

THE CHURCH PENSION FUND AND AFFILIATES

www.cpg.org

OVERVIEW

The Church Pension Fund (CPF), an independent agency of the Episcopal Church incorporated by a special act of the New York State legislature in 1914, is currently responsible for over \$6 billion of the church's assets. Through its pension-related and wellness work, the Church Pension Fund affects all clergy and most lay people of the church. Further, its subsidiaries, which offer services in retirement planning, pension and investment services, life and disability insurance, health benefits, property and casualty insurance and book publishing, affect almost every organization of the church.

At each General Convention, the House of Deputies elects at least 12 of the Church Pension Fund's 25-member Board of Trustees, selecting from 24 or more nominees proposed by General Convention's Nominating Committee. The CPF board is then responsible for all important CPF decisions.

At General Convention, CPF works closely with the Pension Fund Committee, a permanent committee of General Convention. Resolutions considered by the Pension Fund Committee are presented to both the House of Bishops and the House of Deputies, meaning that there are times when the entire General Convention is considering matters pertaining to the pension fund.

Because of the wide-ranging responsibilities of the Church Pension Group (CPG), it is essential that those responsible for guiding the Church Pension Fund – its board of trustees and senior management – be in constant dialogue with church leaders about how CPG can serve the church. To further this objective, CPG traditionally publishes a comprehensive Report to General Convention, mailed to each member of the House of Deputies and House of Bishops along with our Annual Report. Usually, that Report to General Convention is formally accepted by General Convention and ordered published with the official Report of the General Convention.

This year, as a supplement to our comprehensive report, we are presenting this executive summary on five vital topics, each of which will be expanded upon in our Report to General Convention. We also discuss in this report the most critical responsibility General Convention has in regard to CPF – the election of our trustees.

Specifically, the following pages cover six important topics:

- Investment Management
- \$1 Billion in Clergy Benefit Enhancements
- The CREDO Program
- Services to Lay Employees
- CPF's Affiliated Companies
- The Election of CPF Trustees

INVESTMENT MANAGEMENT

Successful investment management is the foundation for CPF’s most essential tasks. We take great pride both in our investment results and our investment process. As discussed in detail in our recent annual reports, CPF now has a widely diversified investment portfolio, consisting of more than 100 portfolios and investment partnerships. We have investment managers in nine investment categories, an outstanding internal investment management staff, and a wide range of expert outside advisors including Cambridge Associates, Buck Consultants, Inc., Winklevoss Technologies, Inc., and Davis Polk & Wardwell.

The two charts below illustrate our success in recent years, a period encompassing both ebullient and difficult markets. As shown in Exhibit 1, we kept pace with the market in two of three “up” years, and performed spectacularly in the third. In the two difficult years, we have done considerably better than a benchmark portfolio. As a consequence, our portfolio experienced cumulative investment gains of 60% over this 4½-year period compared with a benchmark portfolio which would have decreased by .7%.

