

Glebe Administration Board

Diocesan Endowment Report on Investment Performance – September 2012

Introduction

1. The purpose of this paper is to report on the investment performance of the Diocesan Endowment for the 12 months and 2 years to 30 September 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 –

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

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 –

Asset Class	Mercer Investment Product
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 September 2012 and 31 December 2011 –

Assets	As at 30 September 2012		As at 31 December 2011	
	\$000s	% weight	\$000s	% weight
Growth Assets				
Australian Shares	24,674	20.4	23,619	20.6
Overseas Shares – Developed	14,690	12.1	16,752	14.6

Overseas Shares – Emerging	2,991	2.5	2,452	2.2
St Andrew's House	42,907	35.5	40,950	35.8
Total Growth	85,262	70.5	83,783	73.2
Defensive Assets				
Australian Sovereign Bonds	9,653	8.0	8,295	7.2
Overseas Sovereign Bonds	2,403	2.0	4,232	3.7
Financial Services	12,500	10.3	11,588	10.2
Investment Cash	11,134	9.2	6,528	5.7
Total Defensive	35,690	29.5	30,643	26.8
Total (Net Assets)	120,952	100	114,426	100

Investment Performance

13. The performance of the portfolio for the 12 months and 2 years ended 30 September 2012 was as follows –

Assets	Year ended 30 September 2012		2 years ended 30 September 2012	
	Return (after fees)	Index	Return (after fees) pa	Index pa
Growth Assets				
Australian Shares	17.2	14.5	3.9	2.2
Overseas Shares – Developed	15.2	19.0	3.7	7.6
Overseas Shares – Emerging	10.4	9.3	(5.4)	(4.5)
St Andrew's House	29.3	5.8	22.8	7.1
Defensive Assets				
Australian Sovereign Bonds	9.7	9.5	9.1	9.3
Overseas Sovereign Bonds	8.5	8.6	7.9	8.2
Financial Services	14.4	12.5	18.0	13.7
Cash	6.2	4.0	6.2	4.6
Total Return on Net Assets Vs Weighted Index	18.9	11.2	11.7	7.1

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
St Andrew's House	CPI plus 5% (being the Investment Objective)

Asset Class	Index
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 outperformed the index during the September 2012 quarter primarily due to stock selections of 1 of the underlying managers.
17. Over the 12 months to 30 September 2012 the return for the Endowment's investment in Australian shares (albeit negative) was significantly 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. The investments tracked the performance of the index during the September 2012 quarter.
19. The overseas shares asset class underperformed the benchmark over the 12 months to 30 September 2012. Mercer retains confidence in the investment style of the underlying managers.

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 September quarter primarily because of exposures to certain emerging markets.
21. The asset class has outperformed the index over the 12 months to 30 September 2012.

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. The Fund outperformed the index during the September quarter and outperformed the index over the 12 months to 30 September 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 outperformed the index during the September quarter and modestly underperformed the index over the 12 months to 30 September 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 during the September 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 September 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 September, the capital allocated was \$12.5 million. The returns from Financial Services for the 12 months to 30 September 2012 are ahead of the benchmark but they are expected to decline because of reducing loan balances, which are impacting the margin able to be earned on the returns from the loans and treasury investments, and the interest payments in respect of the Glebe Income Accounts.

MARK PAYNE
Chief Executive Officer

12 November 2012