

**113th 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. By 1993, The Trustees determined that the investment portfolio needed to be diversified into equities to generate higher returns. The Trustees also recognized that cash distributions to meet the needs of the Diocese would require liquidating securities as well as paying out dividends and interest.
4. Based on historical analysis, a formula was derived for calculating the maximum annual operating distribution the Trust could make to the Diocese while still preserving the principal of the Trust. This formula set the annual maximum distribution at 5% of the 48-month rolling average market value. 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%.
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 the Diocese withdrew less than the full Operating Distribution.

Project Jubilee

6. In 1998 Bishop Irish and the Trustees responded to the needs of the Diocese by creating Project Jubilee. Since 1999, the Trust has borrowed funds and pledged the securities it holds as collateral for loans to finance capital improvements in the Diocese. The Trust is solely and exclusively responsible for repayment of the Project Jubilee loans. 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.
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, including a \$4.5 million payment this February, bringing the outstanding balance to \$22.5 million. At the same time the loan was restructured reducing the interest cost and extending the interest-only payment period to 2027.

8. The Trustees intend to continue to make periodic repayments of principal whenever market conditions permit.

Governance

9. Perpetual Trust is under the governance of a Board of Trustees chaired by Bishop Scott Hayashi. Trustees are appointed by the Bishop. The Trust is audited annually by the Tanner & Co. CPA firm.
10. The Trustees are charged with the prudent investment and management of the Trust's assets. The Trustees have adopted an asset allocation policy that governs how the Trust's funds are invested.
11. Under the Trust's investment guidelines, the Trust invests in mutual funds and exchange traded funds (ETFs) traded on the major securities exchanges. It does not invest in individual stocks or bonds or illiquid securities. In 1917, the portfolio was restructured to move out of managed funds and hedge funds. Currently, all of the Trust's funds are invested in ETFs
12. The Trust made a major change in 2017 by transferring the investment management of the Trust's assets from State Street to Morgan Stanley. This change has significantly reduced the investment management fees the Trust pays and the amount of documentation required of the Trust Administrator.

Financial Results

13. As of March 31, 2018, the Trust held approximately \$73.9 million in assets. For the year 2017 the Trust earned a 16.5% return, above the Trust's performance benchmark of 15.83%
14. Since inception, the Trust has paid out \$133 million in Operating Distributions to the Diocese, \$21.1 million in Project Jubilee interest and \$12 million in principal reduction, for a total of \$166 million expended for the benefit of the Episcopal Church in Utah.