



## TRUSTEES OF DIOCESAN FUNDS

Diocese of Maine  
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### REPORT TO THE 199<sup>TH</sup> ANNUAL CONVENTION OF THE DIOCESE OF MAINE

October 17, 2018

#### Overview

The Trustees of Diocesan Funds manage financial and real estate assets contributed for parish, mission, Diocese, and Episcopate endowments in accordance with the terms of the gifts or grants.

The Trustees of Diocesan Funds were incorporated in 1849 under the laws of the State of Maine "to take and hold real and personal estate contributed for parochial endowments or other church purposes," including the support and or salary of the Episcopate. The Trustees "manage and dispose of the same in accordance with the terms of the several gifts, grants or endowments" and "keep an account with each endowment or gift comprising the fund, and shall report their actions in managing the fund and the condition of the fund to the convention of the diocese annually." *Private and Special Laws of Maine, 1849, amended most recently in 1994*

The Trustees of Diocesan Funds, as an entity created by statute, functions independent of the Bishop, the Diocese and the Convention. It is comprised of seven Trustees plus the Diocesan Bishop of the Diocese of Maine. According to the By-Laws of the Trustees, there are three qualifications considered necessary and desirable in the appointment of a Trustee: (a) to be a communicant in good standing or a canonically resident priest or deacon of the Diocese of Maine; (b) to indicate a sincere willingness to assume the fiduciary responsibilities incumbent upon a Trustee of Diocesan Funds in the Diocese of Maine; and (c) to have had experience in investment management or with endowed funds. The current Trustees are Frank Governali (president), Nathaniel V. Henshaw, James Kitler, Elizabeth T. McCandless, the Rev. Timothy A. Boggs, DeWitt Clinton, and The Rt. Rev. Stephen T. Lane. (There is currently one vacant Trustee position.) Brief biographies of the Trustees are included at the end of this Report.

The Trustees manage financial assets with a market value on September 30, 2018 of \$32,898,790. Approximately 45% of these assets are for the benefit of specific congregations or Diocesan organizations, either because the congregation or Diocesan organization received a bequest under a will in care

of the Trustees, received a lifetime gift in care of the Trustees or chose to place the congregation's or Diocesan organization's assets with the Trustees. The balance of the assets were received either by bequest or lifetime gift for the benefit of the Trustees, Bishop or Diocese and are administered pursuant to the discretion of the Trustees, Bishop, or Diocesan Council. All of the assets are held in either restricted or unrestricted funds pursuant to the donor's wishes.

### Asset Management

Funds are invested in either the Trustees' pooled Equity Fund (approximately 67% at September 30, 2018) or the Trustees' pooled Fixed Income Fund (approximately 33%). Both pooled Funds are invested in accordance with the Trustees' *Statement of Investment Objectives and Guidelines*. For year to date 2018 (January 1 through September 30, 2018), the Equity Fund has had a return, on a Total Return basis, of 11.05%. For the twelve month period, October 1, 2017 through September 30, 2018, the Equity Fund had a per year return of 16.57%. Comparisons against indexes such as the S & P 500, Russell 2000, etc. are shown on the attached Performance Report.

The pooled Fixed Income Fund is self-administered and invested in "laddered" U.S. Treasury Notes with maturities ranging from one to eleven years. The average annual coupon rate of the Fixed Income Fund was approximately 2.44% on September 30, 2018.

Management of the pooled Equity Fund is divided among three investment management firms: Headinvest of Portland, Maine, Welch & Forbes LLC of Boston, Massachusetts, and H.M. Payson & Co. of Portland, Maine.

The Trustees oversee 346 separate sub-accounts invested in the two pooled funds. Custody and fund accounting services are provided by U.S. Trust, Bank of America Private Wealth Management. The Trustees periodically put the investment management and custody/fund accounting services out to bid to ensure the best advice, the best service, and competitive pricing.

### Availability of Services

The services provided by the Trustees of Diocesan Funds are available to all parishes, missions, and related organizations of the Episcopal Diocese of Maine. For unrestricted assets owned by a congregation, the congregation may choose and change its investment mix between the pooled Fixed Income Fund and the pooled Equity Fund. There is no load or sales charge, only the direct expenses of investment management and custody/fund accounting services. Individuals who wish to include bequests in their wills to benefit individual congregations may discuss the details of establishing endowments or restricted use donations with the Trustees at no cost to the individual or the

congregation. Donations of stock to the Bishop, Diocese, or an individual congregation can be made through the Trustees.

#### How to Establish an Account

A minimum investment of \$1,000 is necessary to establish a new account with the Trustees with no minimum amount required for additions. Congregations can decide the allocation of their assets between the pooled Equity Fund and the pooled Fixed Income Fund. When a new account is established, the Trustees request that a congregation provide direction concerning allocation of assets between the two Funds. If no direction is provided, a default allocation will be applied -- currently, 60% of the assets will be invested in the pooled Equity Fund and 40% in the pooled Fixed Income Fund. In addition, the Trustees ask whether the congregation wishes to receive quarterly distributions of income from the account or wishes to have the income added to the principal and reinvested within the account. Currently, quarterly distributions from the pooled Fixed Income Fund are based on actual interest received and quarterly distributions from the pooled Equity Fund are determined on a Total Return basis using a twelve quarter average market value methodology at a 4.75% annual distribution rate.