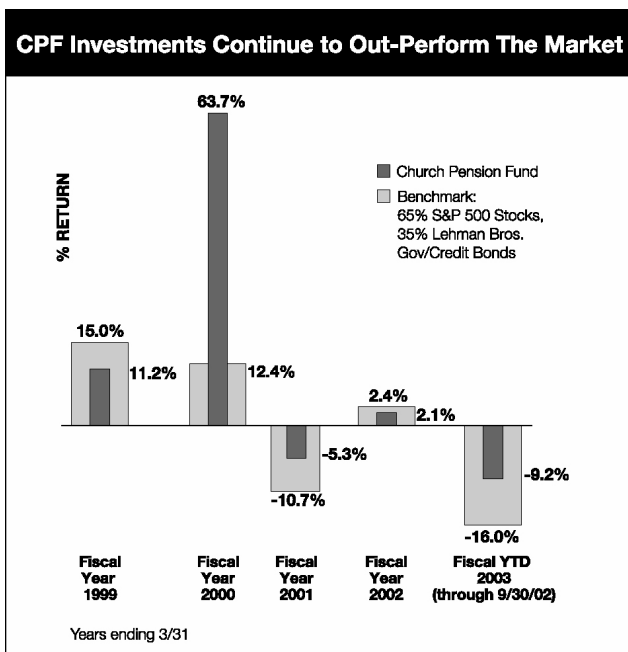


Exhibit 1

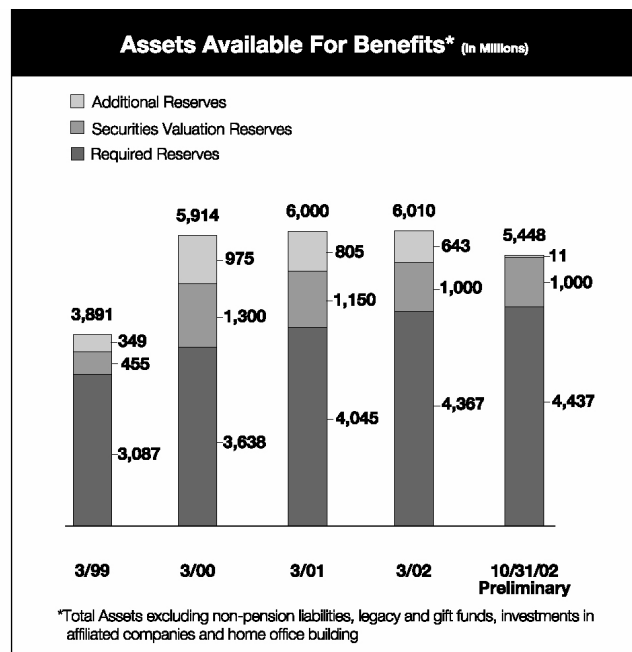


Exhibit 2

Exhibit 2 shows the impact of this investment success on our assets available for clergy benefits. Available assets rose by more than \$2 billion in fiscal 2000. Despite the difficult markets with which we have had to contend since then, available assets have declined by only about \$466 million, 7.9% of the total value. “Additional reserves,” the amount available after setting aside the amount actuaries say we need today to fund future commitments, have declined by over \$900 million dollars. Some of this decline is due to the overall portfolio decline in value. A far larger factor is the tremendous increase in “required reserves” stemming from our benefit enhancements and predictable growth.

\$1 BILLION IN CLERGY BENEFIT ENHANCEMENTS

Without doubt, CPF’s most important news is the extensive and varied benefit enhancements which excellent investment performance has made possible. Crafted with much input from trustees, staff and advisors, these enhancements have been widely discussed with the church. Exhibit 3 illustrates the depth and complexity of the enhancements made to the clergy pension plan since 1994. Nearly \$1 billion in benefit enhancements have been implemented for clergy not-yet-retired, retired clergy, and surviving spouses – and that figure excludes \$292 million for “normal” cost-of-living increases. Parishes and dioceses have benefited significantly from this enhancement program, as well. Our stewardship of the fund’s resources is an ongoing process.

