

Glebe Administration Board

Diocesan Endowment

Report on Investment Performance – September 2013

Key Points

- During the 12 months ended 30 September 2013, the total return on the investment of the Diocesan Endowment was 10.35%, which was under the weighted average benchmark return of 10.65%.
- The main reason for underperformance compared to benchmark was the underperformance of the investment in the St Andrew's House Trust.
- The net assets of the Diocesan Endowment increased from \$122 million as at 31 December 2012 to \$129.9 million as at 30 September 2013.
- The major contributors to the increase in the value of the net assets were the returns from the Australian Shares and Overseas Shares asset classes.

Background

Investment Management of the Diocesan Endowment

1. The investment objective for the Diocesan Endowment is –
“To achieve a real rate of return over rolling 5 year periods of 4% 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 4%, on average over rolling 5 years periods.”
2. More information about the investment objective, the strategic asset allocation 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>.

Investments of the Diocesan Endowment

3. The following table sets out the investments of the Endowment as at 30 September 2013 –

| Assets | As at 30 September 2013 | |
|-----------------------------|-------------------------|--------------|
| | \$000s | % weight |
| Growth Assets | | |
| Australian Shares | 25,096 | 19.31 |
| Overseas Shares – Developed | 15,861 | 12.20 |
| Overseas Shares – Emerging | 3,325 | 2.56 |
| St Andrew's House | 42,971 | 33.06 |
| Total Growth | 87,253 | 67.13 |

| | | |
|----------------------------|----------------|---------------|
| Defensive Assets | | |
| Australian Sovereign Bonds | 13,109 | 10.09 |
| Overseas Sovereign Bonds | 5,189 | 3.99 |
| Global Credit | 0 | 0 |
| Financial Services | 14,739 | 11.34 |
| Investment Cash* | 9,669 | 7.45 |
| Total Defensive | 42,706 | 32.87 |
| Total Assets | 129,959 | 100.00 |

*Investment Cash is shown net of interest receivable, provisions and accrued expenses.

Investment Performance

4. The performance of the portfolio for the year and 3 years ended 30 September 2013 was as follows –

| Assets | 1 Year ended 30 September 2013 | | 3 years ended 30 September 2013 | |
|--|-----------------------------------|--------------|------------------------------------|--------------|
| | Return (after fees) | Index* | Return (after fees) pa | Index* pa |
| Growth Assets | | | | |
| Australian Shares | 31.42 | 23.61 | 12.38 | 8.90 |
| Overseas Shares – Developed | 25.55 | 28.72 | 10.49 | 14.18 |
| Overseas Shares – Emerging | 12.20 | 12.30 | 0.11 | 0.83 |
| St Andrew's House | 0.15 | 5.20 | 14.74 | 6.86 |
| Defensive Assets | | | | |
| Australian Sovereign Bonds | 0.18 | (0.01) | 6.03 | 6.10 |
| Overseas Sovereign Bonds | 3.65 | 2.63 | 6.45 | 6.30 |
| Financial Services | 7.67 | 6.23 | 14.45 | 11.70 |
| Cash | 4.38 | 2.90 | 5.61 | 4.00 |
| Total Return on Investible Assets vs Weighted Index | 10.35 | 10.65 | 11.24 | 8.39 |

* Information about the indices used to measure the performance of each asset class is set out in the Investment Policy Statement.

5. GAB meets with Mercer, the investment manager, each quarter to discuss the performance of the investments managed by Mercer. The particular focus of recent meetings has been the underperformance of the Overseas Shares asset classes compared to benchmark. Mercer has outlined their reasons for the underperformance, and the actions taken to address that underperformance. It is to be noted that the performance of the Overseas Shares asset classes exceeded the benchmark during the 3 months ended 30 September 2013.
6. The return for Financial Services for the year ended 30 September 2013 was significantly less than the return averaged over the last 3 years. This reflects a number of factors –
 - (a) The Capital Adequacy Policy adopted in 2011 has required that additional capital be allocated to the Financial Services business, and that a greater portion of the Financial Services investments be made in bank deposits rather than in higher yielding loans. Both of these factors have had the effect of reducing the return from this asset class.

- (b) The Liquidity Policy has resulted in a larger proportion of the deposits in the Glebe Income Accounts now being held in term deposits rather than at call accounts. Generally, higher interest rates are payable on term deposits. This reduces the average margin earned on invested funds.
- 7. The underperformance of the St Andrew's House investment over the year ended 30 September 2013 reflects lower growth in the value of the building during 2012 compared to previous years. However, this has to be offset against the strong returns from St Andrew's House measured over the last 3 years.
- 8. During the quarter, GAB approved Global Credit as an additional defensive asset class in which the property of the Diocesan Endowment may be invested. The addition of a new asset class brings additional diversification benefits which are expected to increase the expected return of the portfolio over the long term, with only a marginal increase in risk. While Global Credit is now approved as an asset class, GAB has not yet invested in that asset class pending the recommendation of the Asset Consultant to do so.

MARK PAYNE
Chief Executive Officer

30 October 2013