#### Diocesan Revolving Loan Fund

The Trustees hold endowments in the Bishop's Discretionary Fund with a current value of approximately \$3.5 million. The Diocesan Revolving Loan Fund program calls for the use of no more than \$250,000 of the Bishop's Discretionary Fund endowment assets to create a Diocesan Revolving Loan Fund. This Fund provides for the financing of maintenance, repair, and upgrade of real assets to Diocesan organizations, i.e. parishes, missions, and related church organizations, for no more than five years in amounts not to exceed \$25,000. The Diocesan Revolving Loan Fund is administered and monitored by the Trustees as an asset management function of the Bishop's Discretionary Fund endowments. At September 30, 2018, there are two Loans outstanding

#### Trustees' Board Actions – September 2017 Through September 2018

The Trustees accepted the resignations of two long-time members, Lawrence Dwight and Kenneth Barrett, and voted DeWitt Clinton to fill the remaining term of Mr. Dwight's term.

The Trustees voted to engage H. M. Payson to manage a portion of the pooled equity fund using Socially Responsible Investing principles (also called ESG - Environmental, Social, Governance). The approved action split the H. M. Payson-directed portion of the pooled equity fund into a traditional and a separate socially responsible portfolio on a 50/50 basis. The Trustees made

this decision after carefully evaluating this approach over the past three years and meeting with investment managers from New York, Boston, and Portland. The view among investment professionals is that ESG investing can provide roughly equivalent returns over time to conventional investing, with the benefit of aligning investment assets with socially responsible principles.

Acknowledging this view, the Trustees decided a prudent approach to ESG investing would be to allocate a portion of the pooled equity portfolio at this time and to monitor performance carefully in ensuing periods.

The Trustees voted to request proposals of interested investment management firms with the objective of possibly replacing one or more of the current management investment firms.

### Current Trustees, Home Congregation, and Terms

Trustees are elected by Diocesan Convention to four year terms. There are no term limits.

**Frank Governali**, Current President (2016–2019) St. Alban's, Cape Elizabeth, is a Chartered Financial Analyst who covered the global telecommunication sector for several firms over 21 years, retiring from Goldman, Sachs & Co. as a Partner/Managing Director in 2005. Mr. Governali graduated from Dartmouth College in 1977, and received his MBA in Finance from NYU in 1979. He has served on the Cape Elizabeth Town Council, Education Foundation, local library building Committee, and sits on the boards of the Gulf of Maine Research Institute, Great Schools Partnership, and CEI Ventures. Mr. Governali chairs St. Alban's Stewardship Committee.

**The Reverend Timothy A. Boggs** (2018–2021), was called to be St. Alban's Episcopal Church in Cape Elizabeth's 12<sup>th</sup> rector in 2011. Rev. Boggs was educated at public schools in Lake Bluff and Lake Forest, Illinois and the University of Wisconsin, Georgetown University, and the General Theological Seminary of the Episcopal Church in New York City. He received his Master of Divinity degree *cum laude*. Rev. Boggs is now a Trustee of General Seminary. His ordained ministry began as Associate Rector of St. Alban's Parish in Washington, D. C. He then served as the Canon Provost of Washington National Cathedral. Prior to ordination, Rev. Boggs served for twenty years as a senior vice president of Time Warner, Inc. Previously, he was on the professional staff of the U. S. House of Representatives.

**DeWitt Clinton** (2018–2021), had a business career initially in corporate finance for high-tech companies, then as an independent consultant in which he is currently active full time. Mr. Clinton co-founded an e-commerce software development company. He participates on several non-profit boards

with focus on corporate governance and investment of endowments. Mr. Clinton earned a BA from Williams College (mathematics), MBA from Columbia University (finance), and an advanced degree from INSEAD (international business). He has served as Senior Warden and at St. David's Episcopal Church in Kennebunk chairs its Finance Committee.

**Nathaniel V. Henshaw** (2018–2021), is President of CEI Ventures, Inc., a for profit subsidiary of Coastal Enterprises, Inc. Mr. Henshaw founded CVI in 1993 to manage the Coastal Ventures Limited Partnership and to direct the investment of venture capital into progressive Maine companies. He manages five social venture capital funds with combined initial capitalization of over \$50 million and investments in 60 private companies. Prior to his current position, he served as a Loan and Investment Officer at Coastal Enterprises, Inc. He has also worked for other venture capital firms, such as Intersouth Partners L.P.; Kitty Hawk Capital Lt., and Chemical Venture Capital Corporation (now J.P. Morgan Partners). He holds an MBA from Duke University Fuqua School of Business and a B.A in Economics from Duke University. He sits on the boards of several Coastal Ventures, CVLP and CVILLC portfolio companies as well as several voluntary civic and religious boards. Mr. Henshaw is a parishioner of St. Paul's Church in Brunswick.

