

# Glebe Administration Board

## Diocesan Endowment Report on Investment Performance – June 2012

### Introduction

1. The purpose of this paper is to report on the investment performance of the Diocesan Endowment for the 12 months to 30 June 2012.

### Background

#### ***Investment Management of the Diocesan Endowment***

2. Under clause 2 of the *Glebe Administration Ordinance 1930*, the principal objective of Glebe Administration Board (“GAB”) in investing the property of the Diocesan Endowment is to maintain the real value of that property and provide a reasonable income there from.
3. The investment objective for the Diocesan Endowment is –  
“To achieve a real rate of return over rolling 5 year periods of 5% per annum net of external investment management fees and adjusted for tax effects, subject to –
  - (a) preserving the real value of the Diocesan Endowment over rolling 10 year periods with a 70% probability, and
  - (b) the sum of the distributions from the Diocesan Endowment plus administrative and other costs (not including external investment management expenses) not exceeding 5%, on average over rolling 5 years periods.”
4. More information about the investment objective and GAB’s investment policies is set out in the Investment Policy Statement for the Diocesan Endowment which can be found on the website at <http://www.sds.asn.au/Site/104303.asp?ph=cb>.

#### ***Strategic Asset Allocation***

5. The property of the Diocesan Endowment is invested in accordance with the following asset classes, strategic asset allocation (“SAA”) and asset class ranges –

<b>Asset Class</b>	<b>Min %</b>	<b>SAA %</b>	<b>Max %</b>
Australian Shares	15	20	35
Overseas Shares – Developed	0	12	28
Overseas Shares – Emerging	0	2	10
St Andrew’s House <sup>1</sup>	30	36	40
<b>Total Growth Assets</b>	<b>55</b>	<b>70</b>	<b>85</b>
Australian Sovereign Bonds	0	8	20
Overseas Sovereign Bonds	0	5	20
Financial Services (net capital) <sup>2</sup>	0	13	20
Investment Cash (not included in Financial Services)	0	4	30
<b>Total Defensive Assets</b>	<b>15</b>	<b>30</b>	<b>45</b>

Notes:

1. GAB, as trustee of the Endowment, holds a 50% interest in St Andrew's House (the other 50% stakeholder is Anglican Church Property Trust Diocese of Sydney as trustee of the Endowment of the See).
2. The strategic asset allocation for the Financial Services reflects the amount of capital allocated to the Financial Services activities (lending, deposit taking and treasury activities).

### **Invested Funds**

6. Investments in the Australian shares, Overseas shares, Australian Sovereign bonds and Overseas Sovereign bonds asset classes are undertaken through funds operated by Mercer Investment Nominees Limited and approved by GAB. Each of these funds is a multi-manager fund, meaning that the property invested in a Mercer fund is, in turn, invested in underlying funds operated by fund managers who are specialists in the relevant asset class.
7. The approved funds for each of these asset classes is as follows –

<b>Asset Class</b>	<b>Mercer Investment Product</b>
Australian Shares	Mercer Socially Responsible (SR) Australian Shares Fund
Overseas Shares – Developed (hedged)	Mercer Hedged Overseas Shares Plus Fund
Overseas Shares – Developed (unhedged)	Mercer Overseas Shares Plus Fund
Overseas Shares – Emerging (unhedged)	Mercer Emerging Markets Fund
Australian Sovereign Bonds	Mercer Australian Sovereign Bonds Fund
Overseas Sovereign Bonds (hedged)	Mercer Overseas Sovereign Bonds Fund

8. GAB considers that investing in multi-managed funds benefits the Endowment by –
  - a. giving it exposure to a range of investment managers in each asset class, thus reducing the risks associated with over-exposure to any one manager, and
  - b. requiring that Mercer, rather than GAB, monitor and assess the performance of each investment manager, and
  - c. simplifying the investment processes of GAB and reducing the overall costs of administering the Endowment.
9. The oversight of the investment in St Andrew's House, the undertaking of Financial Services and the management of cash is undertaken by staff of Sydney Diocesan Secretariat on behalf of GAB.

### **Measurement of Performance**

10. The performance of each of the asset classes is monitored according to the indices referred to in paragraph 14.

### **Risk**

11. GAB monitors the risk associated with the investment of the Endowment on an ongoing basis. The ways in which risk is monitored are described in the Investment Policy Statement.

### **Investments of the Diocesan Endowment**

12. The following table sets out the investments of the Endowment as at 30 June 2012 and 31 December 2011 –

<b>Assets</b>	<b>As at 30 June 2012</b>		<b>As at 31 December 2011</b>	
	<b>\$000s</b>	<b>% weight</b>	<b>\$000s</b>	<b>% weight</b>
<b>Growth Assets</b>				
Australian Shares	23,047	19.7	23,619	20.6
Overseas Shares – Developed	14,194	12.1	16,752	14.6

Overseas Shares – Emerging	2,782	2.4	2,452	2.2
St Andrew's House	41,754	35.5	40,950	35.8
<b>Total Growth</b>	<b>81,777</b>	<b>69.7</b>	<b>83,783</b>	<b>73.2</b>
<b>Defensive Assets</b>				
Australian Sovereign Bonds	8,325	7.1	8,295	7.2
Overseas Sovereign Bonds	2,466	2.1	4,232	3.7
Financial Services	12,500	10.7	11,588	10.2
Investment Cash	12,175	10.4	6,528	5.7
<b>Total Defensive</b>	<b>35,466</b>	<b>30.3</b>	<b>30,643</b>	<b>26.8</b>
<b>Total (Net Assets)</b>	<b>117,243</b>	<b>100</b>	<b>114,426</b>	<b>100</b>

