115th Convention of the Episcopal Church in Utah
Report of the Perpetual Trust of St. Peter and St. Paul

A Brief History

1. The Perpetual Trust of St. Peter and St. Paul was established to support the mission of the Diocese by providing a secure and stable source of funds to finance Diocesan and parish operations and programs. The Perpetual Trust of St. Peter and St. Paul is a perpetual endowment fund that makes annual distributions to the Episcopal Diocese of Utah “which shall be devoted to religious, charitable and educational purposes.”

2. The predecessors to Perpetual Trust (first St. Mark’s Charities and then the Corporation of the Bishop, “COB”) were funded with approximately $89 million in proceeds from the sale of St. Mark’s Hospital. Perpetual Trust was created in 1994 as a nonprofit organization separate from the Diocese and the assets of the COB were transferred to the Trust.

3. From 1989 to 1994 the investments of the Trust were limited to fixed income securities and only the interest income could be distributed to the Diocese. Virtually all interest earned was paid out, so the Trust was not being protected from inflation and the principal could not grow. The Trustees determined that the investment portfolio needed to be diversified to generate higher returns and adopted a Policy Asset Allocation to achieve that goal.

4. Based on historical analysis, a formula was derived that calculated a 5% of the 48-month rolling average market value as the maximum annual operating distribution the Trust could make to the Diocese while still preserving the principal of the Trust. When the 5% operating distribution was calculated in the mid-1990s, it was based on historical long term returns of about 9%. Today we are facing returns of 5% to 6%. Based on discussions with the Trust’s advisors and other endowment funds, we learned that we are outliers at a 5% distribution rate. Our peers are limiting distributions to 3% - 4% or less.

5. The Trust cannot reduce the 5% distribution rate without the approval of the Diocesan Convention and authorization by the courts. In response to the concerns of the Trustees and the Trust’s financial advisors, in 2017, 2018 and 2019 the Diocese withdrew less than the full Operating Distribution and is expected to do so in 2020.

Project Jubilee

6. In 1998 Trust borrowed money under Project Jubilee to fund the capital construction, repair and improvement needs of the Diocese. This debt is secured solely by the securities held by the Trust. <u>The Trust is solely and exclusively responsible for repayment of the Project Jubilee loans.</u> <u>No assets of the Diocese or any parish are used as security for the Project Jubilee loans and the bank cannot seize any of these assets for repayment.</u>

7. The Trustees are responsible for managing the Project Jubilee debt to plan for repayment of the loan with the least disruption to the Diocese. Borrowing for Project

Jubilee reached its peak of $34.5 million in 2011. Since then, the Trust has paid down $12 million, bringing the outstanding balance to $22.5 million. The Trustees intend to continue to make periodic repayments of principal whenever market conditions permit. However, the Trustees do not believe that a principal payment can be made in 2020 considering the current market value of the Trust.

Financial Results

8. As of September 11, 2020, the Trust held approximately $67.5 million in assets. After a sharp decline in March, the market value of the trust has gradually increased, but is still about $3 million less than at December 2019.

9. The decline in value can largely be attributed to the significant cash outflow required to meet the Trust's obligations to the Diocese and debt service. From inception to the end of August, 2020, the Trust will have paid out about $141.4 million in Operating Distributions. $22.9 million in Project Jubilee interest and $12 million in principal reduction, for a total of $176.3 million expended for the benefit of the Episcopal Church in Utah.

10. The maximum 2021 Operating Distribution will be $3,175,748, $179.5 million less than 2020.

11. Despite this cash drain, the Trust has generated investment returns comparable to benchmark returns on similar portfolios. YTD as of August 31, the Trust had lost -1.1% but had a 6.56% return for the 12 months ended August 31. The two months of July and August saw a 6.85% return but month-to-date September has seen the market decline, but performance for the third quarter should be improved.

Impact (Environmental, Social and Governance) Investing

12. The trustees have made significant progress on moving Trust assets into Impact (i.e. sustainability or ESG) investments. Currently the Trust has $7.7 million, or 11.4% of the portfolio, in social investment funds. In addition, 80% of balance of the portfolio have ESG ratings of average or above..