

Glebe Administration Board

Annual Report to the Synod for 2009

This Annual Report should be read in conjunction with the Audited Financial Statements for 2009 for the Glebe Administration Board as trustee of the Diocesan Endowment.

Item	Contents
1	Constitution and Charter
5	Access
6	Membership & Meetings
8	Structure
10	Committees of GAB
13	Review of GAB
16	Review of Investment Management
Diocesan Endowment	
20	Financial Results for 2009
23	General Overview of Investment Performance
34	Liabilities
36	Maintenance of Real Value of Diocesan Endowment
42	Distributions from the Diocesan Endowment
St James' Hall	
50	Introduction
52	Financial Results
56	Distributions from the Fund
57	Major Capital Expenditure

Constitution and Charter

1. The Glebe Administration Board ("GAB") is constituted by the *Glebe Administration Ordinance 1930* and is incorporated under the *Anglican Church of Australia (Bodies Corporate) Act 1938*.
2. GAB is the trustee and manager of the following property –
 - the property held on the trusts set out in the *Diocesan Endowment Ordinance 1984* (the "Diocesan Endowment"), and
 - the property held on the trusts set out in the *St James' Sydney Phillip Street Property Ordinance 1962* ("St James' Hall").
3. GAB is also the trustee of St Andrew's House. But, under clause 1 of the *St Andrew's House Ordinance 1975*, responsibility for the management of St Andrew's House is vested in the Council of St Andrew's House Corporation.
4. Under clause 2 of the *Glebe Administration Ordinance 1930*, GAB must invest the property vested in it in a way which –
 - preserves the real value of the property, and
 - provides a reasonable income therefrom.

Access

5. The principal office of GAB is Level 2, St Andrew's House, Sydney Square (PO Box Q190, QVB Post Office, NSW 1230). Telephone (02) 9265 1555. The hours of access are between 9.00am and 5.00pm.

Membership and Meetings

6. The members of GAB are the persons who are, from time to time, the members of Sydney Diocesan Secretariat, a body also incorporated under the *Anglican Church of Australia (Bodies Corporate) Act 1938*. The members of Sydney Diocesan Secretariat are appointed by the Standing Committee.
7. The names of the persons who served as members of GAB during 2009 and their meeting attendance record follow –

Board Members		No. of Meetings Eligible to Attend	No. of Meetings Attended
Canon Bruce Ballantine-Jones OAM		13	13
Mr Mark Ballantyne	(from 7 December 2009) *	0	0
Mr Peter Berkley	(until 9 November 2009)	11	10
Mr Phillip Driscoll	(until 9 November 2009)	11	9
Bishop Robert Forsyth		13	12
Dr Stephen Judd	(until 17 November 2009)	11	8
Mr Ben Koo	(from 7 December 2009)	1	0
Mr Richard Lambert	(until 4 December 2009)	12	9
Mr Neil Lewis	(until 9 November 2009)	11	8
Mr Andrew McLoughlin	(from 7 December 2009)	1	1
Mr Ian Miller		13	10
Mr Warwick Olson AM	(until 26 November 2009)	12	10
Mr John Pascoe	(from 7 December 2009)	1	1
Dr Laurie Scandrett		13	11
Mr Phil Shirriff	(until 7 December 2009)	12	11
Mr Matthew Todd	(until 27 November 2009)	12	9

* Mr Ballantyne was unable to take up his appointment until 24 February 2010.

Structure

8. GAB has no employees. Administration, secretariat, accountancy and investment management services are provided to GAB by Sydney Diocesan Secretariat and other organisations on a fee for service basis. During 2009, the following executives of Sydney Diocesan Secretariat had the greatest authority for the strategic direction and management of GAB –
 - Steve McKerihan Chief Executive Officer
 - Michael Blaxland Chief Financial Officer
 - David Cannings (to 17 July 2009) General Manager, Investment Services
 - Mark Payne General Manager, Parish and Property Services
9. In April 2010, Steve McKerihan resigned as Chief Executive Officer. Mark Payne was appointed as Acting Chief Executive Officer.