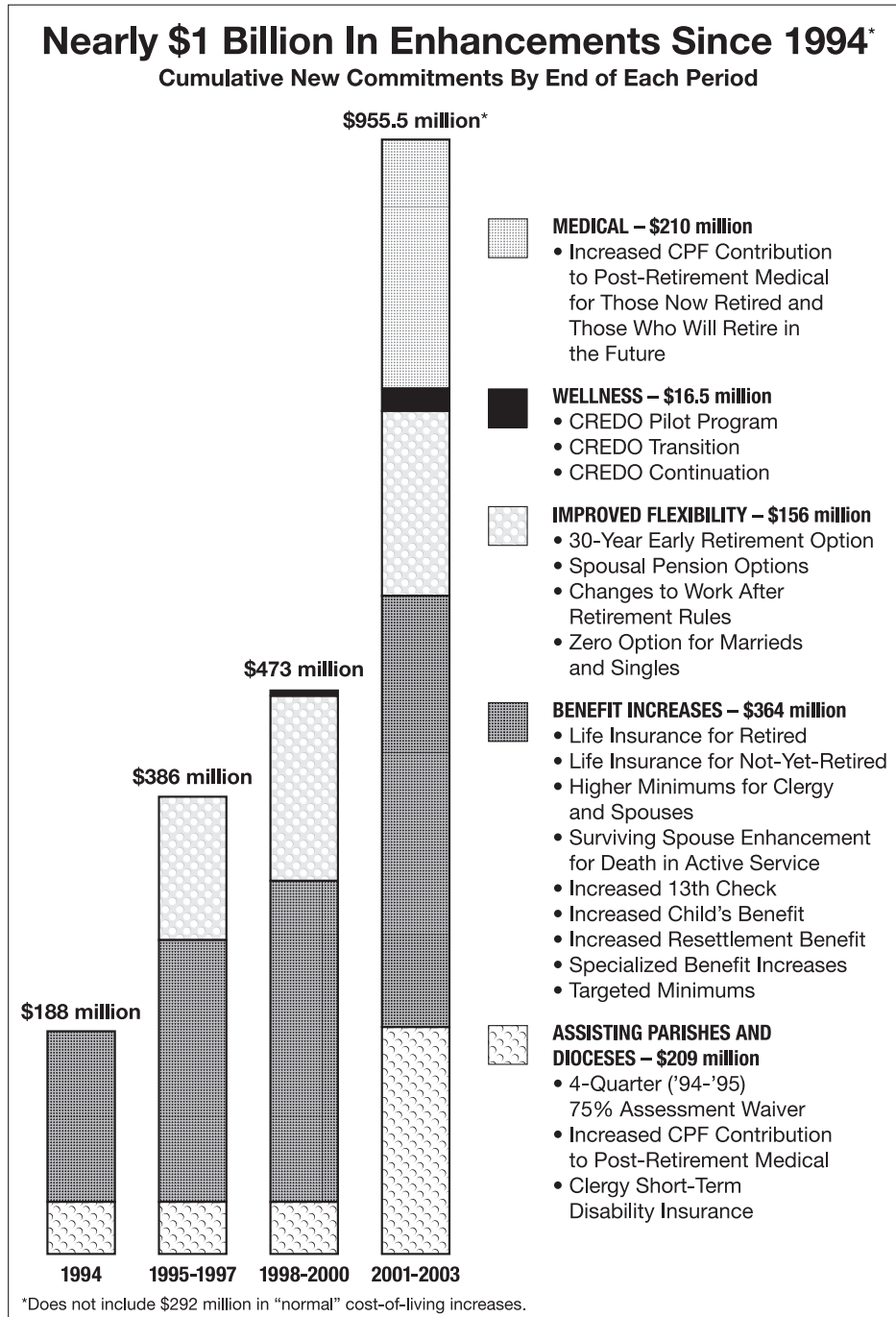


Exhibit 3

THE CREDO PROGRAM

CREDO – an eight-day reflection and discernment experience for clergy – is one of CPF’s most successful benefit innovations of the last decade. CREDO’s goal is to provide opportunities for clergy to examine significant areas of their lives and to discern prayerfully the direction of their vocation as they respond to God’s call in a lifelong process of practice and transformation.

Each eight-day conference includes about thirty clergy participants, who are randomly selected from the Church Pension Fund participant database. As Exhibit 4 illustrates, over 2,600 clergy will have attended a CREDO conference by the end of 2005.

