

Dear Friends:

In 2017, The Church Pension Fund (CPF) will celebrate 100 years of serving The Episcopal Church. This is a time of reflection for us as we evaluate our work over the past century and contemplate the work that lies ahead.

Over the past two years, the CPF Board of Trustees and senior management have hosted a series of conversations around the Church with clergy, lay employees, and lay volunteers about the mission and work of CPF and its affiliated companies (collectively, the Church Pension Group or CPG). We have heard wonderful and challenging stories about traditional and emerging ministries, and we have shared what we believe are CPG's role and opportunities in supporting them. Together, we have had stimulating and informative conversations about how CPG can anticipate the needs of the evolving Church and provide assistance within the scope of our mission.

So, why does CPG exist?

*We exist to support clergy and lay employees of the Church in their calling to spread the Gospel.* We do this 1) by serving as a fiduciary — an advocate for participants — diligently managing the assets entrusted to us so we can continue to pay benefits to current and future generations of plan participants, 2) by listening to our clients and other stakeholders to identify emerging needs that CPG must be prepared to address, 3) by observing the boundaries of our mission and striving to perform within that mission at the highest of our ability, and 4) by aligning ourselves with the values expressed by the Church.

Part One of this Report to General Convention summarizes the financial strength of CPF. Part Two describes the two year-long series of listening events that, along with other continuous feedback and input from our clients, is informing our strategy. Part Three details our work to ensure that lay employees and clergy have access to the benefits they have been granted by General Convention. Part Four outlines our efforts to uphold the values of the Church.

A lot has changed since CPF issued its first pension check in 1917. As the world, the Church, and participants' needs continue to evolve, we will continue to explore relevant ways to deliver high-quality, mission-appropriate benefits, products, and services to those who serve the Church.

We also will continue to serve as a fiduciary with responsibility for protecting and building the financial strength of CPF so it can continue to fund benefits in the century ahead.

Faithfully,  
Mary Kate Wald  
CEO and President

### Part One: Financial Strength of the Church Pension Fund

As of March 31, 2015, Church Pension Fund assets totaled \$12.1 billion, which we believe is sufficient to cover the long-term obligations under our benefits programs. Working with a third-party actuarial firm, we conduct rigorous financial modeling to project growth in assets and liabilities under a variety of plausible scenarios (i.e., strong market returns, weak returns, new participants, etc.). We then ask ourselves what level of confidence we want to have that CPF will remain solvent over the next decades. As one should expect, we set this bar high because our commitment to the clergy, lay employees, and institutions we serve is enduring.

I am pleased to report that, according to this analysis, we are within a range that gives us comfort as to CPF's financial sustainability. However, we must continue to be prudent in our approach to investments as well as expenditures. Protecting the financial strength of CPF for current and future generations of beneficiaries is our most important work as fiduciaries, which is why we devote the time and resources we do to continuous evaluation of our financial health. Detailed financial statements will be included in the 2015 Church Pension Group Annual Report, which will be published and available at General Convention. We invite you to review them thoroughly and to reach out to us with any questions you may have.

### Part Two: Listening Events — Themes, Findings, and Insights

Over the past two years, CPG has conducted 32 listening events, including 16 Focus Groups (in which we explore specific issues with a limited number of participants), eight Regional Forums (in which we explore multiple, wide-ranging issues with up to 35 participants on a regional basis), and eight Bishops Meetings. Through these events we spoke with almost 400 people — bishops, newly ordained clergy, part-time/bi-vocational clergy, soon-to-be-retired clergy, recently retired clergy, deans of Episcopal seminaries, deacons and archdeacons, seminarians, lay employees, and lay volunteers.

