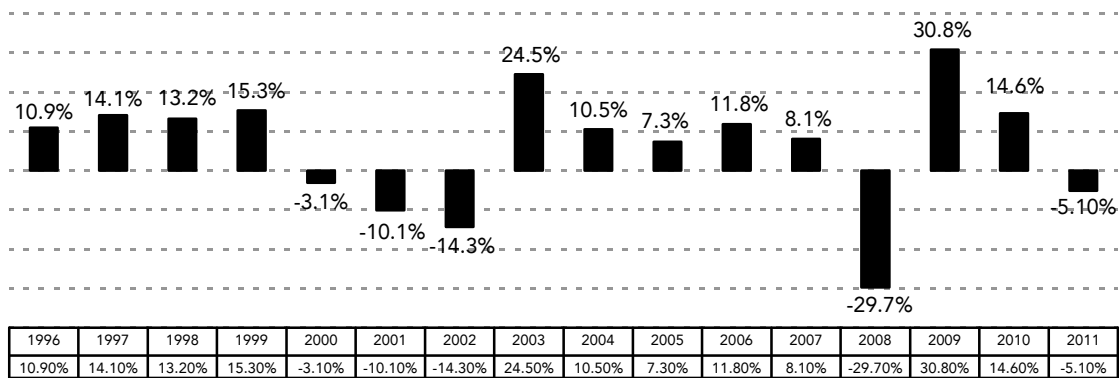


LCF INVESTMENT REPORT AND POLICIES DECEMBER 31, 2011

Annualized Performance as of December 31, 2011*

	Growth Portfolio 80% Equities/20% Fixed Income		Growth/ Income Portfolio 50% Equities/50% Fixed Income	Income Portfolio 20% Equities/80% Fixed Income
	Growth Portfolio	Target Benchmark		
Quarterly return	5.0%	5.0%	3.9%	2.0%
1-year return	-5.1%	-3.8%	-1.6%	3.4%
3-year annualized return	12.5%	10.3%	12.2%	11.0%
5-year annualized return	1.6%	0.7%	2.5%	3.7%
10-year annualized return	3.8%	4.2%	3.0%	2.5%

Historic One-Year Performance of Growth Portfolio, 1996 - 2011



Investment Objective and Strategy

The investment policies and guidelines of the Lutheran Community Foundation (LCF) reflect its desire to obtain the highest investment return possible within acceptable levels of risk. The LCF recognizes that over the long term the risk of owning equities has been, and should continue to be, rewarded with somewhat greater returns relative to that available from fixed income investments, but with significantly greater volatility over the short term. The role of fixed income investments is to reduce the portfolio volatility associated with equity investments over the short term and to provide access to assets that are less volatile. Guidelines for diversification are established to control volatility and to provide a reasonable assurance that no single security or class of securities will have a disproportionate impact on the total portfolio.

* The investment returns of individual funds at the LCF vary based on actual transaction dates and investments in each asset class. This report reflects target allocation information and objectives of the Growth Portfolio, the LCF's standard investment option. The two alternate portfolios – the Growth/Income Portfolio and Income Portfolio – are available for Organizational Funds and Donor Advised Dynamic Funds only. Please contact the LCF for more information about LCF investment policies.



Long-Term Target Allocation of Growth Portfolio*

The following target and range for each asset class is expected to produce patterns of returns and fluctuation levels that correspond to the overall return objectives, liquidity objectives and risk tolerance of the LCF:

Asset Class (Benchmark Index)	Description	Target Allocation
U.S. Equity (Russell 3000 Index)		25%
Large Capitalization U.S. Equity	Stock investments in U.S. companies with over \$5 billion in capitalization. These investments include value stocks, which include companies deemed to be trading for less than they're worth, and growth stocks, which are expected to grow at above-average rates.	15%
Medium Capitalization U.S. Equity	Stock investments in U.S. companies with \$1-5 billion in capitalization.	5%
Small Capitalization U.S. Equity	Stock investments in U.S. companies with \$25-1 billion in capitalization, with an emphasis on growth.	5%
Global (non-U.S.) Equity (MSCI EAFE Index)	Stock investments in companies throughout the world.	22%
Emerging Markets Equity (MSCI Emerging Markets Index)	Stock investments in emerging companies of developing countries.	7%
Marketable Alternatives (HFRI FOF Diversified Index)	Investments considered outside of more traditional investments (i.e. stocks and bonds), including hedge funds.	15%
Real Assets (Real Assets Benchmark)	Investments in physical, tangible assets such as real estate and commodities.	11%
Fixed Income (BC Aggregate Bond Index)	Investments that provide a specific interest rate, such as corporate and government bonds and money market instruments.	20%
Total		100%

Return Objectives

The LCF's investments should earn a rate of return that allows the LCF to satisfy its payment obligations to income beneficiaries, support the LCF's annual grantmaking, and achieve long-term growth of the LCF's assets. Short-term liquidity needs (to cover grant distributions, payments to income beneficiaries and operating expenses) are expected to be supported by ongoing contributions.

Review of Policy

The Investment Committee of the LCF Board will review the investment policies, objectives and guidelines set forth in this document at least annually. The Investment Committee will monitor the performance of the LCF's assets at least quarterly with the assistance of the Foundation's investment consultants.

At least annually, each investment manager or mutual fund will be evaluated for compliance with the guidelines. The Investment Committee will meet with each investment manager as deemed necessary to review and confirm investment strategy and performance.