Committees of GAB

10. During 2009, GAB had the following committees –
 - (a) the Asset and Liability Committee which was responsible for monitoring and reviewing the investment and balance sheet management policies, strategies, transactions and performance of GAB, and
 - (b) the Audit Committee which oversaw the audit and financial reporting functions of GAB, and
 - (c) the Risk and Compliance Committee which sought to ensure that GAB maintains effective and informed policies for operational risk management and compliance with relevant laws and policies.
11. The members of these committees were mainly drawn from the membership of GAB. The Asset and Liability Committee included the Chief Executive Officer of Sydney Diocesan Secretariat and two external non-Board members.
12. During 2010 GAB reviewed its board committee structure as a result of recommendations made by Cameron Ralph Pty Limited which undertook a review of GAB. As a consequence of the review of the board committee structure –
 - (a) The charter of the Asset & Liability Committee has been revised. The overall purpose of this Committee is now to review and make recommendations to GAB in connection with the investment of the Diocesan Endowment and to oversee, by way of monitoring, the work of the staff and external advisors in implementing the decisions of GAB in relation to the investment of such property and to report thereon to GAB.
 - (b) A reconstituted Audit & Risk Committee was established. The overall purpose of this Committee is to monitor, report and make recommendations to the GAB about the financial reporting processes of GAB to ensure the balance, transparency and integrity of published financial information; the internal control systems of GAB; the independent audit processes of GAB; and the risk management systems of GAB.

Review of GAB

13. In June 2009, Cameron Ralph Pty Ltd completed a comprehensive, independent assessment of the governance practices of GAB. While this review was prompted by the investment losses incurred in the Diocesan Endowment in 2008 (and which were fully reported to Synod in the GAB's Annual Report for 2008), the scope of the review was not intended to address or explain the causes of the losses, nor propose specific actions in the area of investment management.
14. Cameron Ralph made recommendations to the GAB covering the following matters –

Developing a plan for Board renewal

The board was encouraged to develop a renewal strategy covering matters such as the rotation of membership of the board, establishing tenure limits, reducing the number of members, establishing an induction program for new members and implementing regular reviews of the performance of the board and individual members.

Clarifying the respective roles of board and management

The board was encouraged to rethink what it should be spending its time on, and how it can maximise its "value add" to the business.

Addressing Board culture

The board was encouraged to think about how its culture may impact on its effectiveness and the mechanisms and processes which might be adopted to improve capacity to deal with future challenges, and was asked to think of new ways of operating to develop a more robust culture.

Reviewing the format and content of Board papers

A systematic approach to progressive review of the nature and format of information provided to the board was recommended, with a particular focus on value added analysis and non-financial key performance indicators.

Strengthening the Board's decision making by addressing meeting processes

Processes to strengthen decisions by the board were recommended such as extending the length of meetings to allow for substantive debate, revising the agenda structure, agreeing clear criteria and key performance indicators for each decision, and undertaking a short critique after each meeting about how the meeting was conducted.

Reviewing the committee structure

The recommendations included reviewing the charter of each committee to put more responsibility back into the hands of the board as a whole, focussing the attention of each committee on policy, risk levels and triggers for actions and delegations, setting clear criteria for assessing the performance of each committee, and chairman of the committees.

Driving accountability

Initiatives recommended to the board to create an environment of greater accountability included developing more comprehensive board policies, ensuring that all management proposals have clear criteria by which they can be assessed and monitored, and establishing a process for post implementation.

15. GAB has adopted the recommendations of Cameron Ralph. It provided an interim report to Standing Committee about the implementation of those recommendations, and a form of that report was circulated to Synod members in May 2010 for their information. A further report is to be provided to the Standing Committee in August 2010.