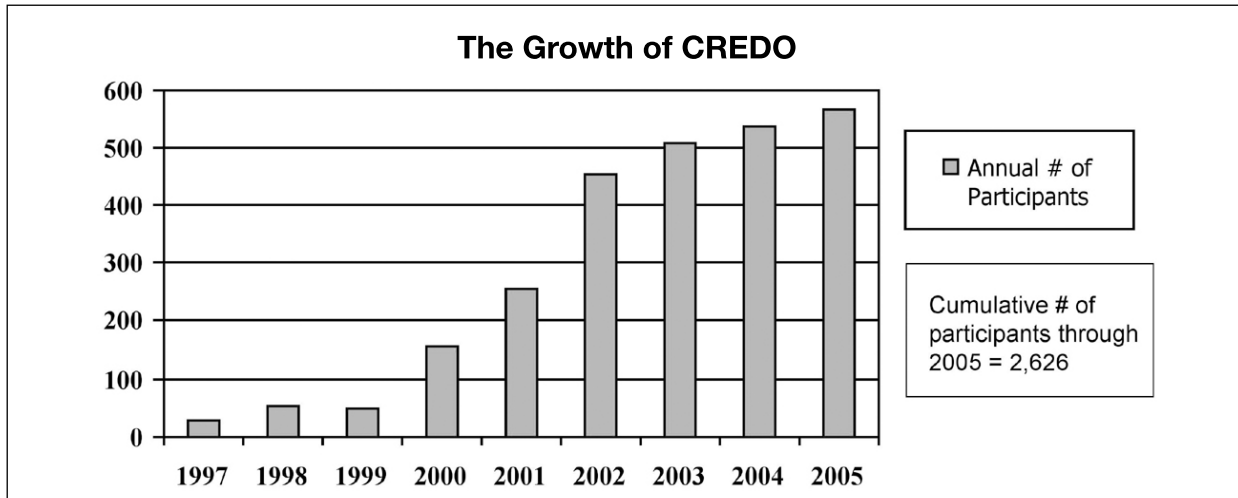


Exhibit 4

Over the past three years, the Church Pension Fund has significantly increased funding of this valuable wellness program. Our goal is to make the CREDO conference experience available to clergy every ten years during their careers. Alternative approaches to funding CREDO, or initiatives like it, are under discussion.

In January 2001, CREDO Institute, Inc. was established as a freestanding 501(c)3 corporation with the task of oversight and continued development of CREDO. Primarily funded by the Church Pension Fund, CREDO Institute, Inc. also receives contributions from the Episcopal Church Foundation and the Office of Pastoral Development of the Episcopal Church. In addition to managing CREDO conferences, the Institute seeks avenues for educational and leadership-based alliances between the Episcopal Church and ecumenical partners.

CREDO is more than a conference. Through a holistic approach to wellness, clergy are invited to examine mind, body, spirit, and heart. Literally translated, the Latin word *credo* means, “I give my heart.” CREDO provides clergy a profound opportunity to renew, reaffirm, and recommit their core belief in the saving power of Jesus Christ as expressed in the baptismal covenant. An extensive evaluation process, including both quantitative and qualitative analyses, has conclusively determined that CREDO has made a statistically significant difference in the personal and professional lives of those who have participated.

A full report by CREDO Institute, Inc. will be included in our Report to General Convention.

SERVICES TO LAY EMPLOYEES

The Church Pension Group’s lay retirement programs have grown significantly in this triennium. As shown in Exhibit 5, the number of employees participating in our defined contribution and defined benefit plans now exceeds 7,800. Likewise, the number of employers participating in the plans has increased to an all-time high of 2,250. In addition, as shown in Exhibit 6, employer and participant contributions to the plans have grown by approximately 23% to an annual total of almost \$21 million.

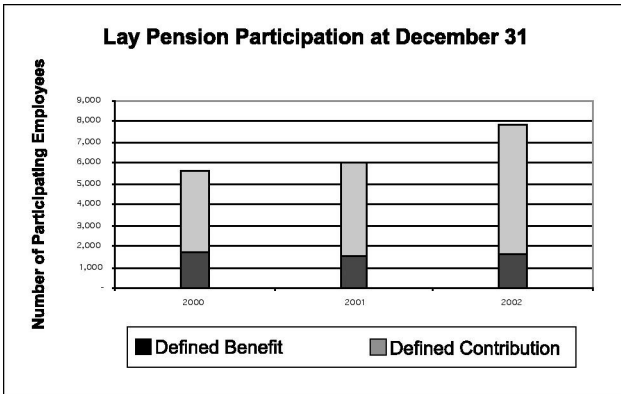


Exhibit 5

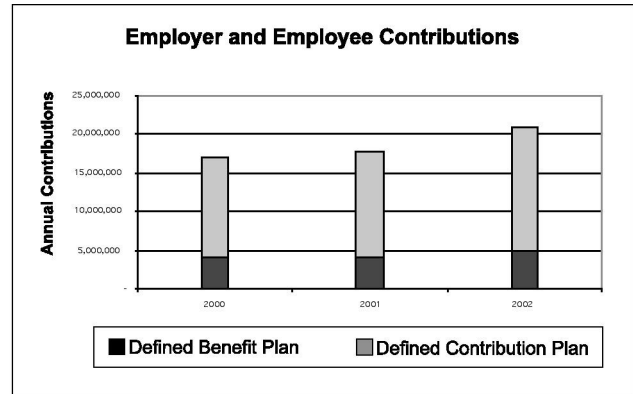


Exhibit 6

During the triennium, the defined contribution plan saw two major enhancements:

- In spring 2002, six investment vehicles became available.
- By accessing their accounts either through our website (www.cpg.org) or our toll-free telephone number (877-208-0092), participants in the Episcopal Church Lay Employees’ Defined Contribution Retirement Plan can determine their current account balance, transfer funds between investment options, change the way future contributions are invested and even apply for a loan virtually 24 hours a day, 7 days a week.

