



## TRUSTEES OF DIOCESAN FUNDS

Diocese of Maine  
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### REPORT TO THE 195<sup>TH</sup> ANNUAL CONVENTION OF THE DIOCESE OF MAINE

October 15, 2014

#### 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 independently 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 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 Lawrence E. Dwight (president), Kenneth E. Barrett, Frank Governali, Nathaniel V. Henshaw, James Kitler, Elizabeth T. McCandless, Jean T. Wilkinson, and The Rt. Rev. Stephen T. Lane. Brief biographies of the Trustees are included at the end of this Report.

The Trustees manage financial assets with a market value on August 31, 2014 of \$29,602,097 (\$28,299,703 on December 31, 2013). Approximately 44% of these assets are for the benefit of specific congregations, either because a congregation 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 assets with the Trustees. The balance of the assets were received either by bequest or lifetime gift for the benefit of the Trustees or the Bishop and are administered pursuant to the discretion of the Trustees or of the Bishop. All of the assets are held in either restricted or unrestricted funds.

### Asset Management

Funds are invested in either the Trustees' pooled Equity Fund (currently approximately 63%) or the Trustees' pooled Fixed Income Fund (approximately 37%). Both pooled Funds are invested in accordance with the Trustees' *Statement of Investment Objectives and Guidelines*. The Equity Fund has had a year-to-date return (eight months) on a Total Return basis of 8%. This compares to the S&P 500 which had a return of 9.88% for the same period. For calendar year 2013, the Equity Fund had a full year return of 26.15% compared to the S&P 500 which had a return of 32.37% for the same period.

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 3.67% on August 31, 2014. The average annual coupon rate on December 31, 2013 was 3.92%.

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 340 separate 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, 65% of the assets will be invested in the pooled Equity Fund and 35% 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 \$3.9 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 the end of 2013, four loans totaling \$62,720 had been issued. On August 31, 2014, five loans totaling \$7,634 had been issued.

## Current Trustees, Home Congregation, and Terms

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

**Lawrence E. Dwight**, Current President (1999–2016), served in the investment community since 1960, most recently with Morgan Stanley in Portland. He is presently Vice- Chairman of the Maine Municipal Bond Bank. Previously he was Chairman of the Finance Authority of Maine and is also active on committees in his home town. He is a parishioner of St. David's in Kennebunk, where he has served in a variety of lay leadership roles, and St. Ann's in Kennebunkport.

**Kenneth E. Barrett** (1994–2017), was Treasurer of the Diocese from 1999–2008. A retired executive from the heavy machinery manufacturing sector, he is a graduate of the U.S. Coast Guard Academy and an AMP alumnus of the Harvard Business School. He serves St. George's Church in York Harbor as a member of the Discernment Committee. In addition to his work with the church, he is Treasurer of Strawberry Banke Museum in Portsmouth, NH and a trustee of the Thompson Endowment Funds.

**Frank Governali**, St. Alban's, Cape Elizabeth (2011 – 2015), 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 board of the Great Schools Partnership. Mr. Governali is Treasurer of St. Alban's and chairs its Stewardship Committee.

**Nathaniel V. Henshaw** (1998–2017), 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 successfully raised \$5.5 million for this small community development venture capital fund and is in the process of raising \$20 million for the new fund. 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 CVLP and CVLLC 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**, (2011–2015), 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**, Cathedral Church of St. Luke's, Portland (2003–2016). 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 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 on the Board of Directors of Hospice of Southern Maine and frequently lectures on charitable giving, estate administration and estate and gift tax matters.

**Jean T. Wilkinson** (1989–2017), received a Bachelor's degree in Economics from Wellesley College and a Master's degree in Education from the University of Southern Maine. Her employment career was primarily in finance, beginning as an Investment Analyst for Scudder Stevens and Clark in Boston. Jean was Vice President and Relationship Manager in the Private Clients Group of FleetBank of Maine when she retired in June 2000. Mrs. Wilkinson has a long history of community volunteering. In addition to being a communicant of the Church of St. Mary the Virgin in Falmouth, she has twice served as Vestry members and in its Christian Education programs. She has also served as Chair of the Boards of Blue Cross Blue Shield of Maine, now Anthem Blue Cross Blue Shield, on whose Quality Management Oversight Committee she continues to serve, as well as having served as Chair of the University of New England, on whose Executive and other committees she continues to serve. She also serves currently on the Boards of the Maine Department of Environmental Protection, Maine Humanities Council, Maine College of Art, Chewonki Foundation, and North Yarmouth Academy.

