporate bonds that reflect the duration of the pension obligations.
- Cost-of-living adjustment: 3% per annum. Cost-of-living adjustments are not guaranteed. The Board of Trustees grants cost-of-living adjustments at its discretion.
- Vesting: After five years of credited service.
- Retirement (Clergy Plan): Normal, at age 65 and after; early, with no reduction at 55 and after 30 years of credited service; reduced benefits at age 60 with less than 30 years of credited service; compulsory, at age 72.
- The George B. Buck 1995 Mortality Table is used for participants' born before 1930 and for spouses and beneficiaries. The George B. Buck 1995 Mortality Table set back 3 years is used for participants' born after 1929. Special mortality tables are used for disability retirements and pensioned children over age 25. No mortality is assumed for pensioned children under age 25.

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

The actuarial present value of the accumulated plan benefits of the Clergy Plan, the Lay Plan and the Staff Plan as of March 31, 2010 and 2009 are summarized as follows:

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

March 31, 2009 (in thousands)	Clergy Plan	Lay Plan	Staff Plan
Vested benefits:			
Actuarial present value of benefits for retired participants and their dependents	$ 2,925,158	$ 61,801	$ 37,287
Actuarial present value of benefits for participants not yet retired and their dependents	1,514,960	63,020	46,187
Nonvested benefits:	142,993	3,691	9,146
Total	$ 4,583,111	$128,512	$ 92,620

The net increase (decrease) in the actuarial present value of accumulated plan benefits of the Clergy Plan, the Lay Plan and the Staff Plan for the years ended March 31, 2010 and 2009 are summarized as follows:

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

March 31, 2009 (in thousands)			
Actuarial present value of accumulated plan benefits at beginning of year	$ 4,490,258	$136,123	$ 85,755
Increase during the year attributable to:			
Change in actuarial assumptions	(132,007)	(5,208)	(3,615)
Benefits accumulated	222,612	(5,096)	8,140
Increase for interest due to decrease in the discount period	251,134	7,685	4,859
Benefits paid	(248,886)	(4,992)	(2,519)
Net increase (decrease)	92,853	(7,611)	6,865
Actuarial present value of accumulated plan benefits at end of year	$ 4,583,111	$128,512	$ 92,620

The amount designated for assessment deficiencies represents an allocation of assets for the actuarial present value of the estimated amount to be paid out in benefits in excess of the estimated amount to be received in assessments in connection with the Qualified Plans. The estimated amount to be paid out in benefits assumes a cost-of-living adjustment of 3% per annum and the estimated amount to be received in assessments assumes an age-related compensation increase that approximates 4.5% per year over a typical career.

9. Funding

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

The funding position of the Clergy Plan, the Lay Plan and the Staff Plan as of March 31, 2010 and 2009 are summarized as follows:

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

March 31, 2009 (in thousands)			
Net assets available for pension benefits after amount designated for assessment deficiency	$ 5,158,749	$ 64,513	$ 64,570
Actuarial present value of accumulated plan benefits	4,583,111	128,512	92,620
Surplus (Deficit)	$ 575,638	$ (63,999)	$(28,050)

10. Expenses

The Fund shares many of its expenses, including staff compensation, with its affiliates on the basis of allocations reviewed with the Board of Trustees. The accompanying financial statements for the Fund for the years ended March 31, 2010 and 2009, include cash compensation expenses of $33.8 million and $30.0 million, respectively. In the same respective years, an additional $12.9 million and $12.9 million in cash compensation expenses were incurred by affiliates of the Fund.

The compensation philosophy of the officers of the Fund and its affiliates is established by the Compensation Committee of the Board of Trustees and approved by the full Board. Effective on or after January 1, 2008, the total remuneration of certain key officers of the Fund and its affiliates is approved by the Compensation Committee of the Board of Trustees. In addition, the total remuneration paid to the President and Chief Executive Officer is ratified by the full Board. The rationale for the total remuneration paid to the key officers involves two elements: (1) market data that is representative of functionally comparable positions in organizations similar to the Fund and its affiliates and (2) individual and corporate performance. Supplemental retirement and life insurance benefits are provided to certain officers under the terms of individual agreements. The accompanying financial statements of the Fund include officers' cash compensation, totaling $15.6 million and $13.3 million for the fiscal years ended March 31, 2010 and 2009, respectively. In the same respective years, an additional $7.5 million and $7.4 million in officers' cash compensation expenses were incurred by affiliates of the Fund.