The listening events, which will continue, have had multiple objectives. We have used them to gather information on financial, demographic, education, and deployment trends, as well as to inform future strategy. We have answered questions and offered a deeper understanding of our mission and work around the Church. We have probed and learned a great deal about the following topics, among others:

- Increase in part-time and bi-vocational positions
- Sense of resource scarcity around the Church
- Moves toward non-traditional seminary training
- Challenges for new clergy
- Need for greater financial education
- Preferences by some for web-based, as opposed to face-to-face, learning platforms
- Need for greater financial flexibility in responding to mission calls

These and other insights are informing ongoing strategic conversations among the CPF Board and management. These conversations will guide us in evolving policy, product, and program changes as we look ahead to the next 100 years of service.

### Part Three: Our Charter and Subsequent Mandates

Since 1917, CPF has existed to help eligible individuals who serve the Church retire with dignity. Initially, CPF's work focused on the creation and management of a defined benefit plan for clergy as a way to leverage the financial markets to convert years of salary-based assessments into a stream of steady post-retirement income. The Episcopal Church Clergy Pension Plan (Clergy Pension Plan) continues to be at the core of what we do. However, changing times, demographics, ministries, and acts of General Convention have broadened our focus to include products, services, and other intentional support for lay employees, as well as savings programs that can help clergy prepare for retirement. We have also focused our attention on benefits policies that better recognize the service of part-time or lower-paid clergy.

#### Lay Employees

For decades, CPF has supported the Church's commitment to providing retirement benefits and health coverage for eligible lay employees. We established The Episcopal Church Lay Employees' Retirement Plan (a defined benefit plan) in 1980 and The Episcopal Church Lay Employees' Defined Contribution Retirement Plan in 1992. In 2009, the 76th General Convention passed Resolution A138 and its associated Canon establishing the Lay Employee Pension System (LPS), requiring pension benefits to be provided for eligible lay employees and naming CPF to administer it. The 76th General Convention also passed Resolution A177 and its associated Canon establishing the Denominational Health Plan (DHP), requiring that eligible lay employees and clergy in the domestic dioceses be provided with equal access to and funding for healthcare coverage and naming the Episcopal Church Medical Trust (Medical Trust) as provider of health benefits to the Church. In 2012, the 77th General Convention reaffirmed the LPS and DHP through Resolutions C042 and B026, respectively.

Over the past three years, we have continued to work with Episcopal employers and employees on these pension and health benefits programs, helping them establish policies and practices that comply with canon law. Ongoing conversations with bishops, clergy, vestry, insurance committees, lay employees, and others have highlighted the financial challenges involved in compliance. We have responded to the Church's concerns over the past six years by providing ideas for phasing in compliance over time, revisiting and revising the pricing methodology for our health offerings so that regional variations in premium rates are less pronounced, and sharing best practices and strategies for providing pensions and health benefits to lay employees in accordance with the Canons.

As of November 2014, nearly 100% of diocesan offices and over 80% of congregations offer lay pensions to eligible employees. As of January 1, 2015, all domestic dioceses and 50 additional groups (including several large mandated institutions and various schools, camps, conference centers, and other Church agencies) are participating in the DHP, with nearly full participation of the eligible clergy and lay employees with the Medical Trust.

We recognize that the DHP parity provision — to provide equal access to and funding for healthcare coverage for eligible lay employees and clergy — is challenging, but the majority of dioceses are well on their way toward addressing it. As of May 2015, 35% of all dioceses have implemented DHP parity policies, resolutions, or canons, and another 40% either have developed DHP parity policies, resolutions or canons for implementation or are in active conversations around such development. We continue to work with dioceses and other large institutions to assist with parity conversations. If there are challenges in your dioceses, please let us know.

In response to Resolution B026, which urged the Medical Trust to continue to reduce the disparity in costs among dioceses, we have adjusted our pricing methodology to allow for greater equity in healthcare contribution costs. This has provided flexibility to reduce the disparity between those priced at the lowest and highest rate levels but has also resulted in rates that are not as competitive (up to 25% or higher for certain dioceses) with the local market. We anticipate further adjustments to be less significant and gradual in nature as we look to balance equitable cost sharing with local market competition. That said, the Medical Trust will continue to provide greater equity in healthcare contribution costs without materially deteriorating the competitiveness of the DHP at local and regional levels.