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

**195<sup>th</sup> Annual Convention of the Diocese of Maine: RESOLUTION #6**

*RE: To amend the Statement of Investment Objectives and Guidelines of the Trustees of Diocesan Funds*

*SUBMITTED BY: Episcopal Peace Fellowship, Maine Chapter, and St. Brendan the Navigator, Deer Isle-Stonington*

*Resolved that the 2014 convention of the Diocese of Maine urge the Trustees of the Diocesan Funds to amend its Statement of Investment Objectives and Guidelines as follows:*

- (a) That its Article entitled "Socially Responsible Investments" be deleted in its entirety and replaced with the following: "The Trustees shall not invest in*

*any company (a) among the top five U.S. defense contractors, measured in dollar volume of sales, and (b) any company among the top 50 defense contractors that receives more than fifty percent of its revenues from military contracts, and any company involved in the production of tobacco or the manufacturing or distribution of tobacco products. The trustees shall place at least 20% of its equity portfolio with a manager who is committed to socially responsible investing consistent the above restrictions.”*

*(b) That the Trustees provide its Amended Statement of Investment Objectives and Guidelines to the Canon Missioner for Finance and Stewardship by December 1, 2014.*

*Trustees’ Statement concerning Resolution #6:*

The Episcopal Church has made socially responsible investments since the 1960s. The current investment policy of the Trustees of Diocesan Funds is generally in accordance with the guidelines of the National Church. See the attached “Statement of Investment Objectives and Guidelines.” Approximately 5% of the assets in the pooled Equity Fund are held in socially responsible (alternative) investments.

**195<sup>th</sup> Annual Convention of the Diocese of Maine: RESOLUTION #7**

*RE: To Prohibit Investment of Diocesan Funds in Five US Corporations  
SUBMITTED BY: Episcopal Peace Fellowship, Maine Chapter, and St. Brendan the Navigator, Deer Isle-Stonington*

*Resolved that the 2014 Convention of the Diocese of Maine urge the Trustees of the Diocesan Funds:*

*(a) Effective immediately not to invest in the following corporations:*

- 1. Caterpillar*
- 2. G4S*
- 3. Hewlett-Packard*
- 4. Motorola Solutions*
- 5. United Technologies, and*

*(b) In its next report to the Diocesan Convention, as mandated by Private and Special Laws of the State of Maine, Chapter 229, as amended, and the Diocesan Convention resolution of 1903, substantiate compliance with this resolution.*

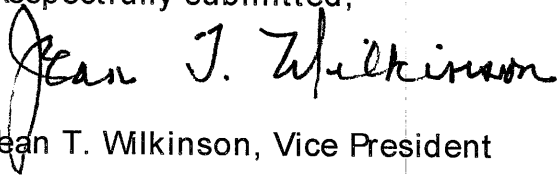
*Trustees’ Statement concerning Resolution #7:*

The ongoing conflict between the Israelis and the Palestinians is complex and in general, the Trustees are reluctant to choose sides in any political hostility. The

National Church has not taken a position on this matter and the Trustees prefer to wait for guidance from the national office.

**Additional information about the Trustees of Diocesan Funds can be obtained by contacting Terry Reimer, Canon Missioner for Finance and Stewardship, Episcopal Diocese of Maine**  
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Portland, ME 04101  
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[treimer@episcopalmaine.net](mailto:treimer@episcopalmaine.net)

Respectfully submitted,

A handwritten signature in black ink that reads "Jean T. Wilkinson". The signature is written in a cursive style with a large, looped initial "J".

Jean T. Wilkinson, Vice President

TRUSTEES OF DIOCESAN FUNDS  
THE EPISCOPAL DIOCESE OF MAINE

STATEMENT OF INVESTMENT OBJECTIVES AND GUIDELINES

This statement of investment objectives and policies governs the investment management of the assets transferred to the Trustees of Diocesan Funds. These assets may include special purpose funds, gifts or bequests to individual parishes, gifts or bequests to the Diocese for the benefit of individual parishes, or any other assets designated to be managed by the Trustees.

INVESTMENT OBJECTIVES

The overall financial management objectives of the Trustees are:

1. To provide a stable income stream that will grow at least as fast as inflation, as measured by the Consumer Price Index.
2. To preserve the purchasing power of the invested capital over the long term.
3. To avoid risks that might jeopardize the achievement of the two preceding objectives.

ASSET MIX

It is the conviction of the Trustees, based on historic performance, that the way to accomplish these investment objectives over the long term is by investing in common stocks which will provide an average total return (principal appreciation plus dividend income) in excess of inflation. However, the Trustees recognize that various circumstances, including the need to maximize current income, even at the risk of jeopardizing the preservation of long-term income/purchasing power, or near-term liabilities, may require some funds to be invested with a shorter investment term. Accordingly, two separate investment vehicles have been established - a Pooled Equity Fund and a Pooled Fixed Income Fund.