The defined benefit plan was also improved. Participants received:

- Cost-of-living increases at rates that exceed the benchmark Social Security Administration increase;
- A compensation-based lump sum death benefit for active participants under age 72;
- An enhanced early retirement provision that significantly increases the retirement benefit for qualified early retirees;
- An enhanced disability provision that reduces the benefit eligibility waiting period for a participant who is rendered permanently and totally disabled.

There was no cost increase for either participants or employers as a result of these enhancements.

CPF'S AFFILIATED COMPANIES

Over the past three years, the Church Pension Fund and its affiliated companies have continued to expand and improve the services and products we provide to individuals and institutions of the Episcopal Church. Exhibit 7 provides a brief summary of the clients served and services provided by each of the CPF major affiliates.

CPG Services and Clients			
Church Pension Fund	Clergy	Not-Yet-Retired	7,796*
		Retired	5,658*
	Surviving Spouses		2,468*
	Lay Employees	Not-Yet-Retired	7,831
		Retired	849
			} 24,602
Church Publishing Incorporated	Titles in Print		202
	Individual Customers		16,977
	Institutional Customers		10,249
Church Life Insurance Corporation	Group Insurance Policies		14,716
	Individual Insurance Policies		2,884
	Annuities		4,323
	Disability Insureds		4,396
The Church Insurance Companies	Total Churches Insured Through CIAC		7,767
	Total Churches Protected by CIC P&C Policies		5,625
The Episcopal Church Medical Trust	Clergy		5,776
	Lay Employees		7,136
	Dependents		11,626
			} 24,538

* As of March 31, 2002

Exhibit 7

Church Publishing Incorporated (CPI) has produced the official worship materials of the Episcopal Church since 1918. In addition to basic and gift editions of prayer books and hymnals, and the Episcopal Clerical Directory, CPI has a growing title list in the areas of liturgy, music and recordings, church history, Anglican spirituality, including the JourneyBook line of personal meditation books, and the company now also offers the Rite Series software for parishes and new online services.

Since 1922, Church Life Insurance Corporation (CLIC) has provided life insurance protection and retirement savings plans to clergy, laity, and their families. Products offered include annuities and IRAs, as well as individual and group life insurance. Additionally, CLIC administers pension plans for lay employees of the Episcopal Church. Since 2000, CLIC has successfully introduced major new products such as short- and long-term disability insurance, and has added to its client base by expanding investment options for participants in the Episcopal Church Lay Employees' Defined Contribution Retirement Plan.

The Church Insurance Companies consist of the Church Insurance Company (CIC), the Church Insurance Agency Corporation (CIAC), and the Church Insurance Company of Vermont (CIC-VT). CIC has provided property and liability coverage for church institutions since 1929. Today, 82% of Episcopal dioceses and over

74% of parishes rely on CIC for their commercial package coverage. CIAC offers a broad range of coverages, tailored to the special needs of Episcopal institutions, from its sister underwriting companies and third-party product partner companies. Six regional service offices serve CIC clients. CIC-VT is a single-parent captive insurance company incorporated in 1999 to allow church institutions to benefit from the coverage flexibility and potential cost advantages of this risk-financing approach. Thanks to the enthusiastic reception of the CIC-VT program, CIC has increased its market share dramatically over the past several years. While the company experienced losses due to the settlement of several very large claims, these losses were incurred in our mission – to protect the people and property of the Episcopal Church.

The Episcopal Church Medical Trust, now in its 25th year, provides the clergy and laity of the Episcopal Church with a broad array of health plan options, offering a wide variety of self-funded preferred provider, managed care, and indemnity plans, as well as mental health, vision, and dental care plans. For retired participants, the Medical Trust offers Medicare supplement plans, as well as Medicare HMOs in select regions of the country. Over the past three years, the Medical Trust has increased the percentage of dioceses it serves from 54% to 61%, as it introduced national plans and improved the competitiveness of its pricing and client service.