**James Kitler**, (2016–2019), is a retired Chartered Financial Analyst. He was the Senior Quantitative Analyst for Value Line Publishing Company where he did research on their stock performance ranking system and managed an internal growth equity fund. Prior to that, he managed the pension and individual retirement account section at the Union Trust Company in Connecticut. At the New York State Teacher's Retirement System and Aetna, he analyzed and implemented portfolio and asset allocation strategies. He earned degrees in physics and material science from the Massachusetts Institute of Technology and an MBA from Union College. He has served as treasurer and officer for several churches and non-profit organizations and is on the Warrant Committee for the town of Bar Harbor. Mr. Kitler is a parishioner of Church of Our Father in Hull's Cove.

**Elizabeth T. McCandless**, (2017–2020), attends both the Episcopal Church of Saint Mary, Falmouth and the Cathedral Church of St. Luke in Portland. In 1992 Betsey was a founding partner of Maine's first boutique law firm restricting its practice to trust and estate matters, now known as McCandless & Coburn. She received a B.A. from Franklin & Marshall College in 1977 and a J.D. in 1982 from Hofstra University School of Law, where she was an associate editor of the Hofstra Law Review. Betsey moved to Maine in 1985 from New York City to raise her three children. She is a Fellow of the American College of Trust and Estate Counsel (ACTEC) and previously served on the board of Hospice of

Southern Maine, as Chair of the Maine Supreme Judicial Court's Advisory Committee on Probate Rules, and as Vice Chair of the Board of the University of Maine Foundation. Betsey is currently a Trustee of the Portland Museum of Art. She frequently lectures on charitable giving, estate administration, trust administration, and estate and gift tax matters.

**The Rt. Rev. Stephen T. Lane**, Ninth Bishop of Maine

**TRUSTEES OF DIOCESAN FUNDS  
EPISCOPAL DIOCESE OF MAINE  
PERFORMANCE REPORT**

September 30, 2018	Market Value	1 Month	3 Months	Year to Date (9 Months)	1 Year	2 Years	3 Years	Cash as % of Total
<b>Indices</b>								
3 month T-Bills		1.50%	0.49%	1.30%	1.59%	1.12%	0.84%	
S & P 500		0.57%	7.71%	10.55%	17.90%	18.24%	17.29%	
Russell 2000		-2.41%	3.57%	11.50%	15.22%	17.94%	17.11%	
Russell Mid Cap		-0.64%	4.99%	7.45%	13.97%	14.64%	14.50%	
Barclay's Int Treas		0.60%	0.38%	-0.30%	-1.31%	-0.65%	0.58%	
<b>HM Payson</b>								
Cash	\$124,787	0.18%	0.49%	1.16%	1.37%	0.99%	0.69%	3.43%
Equity	\$3,509,732	0.65%	8.93%	15.32%	21.31%	21.39%	18.52%	
Total	\$3,634,519	0.62%	8.71%	15.29%	21.10%	20.93%	18.06%	
<b>HM Payson - ESG</b>								
Cash	\$217,838	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%	6.00%
Equity	\$3,411,175	0.40%	0.00%	0.00%	0.00%	0.00%	0.00%	
Total	\$3,629,012	0.42%	0.00%	0.00%	0.00%	0.00%	0.00%	
<b>HeadInvest</b>								
Cash	\$10,566	0.15%	0.46%	1.13%	1.34%	0.95%	0.67%	0.14%
Equity	\$7,350,966	-0.20%	5.40%	5.89%	11.15%	13.06%	14.18%	
Total	\$7,361,532	-0.20%	5.37%	5.83%	11.05%	12.80%	13.97%	
<b>Welch &amp; Forbes</b>								
Cash	\$57,629	0.15%	0.46%	1.14%	1.41%	0.97%	0.68%	0.76%
Equity	\$7,498,890	1.30%	8.70%	12.90%	18.54%	17.00%	15.17%	
Total	\$7,556,519	1.29%	8.62%	12.77%	18.34%	16.65%	14.87%	
<b>Aggregate 67.42%</b>								
Cash	\$410,820	0.14%	0.45%	1.13%	1.35%	0.99%	0.69%	1.85%
Equity	\$21,770,763	0.54%	7.56%	11.13%	16.73%	16.94%	15.84%	
Total	\$22,181,582	0.54%	7.46%	11.05%	16.57%	16.57%	15.53%	
<b>Fixed Income 32.58%</b>								
Cash	\$1,590,091	0.16%	0.47%	1.19%	1.45%	1.04%	0.73%	14.84%
Fixed Income	\$9,127,117	-0.63%	-0.19%	-0.97%	-1.28%	-1.16%	0.18%	
Total	\$10,717,208	-0.52%	-0.10%	-0.84%	-1.13%	-1.08%	0.22%	