### POOLED EQUITY FUND INVESTMENT GUIDELINES

1. 5% to 8% of the equity portfolio maximum in any one company
2. 15% of the equity portfolio maximum in any one industry
3. Convertible Corporate Bonds and Preferred Stocks are an acceptable equity substitute
4. Foreign stocks, including American Depository Receipts, should be limited to 10% of the equity portfolio

### POOLED FIXED INCOME FUND INVESTMENT GUIDELINES

1. Investments must be "AA" rated or better by either Moody's Investors' Service or Standard & Poor's Corporation
2. Maximum length of maturity should not exceed 15 years, with lesser average weighted maturity

### CASH

Should be invested in interest earning vehicles, which may include Money Market Funds, repurchase agreements secured by U. S. Government or Agency obligations, and other instruments related to senior debt rated "AA" or better

### UNACCEPTABLE INVESTMENTS

Puts, calls, options, commodities, real estate, venture capital

### PERFORMANCE STANDARDS

Performance will be measured, at least annually, by comparison with the Standard and Poor's 500, the Russell 2000 Index, the Russell Midcap Index and Barclay's International Treasury Bond.

### SOCIAL INVESTING

The Trustees recognize the actions of the National Church and the Diocese of Maine at its 1992 Convention in encouraging investment of endowment funds for the benefit of society in addressing issues of "social justice". Such investments shall be characterized "Alternative Investments" in the report of

the Joint Advisory Council on Alternative Investments, June 11, 1990, for the National Church.

The following guidelines shall apply:

1. The endowment fund shall be sufficiently broad in purpose so as to permit application of the business judgment rule in making such investment
2. The beneficiary of such endowment shall specifically request such an investment in writing with the express approval of the Rector, Wardens, Treasurer and Vestry in writing
3. Investment shall be made only through intermediaries with the ability to perform due diligence and monitoring of the investment. An example would be the New Hampshire Community Loan Fund. In Maine, the Genesis Fund with the oversight of Coastal Enterprises, Inc.
4. Investments through such intermediaries shall also provide diversification, not single projects
5. No more than 5% of an endowment shall be made in Alternate Investments
6. Equity investments shall not be made in Alternate Investments
7. Alternate Investments shall be made in the form of loans not to exceed 5 years in length
8. The rate of interest shall be agreed and requested by the beneficiary in their request for such Alternate Investment.

The Trustees recognize Alternate Investments are not within the scope of usual endowment investment policies. Such investments are more properly mission-related in the theology of stewardship as expressed in the Gospel and endorsed by the Episcopal Church and the Diocese of Maine. It is in response to this call of our Church that these guidelines and opportunity for such investment is prepared.

#### LOAN POLICY

The Trustees of Diocesan Funds are authorized from time to time to grant loans for parish or Diocesan purposes to a parish or to the Diocese against the individual account of the parish or the Diocese at a market rate of interest to be set by the Trustees. For accounting purposes, the loan will not be part of the pooled funds, but will be a liability on the individual parish or Diocese account, and interest on the loan will accrue to the individual account.

## SOCIALLY RESPONSIBLE INVESTMENTS

When appropriate, the Trustees shall consider investments that promote peace, protect the environment, advance equality and foster sustainable development. Investment in companies that meet positive standards of corporate responsibility in a transparent manner and provide products or services that improve the quality of life should be undertaken when prudent.

The Corporate Social Responsibility Committee, a subcommittee of the Executive Council of the National Church, establishes directives for socially responsible investments. Their directives are largely guided by recommendations from the ICCR (Interfaith Center on Corporate Responsibility) with respect to shareholder activism and other socially responsible investment issues. The Committee's policy was most recently updated in November of 2013.

Based on the portfolio restrictions adopted by the Executive Council, the Trustees of Diocesan Funds do not invest in any company among the top five U.S. defense contractors, any company among the top 50 defense contractors that receives more than 50% of its revenues from military contracts, or in companies that manufacture or sell tobacco products.

## DISTRIBUTION POLICY

The payout from the Pooled Equity Fund will utilize a Total Return Policy. (A Total Return Policy, sometimes referred to as a spending rule, is a distribution policy alternative which has been adopted by many non-profit trustees as a solution to the high dividend/low growth rate vs. low dividend/high growth rate investment dilemma faced by investment advisors. Under this plan, a fixed percentage of the principal amount of the invested funds is paid out periodically. The funds paid out are derived from a combination of the dividends earned plus the capital appreciation occurring. This frees the investment advisors to consider both dividends and growth rate when making investment selections. The laws of the state of Maine, along with other states, were amended in the 1990's to clearly authorize the use of Total Return Policies.) The ratio is 5.0% (4.75% beginning January 1, 2013) of the average value of the Pooled Equity Fund over the last 12 quarters. This ratio is prudent in light of current market conditions but is subject to change at the discretion of the Trustees. The Fixed Income Fund will pay out the actual interest earned by the investments in the Fund.

The Trustees recommend an asset allocation for invested funds of 60% equities and 40% fixed income. However, beneficiaries can change this allocation upon written direction to the Trustees. By keeping the payout policies of the two

Funds separate, the Trustees are able to accommodate individual fund asset allocation choices.

Revised October 15, 2014.