

# A NEW FINANCIAL REALITY FOR PERPETUAL TRUST DISTRIBUTIONS

March 4, 2017

## BACKGROUND

For the past 20 years, distributions from the Perpetual Trust of St. Peter and St. Paul has provided the bulk of operating income to the diocese. In 2017, this accounts for 90% of our operating income, some \$ 3.78 million.

The Trustees of the Perpetual Trust are astute financial sector experts. When the Trust was established, much research was done to determine the level of sustainable distributions. This including commissioning a professional analysis. Over a 75 year history, charitable funds and foundations could provide a 5% average distribution, and retain the principle of the trust funds. To mitigate short term market fluctuations, we base our distributions on a rolling average of the Trust balance over the prior 48 months.

## THE NEW REALITY

For a variety of reasons, this long standing, original scenario no longer works. Trusts and endowments require conservative investment approaches, as safety and preservation have priority over earnings. It is somebody else's money. Historically, that has meant a typical mix of 60% fixed income investments (CD's government bonds and securities) and 40% equities (stocks, etc):

- For more than ten years, we have been in a low rate environment. For example, one year CD's are paying about .33% interest.
- The Perpetual Trust, like every other trust and endowment (TEC, CPG included), have worked hard to maintain earnings, through diversification. Cautiously and thoughtfully, diversification into foreign markets, commodities, REITs, have improved earnings. But without forsaking prudent parameters for appropriate investments, we have done about all that we can.
- The reality, for us and for the rest of the world, is that 5% net distributions are not possible, now or in the foreseeable future. The task in front of the Diocese is to determine the new sustainable level of distributions going forward.

The Trustees of the Perpetual Trust, the Diocesan Council, the Standing Committee, the Finance Committee and the leadership of the Diocese are in agreement about this reality, and our responsibility to meet the challenge. This information was shared with the clergy at last fall's clergy gathering. We hope today's meeting helps the whole diocese to be aware, and be involved in this work.

## THE PLAN

Bishop Hayashi has set up a two part financial planning process to address this challenge. One part is in determining what the new level of distributions should be, along with possibilities for a reasonable timetable to work down to the new reality. The second part, is how we meet the new reality. This includes cuts, but will also look at other income options.

The size of the Task: Research is still ongoing, and a determination has not yet been made. Indications are that expecting a 4% distribution, rather than 5%, may not be enough. But it serves as a good, general look at the size of the challenge. In round numbers, a reduction from 5% to 4%, would reduce operating income to the diocese by nearly \$800,000. This is a 20% reduction in income from the Trust.

Despite the size of this financial challenge, many things will aid us in our success with this challenge.

- We have been successful before with a nearly identical situation. Between 2010 and 2013, we experienced a \$1.2 million annual reduction in Trust Income – about 25%. However, this time will be more difficult, following as it does the earlier rounds of reductions.
- We are blessed with an astute and high functioning Diocesan Council, Standing Committee and Finance Committee. We are in a good place to do this work together. For example, the 2017 budget approved by the Diocesan Council, for the first time in our history of the Perpetual Trust, intentionally will not take all of the distribution that we could. We are leaving \$25,000 un-requested.
- The relationship between the diocese and the Perpetual Trust is also highly collaborative and cohesive. There have been times in the past when we were not working in tandem.
- This is not a crisis or an emergency. We have the time to do this thoughtfully and well, progressing towards the goal while minimizing detriments to the work and ministry of the church.