Current CPF Board of Trustees

Lay Persons (15)

Investment Management (4)

James E. Bayne

Manager, Benefits Finance and Investment*
Exxon Mobil, Irving, TX

David L. Brigham

President & CEO, J.P. Morgan Investment Corp.*
Weston, VT

Amy L. Domini

Private Trustee, Loring, Wolcott & Coolidge, Boston, MA

Quintin E. Primo III

Co-Chairman, Capri Capital, Chicago, IL

Accounting (1)

Sheridan C. Biggs

Partner, Price Waterhouse,* Quaker Street, NY

Law (2)

Barbara B. Creed

Partner, Trucker Huss, San Francisco, CA

Cecil Wray

Partner, Debevoise & Plimpton,* New York, NY

Priests (5)

M. L. Agnew, Jr.

Dean, St. Mark's Cathedral, Shreveport, LA

A. Thomas Blackmon

Curate, Church of the Incarnation, Dallas, TX

Randall Chase, Jr.

Canon to the Ordinary, Diocese of Rhode Island

Carlson Gerdau

Canon to the Presiding Bishop, New York, NY

Noreen P. Suriner (Vice Chair)

Rector, Trinity Episcopal Church, Binghamton, NY

* indicates significant former position

Finance & General Business (7)

Alan F. Blanchard

President, The Church Pension Fund, New York, NY

Vincent C. Currie, Jr. (Vice Chair)

Administrator, Diocese of the Central Gulf Coast
Pensacola, FL

Deborah Harmon Hines, Ph.D.

Associate Vice Chancellor
University of Massachusetts Medical School
Worcester, MA

Arthur K. Kusumoto

Director, Financial Estates Corporation,* Wailuku, HI

Joon D. Matsumura

Comptroller, Diocese of Los Angeles,* Yorba Linda, CA

Virginia A. Norman

Treasurer, Iglesia Episcopal Dominicana
Santo Domingo, Dominican Republic

Katherine Tyler Scott

Executive Director
Trustee Leadership Development, Indianapolis, IN

Health Care (1)

David R. Pitts

Chairman & CEO, Pitts Management Associates
Baton Rouge, LA

Clergy (10)

Bishops (5)

Gayle E. Harris

Bishop Suffragan of Massachusetts

Chilton R. Knudsen

Bishop of Maine

Peter J. Lee, D.D.

Bishop of Virginia

Claude E. Payne, D.D.

Bishop of Texas

Herbert Thompson, Jr., D.D. (Chair)

Bishop of Southern Ohio

THE ELECTION OF CPF TRUSTEES

At the 74th General Convention, 14 Church Pension Fund Trustees will be elected: 12 for full 6-year terms and 2 for unexpired 3-year terms. The election of outstanding church persons to these important positions is essential to CPF carrying out its responsibilities.

The Work of the CPF Board

The trustees of the Church Pension Fund play a vital role in the governance and management of CPG's complex affairs. They make significant policy decisions affecting, for example, investment policy, pension benefits, and Church Pension Group services; they regularly address complex issues, often balancing sometimes conflicting social and fiduciary responsibilities.

The trustees also provide governance and oversight to the management of a large and varied consortium of businesses. They are responsible for the oversight of assets worth over \$6 billion, and a combination of companies that typically has revenues and cash flow of over \$400 million a year. Of the many aspects to the Church Pension Group organization, investment management, medical benefits provision, and property and casualty insurance are among the most complicated – and, in the last two cases, the most troubled – business areas in America today. It would be difficult to overstate the importance of bringing to our deliberations the most expert and thoughtful advice available in our Episcopal world.

The Current Board and the Election Process

We believe the election process has historically resulted in outstanding leadership for CPF, as shown by the current board in Exhibit 8. Fifteen of CPF's current 25 trustees are lay leaders, generally with strong business experience. The current board includes individuals with significant experience in four critical specialties: investment management, accounting, health care, and the law. Each of these areas of expertise is essential to board deliberations. In addition, the current board includes seven individuals with general business and/or management experience. The ten clergy trustees are evenly split between bishops and priests. The ordained group represents a diverse mix of geographic location, as well as a variety of parish, diocesan, and national staff experience.

Church canons require the election, at each General Convention, of trustees to fill 12 seats scheduled to expire. They also require elections to fill any "unexpired terms," seats that have become vacant since the last General Convention and have been temporarily filled by an interim election conducted by the sitting trustees.