Earlier this year, we published the 2014 DHP Annual Report that provides detailed information about DHP participation, Medical Trust rates, and the impact of Affordable Care Act. You may [click here](#) to read the DHP Annual Report in English and [here](#) to read it in Spanish. Please do not hesitate to speak with us if you have any questions.

Finally, over the past three years, CPG has overhauled its education and wellness programming to help lay employees understand and access their benefits and plan for retirement. We have hosted hundreds of lay employees via webinars, conference calls, and face-to-face conferences covering topics related to finances and health. We are proud to participate in the Church's commitment to acknowledging the contribution of its lay ministers and treating them equitably.

#### Part-time, Lower-paid, and Uncompensated Clergy

Every year, the CPF Board chooses key areas of strategic focus to guide its deliberations and policy decisions. The increase in part-time clergy and the financial concerns of some of these and other lower-paid clergy have been key areas of study over the past triennium. The board's decision, effective January 1, 2013, to award a full year of credited service to any cleric earning \$18,200 was a step by CPF in doing its part to address these financial concerns, and we continue to study these and related issues.

Through the listening events discussed in Part Two, we have developed a clearer sense of the trend toward part-time clergy and its impact on expectations around pension and other benefits. We have learned that while some clergy would prefer a full-time position, others see part-time work as the best of both worlds: the opportunity to serve God while also pursuing other secular work or interests. For the most part, these clergy realize their pensions will be impacted, but many need to be better educated about how to use other CPG products, such as our retirement savings programs, to help fill gaps in their retirement planning.

Part-time clergy want to be recognized as part of the community of committed clergy we serve. We are in the process of revamping communications and education content to address this need, and we plan to continue studying this trend and its implications on our offerings.

The issue of non-stipendiary clergy is a bit more challenging. We have heard from many about the vital role these clergy play in ministries around the Church. However, because our pension program is compensation-based, as most pension programs are, we are limited in what we can provide. Nevertheless, we continue to think creatively about whether there is a role for CPG in supporting non-stipendiary clergy in a manner consistent with our fiduciary duties to our participants.

#### Shorter-tenured Clergy

When the Clergy Pension Plan was established, and for several decades thereafter, the typical cleric was ordained before turning 30 and worked 30 to 40 years before retiring. This length of service resulted in a pension that, when combined with Social Security, generally replaced a significant proportion of an active cleric's annual compensation.

More recently, we are noticing an upward trend in the average age of ordination. Later ordination results in a shorter length of credited service prior to retirement, which reduces the pension benefit. In 1980, 63% of those ordained to the priesthood were under 35 and fewer than 5% were over 55. By 2013, only 23% of those ordained were under 35 and nearly 40% were 55 or older. With the average age of ordination holding steady at 65, these late ordinands will have far fewer years of credited service which means that, despite better benefit formula improvements over the years, they will have a greater need to supplement their Clergy Pension Plan retirement benefit with personal savings.

To address this financial need, we are doing a great deal of outreach and education about the importance of saving for retirement. Our Planning For Tomorrow and CREDO education programs contain modules for clergy on the role of personal savings in a secure retirement. In addition, we are communicating with clergy by mail and email to introduce them to the tools we make available to help them save. Currently, 28% of eligible active clergy have a Retirement Savings Plan (RSVP) account. We are dedicating resources to educating clergy and administrators about ways to supplement pensions with personal savings.

### Part Four: Shared Values

#### Socially Responsible Investing

*For over 40 years, CPF has been committed to socially responsible investing consistent with its fiduciary responsibility.*

In the early 1970s, while recognizing that the fiduciary responsibilities of the trustees were paramount, the CPF Board began to examine the moral, social, and ethical implications of CPF's investments. Since then, CPF has actively reviewed and submitted shareholder resolutions on a wide spectrum of issues and has taken into account the concerns of the Church when voting its proxies. Today, we continue to use our shareholder influence in collaboration with the Committee on Corporate Social Responsibility of The Episcopal Church's Executive Council and the Domestic and Foreign Missionary Society.