ALLOCATION OF LCF INVESTMENTS

The investment policies and guidelines of the Lutheran Community Foundation (LCF) reflect its desire to obtain the highest investment return possible within acceptable levels of risk. Guidelines for asset allocation and diversification are established to control volatility and provide a reasonable assurance that no single security or asset class will have a disproportionate impact on the total portfolio.

The following target allocations are expected to produce patterns of returns and fluctuations that correspond to the overall return and liquidity objectives, and risk tolerance of the LCF. *Note: The Mission Portfolio is available for all Funds. The Growth/Income and Income Portfolios are available for Donor Advised Dynamic Funds and Organizational Funds only.*

Asset Class	Growth Portfolio 80% Equities 20% Fixed Income	Mission Portfolio 80% Equities 20% Fixed Income	Growth/Income Portfolio 50% Equities 50% Fixed Income	Income Portfolio 20% Equities 80% Fixed Income
U.S. Equity	25%	25%	20%	8%
American Washington Mutual Fund (AWSHX) ¹				
Boston Trust U.S. Small Cap Fund (BOSOX) ²				
Calvert CSIF U.S. Equity Portfolio (CSIEX) ²				
Thrivent Large Cap Growth Fund (THLCX) ¹				
Thrivent Large Cap Value Fund (TLVIX) ¹				
Thrivent Mid Cap Stock Fund (TMSIX) ¹				
Thrivent Small Cap Stock Fund (TSCSX) ¹				
Global (non-U.S.) Equity	22%	29%	17%	7%
American Europacific Growth Fund (AEPGX) ¹				
Boston Common International Equity SRI (BCAIX) ²				
MFS International Growth Equity Fund ¹				
Sanderson International Value Equity Fund ¹				
Thrivent Partner Worldwide Allocation Fund (TWAAX) ¹				
Emerging Markets Equity	7%	0%	5%	2%
Aberdeen Emerging Markets Equity Fund ¹				
Marketable Alternatives	15%	15%	0%	0%
Nyes Ledge Horizon Hedge Fund ³				
Real Assets	11%	11%	8%	3%
Calvert Global Alternative Energy Fund (CGAeX) ²				
Chilton Global Natural Resources International II, Ltd. ³				
Gresham Enhanced Tangible Asset Program, Ltd. ³				
Wellington Diversified Inflation Hedges (DIH) Fund ³				
Fixed Income	20%	20%	50%	80%
CRA Qualified Investment Instl. Fund (CRANX) ²				
Thrivent Core Bond Fund (IINX) ³				
Thrivent Government Bond Fund (TBFX) ³				
Expense Ratio	.82%	.86%	.75%	.64%
Total	100%	100%	100%	100%

¹All portfolios, excluding the Mission Portfolio, invest in this asset

²Mission Portfolio only

³All portfolios invest in this asset

ROLE OF ASSET CLASSES WITHIN LCF PORTFOLIOS

By Cambridge Associates

To better understand the role and function of each asset class within the LCF Growth Portfolio, please review these insights from the LCF's investment advisor, Cambridge Associates.

U.S. Equity (Large, Medium & Small Capitalization Equities)

U.S. Equity, typically the core asset class in a U.S. investor's portfolio. For many endowment funds, equity assets of various sorts comprise most of the total portfolio and so the fund's exposure to U.S. economic risk is significant. The major macro-economic risks are severe economic contraction and sharp, unexpected inflation.

Global Ex-U.S. Equity (Global & Emerging Markets Equities)

The inclusion of non-U.S. equities provides portfolio diversification and enlarges the investment opportunity set. The disadvantages of investing in international equity are higher investment costs and exposure to currency risk.

Marketable Alternatives (Hedge Funds)

Marketable alternatives/hedge funds are not an asset class, but simply a kind of investment vehicle (partnership) with a fee structure consisting of both an asset based and an incentive fee. Beyond these common characteristics, hedge funds differ widely in the kinds of investment strategies they pursue and the level of risk they incur, making generalizations moot. We generally structure hedge fund programs to fill one or both of two roles: 1. To generate a modest return with relatively low risk and little or no correlation to other assets in the portfolio; 2. To generate equity-like returns with less-than-market beta, through the combination of both long and short equity positions.

Real Assets (Natural Resources, Commodities & Real Estate)

Equities are the best hedge against inflation long term, but interim periods of unexpectedly high inflation can adversely affect equity values, often severely. Real assets, such as natural resources, commodities, real estate, timber, precious metals and other hard assets serve as an effective hedge against an unexpected spike in inflation because they are likely to generate strong returns during such a period, when equity and bond returns are negative. However, it should be noted that inflation hedging is difficult and inexact because the root causes of inflation are difficult to predict. Consequently, we advise clients to create diversified mix of real assets to provide adequate inflation protection. Since the economic basis of their return is fundamentally different from those of equities and bonds, real assets also provide excellent portfolio diversification even when inflation is subdued.

Fixed Income (Bonds)

Bonds offer the best protection against economic and equity price deflation. To serve as a reliable hedge, the bonds must be high-quality, non-callable, and of intermediate to long duration. The allocation should be sufficient to meet several years' spending needs in the event of a severe equity market decline—unless the investor is confident that other assets in the portfolio would also appreciate during a prolonged economic contraction. In addition, bonds may provide an overall reduction in portfolio volatility, a steady flow of income, and high liquidity.