Currently, there are two such unexpired seats to be filled. This means that only 11 incumbent CPF Trustees continue their terms beyond the General Convention: the President, elected by and serving at the pleasure of the CPF Board, and ten trustees elected by General Convention in 2000 to serve terms which expire in 2006.

Exhibit 9 identifies and categorizes the 11 continuing trustees. **Note that no lay persons with primary experience in accounting, health care, or the law are in this group.** Further, the balance between lay and clergy is changed significantly, with the number of continuing clergy trustees almost the same as the number of lay trustees.

Continuing CPF Board Members*		
<u>Lay Persons (6)</u>		<u>Clergy (5)</u>
<i>Investment Management (2)</i>	<i>Law (0)</i>	<i>Priests (2)</i>
Amy L. Domini Quintin E. Primo III	- - - -	A. Thomas Blackmon Randall Chase, Jr.
<i>Accounting (0)</i>	<i>Financial & General Business (4)</i>	<i>Bishops (3)</i>
- - - -	Alan F. Blanchard Deborah Harmon Hines, Ph.D. Arthur K. Kusumoto Katherine Tyler Scott	Chilton R. Knudsen Peter J. Lee, D.D. Claude E. Payne, D.D.
<i>Health Care (0)</i>		
- - - -		

*The President plus 10 Trustees elected in 2000 to serve until 2006

Exhibit 9

THE ELECTION OF 12 TRUSTEES TO 6-YEAR TERMS

Exhibit 10 identifies the 24 candidates nominated by the Joint Standing Committee on Nominations for six-year terms. Candidates are grouped by their primary area of experience. Incumbent trustees, the nine current trustees eligible for re-election, are shown in bold. Among the 15 new nominees are eight priests, four bishops, and three lay leaders, grouped in areas of expertise that our limited knowledge suggests are most appropriate.

In general, the continuing trustees and staff of the Church Pension Fund strongly support the re-election of all incumbent trustees. We hope the General Convention deputies will recognize the value of accumulated experience, continuity, and wisdom, especially during this time of financial market volatility.

Beyond endorsing our incumbents, we welcome all new trustees, noting that a balance of business skills is essential. **We urge particular consideration of lay leaders with experience in critical sub-areas: investment management, health care, and the law.**

Candidates For Election To A 6-Year Term*			
(12 to be elected)			
<u>Lay Persons</u>		<u>Clergy</u>	
<u>Investment Management</u>	<u>Finance & General Business</u>	<u>Priests</u>	<u>Bishops</u>
James E. Bayne David L. Brigham	Joon D. Matsumura Virginia A. Norman Jon B. Boss	M. L. Agnew, Jr. Carlson Gerdau Samuel G. Candler Peter F. Casparian Donald A. Fishburne Scott B. Hayashi Lynn Jay Caryl A. Marsh V. Gene Robinson Robert Sessum	Gayle E. Harris David C. Bane, Jr. Robert H. Johnson Henry N. Parsley, Jr. Wayne P. Wright
<u>Accounting</u>	<u>Law</u>		
Sheridan C. Biggs	Theresa M. Brion		
<u>Health Care</u>			
David R. Pitts Carla M. Cooper			

*Names shown in bold are incumbent Trustees

Exhibit 10

THE ELECTION OF 2 TRUSTEES TO 3-YEAR TERMS

Exhibit 11 identifies the four candidates nominated for three-year terms by the Joint Standing Committee on Nominations. **Two are incumbent trustees. Note that the two incumbents nominated here are the only nominated attorneys with experience on the CPG Board.** We believe that this fact, combined with the complexity of our work and the increased incidence of litigation against churches, give special importance to their candidacy.

Candidates For Election To A 3-Year Term*			
(2 to be elected)			
<u>Lay Persons</u>		<u>Clergy</u>	
<u>Finance & General Business</u>	<u>Law</u>	<u>Priests</u>	<u>Bishops</u>
Theodore B. Sloan	Barbara B. Creed Cecil Wray	Mark S. Nestlehutt	

*Names shown in bold are incumbent Trustees

Exhibit 11

* * *

The Joint Standing Committee on Nominations, chaired by former CPF Trustee Matthew Chew, has assembled an outstanding list of nominees. We thank them for their work. Now it is time for us to ask that the House of Deputies give thoughtful, prayerful attention to this important task.