Since 2001, as part of our ongoing commitment to uphold the values of the Church, we have worked with external investment managers who seek out investment opportunities that offer fully competitive returns while also providing important social benefits. These investments have tended to be in the areas of urban redevelopment, women- and minority-owned firms, environmental sustainability, and microfinance.

We are highly selective and patient in making investment choices, including those offering positive social benefits. We do a tremendous amount of due diligence and select investments that are the right fit for us. This disciplined approach has resulted in strong returns over the past decade. For example, CPF made a five-year loan to Global Microfinance Consortium (GMC) in 2005 that it used to make microfinance loans in multiple developing economies around the world. GMC paid off the loan in full with interest, despite the 2008 financial crisis. More recently, CPF invested in Avanth, a minority-owned real estate company that provides affordable housing. The company maintains nearly 5,000 low-income apartment units, thus serving an economically disadvantaged population, and its efficient operations provide a very attractive investment return.

#### Environmental Sustainability

Over the past several years, the sustainability of the environment has become important to the Church at large and to us. For that reason, while we continue to seek out managers with expertise in a wide range of socially responsible categories, the area of environmental responsibility has become a greater area of focus.

Earlier this year, CPF committed to the use of Wastewater Opportunity Fund, which is focused on developing and expanding the investment of anaerobic digesters, an ecological process widely used in Europe, but not yet common in the United States. Wastewater uses this process to transform organic waste, some of which would have ended up in landfills, into renewable, sustainable energy, thereby reducing the use of fossil fuels. In addition, the construction and operation of its facilities will create some two million hours of employment and around 130 permanent jobs. From an investment perspective, it is expected that Wastewater will provide a very attractive risk-adjusted return to the CPF portfolio.

In addition to CPF's environmentally responsible investing initiatives, we have been engaging with fossil fuel companies in our portfolio, including efforts to ensure that these companies continue to work to protect our water, land, and air. These efforts include submitting shareholder proposals, voting to proxies, and working with other denominations or other concerned investors to increase our leverage and make it clear to the companies that we are not alone in having these concerns.

Our commitment to environmental sustainability extends to the daily operations of CPG. After purchasing our new home office in 2012, we worked with architects and engineers to ensure that we used state-of-the-art green materials such as low-VOC paints and carpets, and created an environment that is sustainable and cost-efficient in water and energy use and environmental quality. We also worked with our employees to put sustainable business practices in place, such as a robust recycling program and the use of electronic publishing for internal documents and statements as well as many of those we disseminate externally. Our goal is to live up to the very high standards set by Leadership in Energy & Environmental Design (LEED).

LEED is the most widely used green building rating system in the world, providing independent verification of a building's green features, thereby promoting the design, construction, operations, and maintenance of resource-efficient, cost-effective buildings. We are pleased to report that CPG recently received a Gold LEED Certification for meeting that high level of sustainability and cost-efficiency in water and energy use, building materials, and environmental quality.

We feel fortunate that we have been able to support these and other values of the Church without sacrificing the financial strength of CPF.

#### CPG Presence at General Convention

CPG will host three booths at the upcoming 78th General Convention. We invite you to visit the general CPG booth for information about the benefits, products, and services we provide and to request a retirement estimate or an individual financial consultation if you are a CPG plan participant. You may also visit the Education and Wellness booth to learn more about our increased efforts in this area and to sign up for the 28-day walking program, "Walk and Be Well." In addition, Church Publishing Incorporated will host a booth where you can learn about recent publications, enjoy author readings, and participate in book-signing events.

We look forward to seeing many of you in Salt Lake City.