The cash compensation for the five current officers of the Fund receiving the highest total cash compensation for the year ended March 31, 2010 was as follows:

T. Dennis Sullivan, President & CEO	$1,102,000
Executive Vice Presidents:	
William L. Cobb, Jr., Chief Investment Officer	$1,090,000
Daniel A. Kasle, Chief Financial Officer	$617,000
Senior Vice Presidents:	
Helen Fox-O'Brien, Investment Department	$876,000
Alan Snoddy, Investment Department	$756,000

The Fund and its affiliated companies have a non-contributory defined benefit staff retirement plan, described above as the Staff Plan (see page 9), covering substantially all of its lay employees. The Staff Plan is reviewed annually by the consulting actuaries, Buck Consultants, a Xerox Company. As of March 31, 2010, the plan benefit obligations were $124.1 million. The assumed rate of return used in the above calculations was 5.75%. The net assets available for plan benefits as of March 31, 2010 were $100.7 million. The excess of the plan benefit obligations over the plan net assets was recorded as a liability in the accompanying statements of net assets available for benefits. The Fund pledged a contribution of $4.5 million to the Staff Plan in the fiscal year ended 2010 and $4.1 million to the Staff Plan in the fiscal year ended 2009.

The Fund and its affiliated companies have a defined contribution investment participation plan for eligible employees, under which employees may contribute up to 100% of their salaries, subject to federal limitations. The first 6% of their contributions is matched 75% by the Fund. Total employer matching contributions under this plan were $1.3 million and $1.3 million for the years ended March 31, 2010 and 2009, respectively.

The Fund and its affiliated companies also provide healthcare and life insurance benefits for eligible retired employees. The Fund accrues the cost of providing these benefits during the active service period of the employee. For the years ended March 31, 2010 and 2009, the Fund and its affiliates recorded expenses of $2.1 million and $2.0 million, respectively, for benefits and interest expense net of interest income. The Fund has initiated a program to fund its obligation for this benefit by contributing to a post-retirement benefit investment account. At March 31, 2010, the amount in this account, which is included in the combined statements of net assets available for benefits, was $18.0 million to fund obligations of $28.6 million.

For measuring the expected post-retirement benefit obligation, average annual rates of increase in the per capita claims cost were assumed for the fiscal years beginning April 1, 2010 and 2009 for medical costs of 7.5% and 8.0%, respectively. The increases in medical rates were assumed to decrease annually to 3.25% in the fiscal year beginning April 1, 2019 and remain at that level thereafter. The weighted average discount rates used in determining the accumulated post-retirement benefit obligation were 5.75% and 6.0% at March 31, 2010 and 2009, respectively. If the healthcare cost trend rate were increased by 1%, the accumulated post-retirement benefit obligation as of March 31, 2010 would increase by approximately $2.6 million.

11. Subsequent Events

The Fund has performed an evaluation of subsequent events through June 28, 2010, which is the date the financial statements were issued. No significant subsequent events were identified.

Please note that, in the event of a conflict between the information contained in this document and the official plan documents, the official plan documents will govern.The Church Pension Fund and its affiliates retain the right to amend, terminate or modify the terms of any benefit plans described in this document at any time, without notice and for any reason.

Report of Independent Auditors

To the Board of Trustees of The Church Pension Fund

We have audited the accompanying combined statements of net assets available for benefits of The Church Pension Fund, The Episcopal Church Lay Employees' Retirement Plan and The Staff Retirement Plan of The Church Pension Fund and Affiliates, collectively referred to as the "Church Pension Group," as of March 31, 2010 and 2009, and the related combined statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Church Pension Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial status of the Church Pension Group at March 31, 2010 and 2009, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

June 28, 2010

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As of March 31, 2010

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