## Investment Performance

13. The performance of the portfolio for the year and 2 years ended 30 June 2012 was as follows –

Assets	Year ended 30 June 2012		2 years ended 30 June 2012	
	Return (after fees)	Index	Return (after fees) pa	Index pa
<b>Growth Assets</b>				
Australian Shares	(4.5)	(7.0)	2.9	2.0
Overseas Shares – Developed (hedged)	(4.0)	0.4	9.6	12.8
Overseas Shares – Developed (unhedged)	(4.2)	(0.5)	(1.4)	1.1
Overseas Shares – Emerging (unhedged)	(11.3)	(12.2)	(7.1)	(6.0)
St Andrew's House	27.9	6.1	22.7	7.4
<b>Defensive Assets</b>				
Australian Sovereign Bonds	13.4	14.3	8.8	9.3
Overseas Sovereign Bonds (hedged)	11.4	11.6	8.4	8.7
Financial Services	19.0	13.7	19.3	14.4
Cash	6.4	4.3	6.4	4.5
<b>Total Return on Net Assets Vs Weighted Index</b>	<b>10.8</b>	<b>4.0</b>	<b>11.4</b>	<b>7.3</b>

14. The performance of each asset class is measured against the following indices –

Asset Class	Index
Australian Shares	S&P/ASX 300 Accumulation Index
Overseas Shares – Developed (hedged)	Morgan Stanley Capital International World Index (ex Aust) hedged into \$A with net dividends reinvested
Overseas Shares – Developed (unhedged)	Morgan Stanley Capital International World Index (ex Aust) in \$A with net dividends reinvested
Overseas Shares – Emerging (unhedged)	Morgan Stanley Capital International Emerging Markets Free Float Index

<b>Asset Class</b>	<b>Index</b>
St Andrew's House	CPI plus 5% (being the Investment Objective)
Australian Sovereign Bonds	UBSW Australian Treasury Bond Index (All Maturities)
Overseas Sovereign Bonds	JP Morgan Global Government Bond Index in \$A (Hedged)
Financial Services	Benchmark return of 10% pa
Cash	Reserve Bank of Australia cash rate

## Comments on Externally Managed Investments

15. Mercer reports each quarter to GAB about the performance of the investments in the Mercer multi-managed funds, and makes a presentation to a joint meeting of GAB and the Investment and Finance Committee of the Property Trust. The comments in relation to each asset class invested with Mercer can be summarised as follows.

### ***Australian Shares***

16. The investments of the Mercer SR Australian Shares Fund, in which the Endowment invests, are invested in the socially responsible funds of 3 underlying investment managers. The Fund underperformed the index during the June 2012 quarter primarily due to stock selections of 2 of the underlying managers.
17. However, over the 12 months to 30 June 2012 the return for the Endowment's investment in Australian shares (albeit negative) was significantly better than the index. The return for the 2 years to 30 June 2012 is also better than the index.

### ***Overseas Shares – Developed***

18. The investments of the Mercer Overseas Shares Fund, in which the Endowment invests, are invested through the funds of 7 underlying investment managers. Both the hedged and the unhedged components of the Fund underperformed the index during the June 2012 quarter primarily due to exposure taken by underlying managers to emerging markets which significantly underperformed. The performance of this asset class has been specifically discussed with Mercer at the most recent quarterly meeting. Mercer remains comfortable with the investment philosophy of the underlying managers.
19. The underperformance of the overseas shares investments over the 12 months to 30 June 2012 generally reflects the exposure to emerging markets which have underperformed during the period.

### ***Emerging Markets***

20. The investments of the Mercer Emerging Markets Fund, in which the Endowment invests, are invested through the funds of 2 underlying investment managers. The Fund outperformed the index during the June quarter primarily because one of the underlying managers had an underweight exposure in the resources sector.
21. However, the overall negative performance of the index over the 12 months to June 2012 reflects the significant declines in these markets as a consequence of global instability. Over the same period, the Endowment's investment in Emerging Markets Shares modestly outperformed the index, although the overall performance was negative.

### ***Australian Sovereign Bonds***

22. The investments of the Mercer Australian Sovereign Bond Fund in which the Endowment invests, are invested through the funds of 3 underlying investment managers. While the Fund outperformed the index during the June quarter it underperformed the index over the 12 months to 30 June 2012.

### ***Overseas Sovereign Bonds***

23. The investments of the Mercer Overseas Sovereign Bond Fund are made through the funds of 3 underlying investment managers. The Fund underperformed the index during the June quarter and modestly underperformed the index over the 12 months to 30 June 2012.

### **Comments on Internally Managed Investments**

24. The following comments are made about the St Andrew's House and Financial Services asset classes.

#### ***St Andrew's House***

25. The value of the interest in the St Andrew's House Fund increased marginally during the June 2012 quarter, principally by reason of the retention of cash in the Fund to pay for major works and costs associated with re-leasing levels 3 and 4, and the repayment of debt. The very strong performance of the Fund over the 12 months to 30 June 2012 reflects the significant revaluation of the St Andrew's House building as at 31 December 2011 as a consequence of the re-leasing of levels 3, 4 and 5 of the commercial tower and the leasing of the car park.

#### ***Financial Services***

26. Financial Services comprises the lending, deposit taking and treasury activities undertaken by the Endowment. For prudential purposes, capital of the Endowment is allocated to Financial Services and, as at 30 June, the capital allocated was \$12.5 million.

MARK PAYNE  
**Chief Executive Officer**

20 August 2012