Review of Investment Management

16. At the end of 2009, GAB reconsidered the appropriate investment management approach in relation to the Diocesan Endowment. This reconsideration took place in the context of investment management proposals which were invited from three of the main asset consultants to other endowments and foundations in Australia. Subsequently, GAB determined to appoint Mercer as its asset consultant under an implemented consulting arrangement. Under this arrangement Mercer provides GAB with strategic advice about the investment of the property of the Diocesan Endowment. As a consequence of such advice GAB has reviewed the investment objectives for the Diocesan Endowment, the nature of the asset classes in which the Diocesan Endowment invests, and the strategic asset allocations and ranges for those asset classes.
17. GAB has also outsourced to Mercer the selection and appointment of investment managers for the investible funds of the Diocesan Endowment, and delegated to it the day to day responsibility of rebalancing between investment managers and asset classes in accordance with the strategic asset allocations and ranges approved by GAB.
18. The transition to the revised investment management arrangements was completed in June 2010.
19. GAB has implemented these arrangements for the investment of the Diocesan Endowment because –
 - (a) the arrangements involve the provision of strategic advice by Mercer, including an annual 'health' check of the portfolio, and
 - (b) Mercer has significant experience in selecting, monitoring and reviewing investment managers, and
 - (c) the style of investment management is expected to provide an enhanced return over the long term, and
 - (d) the overall costs of managing the investments of the Diocesan Endowment will be reduced.

Diocesan Endowment

Financial Results for 2009

20. For the year ending 31 December 2009, the Diocesan Endowment recorded a surplus of \$11.3 million. The net assets of the Diocesan Endowment increased from \$105 million as at 31 December 2008 to \$111 million as at 31 December 2009.
21. The 2009 results of the Diocesan Endowment can be summarised as follows, from the audited Annual Financial report –

\$000s	12 months to December	
	2009	2008
Revenue		
Income/(loss) from equity related investments	27,807	(122,670)
(Loss) from property related investments	(216)	(32,881)
Income from loans and mortgages	7,281	9,724
Income from cash and fixed interest investments	2,595	2,393
(Loss) from other investments	(57)	(6)
Fee income	649	751
Total revenue/(loss)	38,059	(142,689)
Share of net (loss) of St Andrew's House Corporation	(4,664)	(5,743)
Interest expenses	(6,921)	(18,442)
(Surplus) / deficit attributable to minority interests	(8,145)	17,326
Other expenses	(6,980)	(10,480)
Net surplus/(deficit)	11,349	(160,028)

22. The balance sheet of the Diocesan Endowment as at 31 December 2009 (with 2008 and 2007 comparatives) can be summarised as follows –

\$m	As at 31 December		
	2009	2008	2007
Assets			
Australian Equities	50	44	244
International Equities	-	-	73
Listed Property Trusts	-	-	62
Cash	53	69	38
Fixed Interest Investments	18	4	10
Other Assets	1	11	9
Loans	112	123	95
SAHC	27	33	40
Other assets	2	2	15
Total Assets	263	286	586

\$m	As at 31 December		
	2009	2008	2007
Liabilities			
GIA Deposits	144	154	155
Bank Debt	-	14	150
Provision for Distribution	6	11	21
Other Liabilities	2	2	5
Total Liabilities	152	181	321
Net Assets	111	105	265

General Overview of Investment Performance

23. The property of the Diocesan Endowment is invested in accordance with approved asset classes and asset allocations. These asset classes and asset allocations as at 31 December 2009 (with comparatives as at 31 December 2008) were –

	2009		2008
	Actual %	Target %	Actual %
Australian Shares	17.0	17.0	15.5
Australian Fixed Interest	6.8	7.0	0.6
Loans & Mortgages	43.9	42.0	44.6
Direct Property	12.7	12.5	11.7
Unlisted Property	0.5	-	3.6
Cash & Short Term Deposits	19.1	21.5	24.0
Other	-	-	-
Total	100	100	100

24. The returns for the asset classes were as follows –

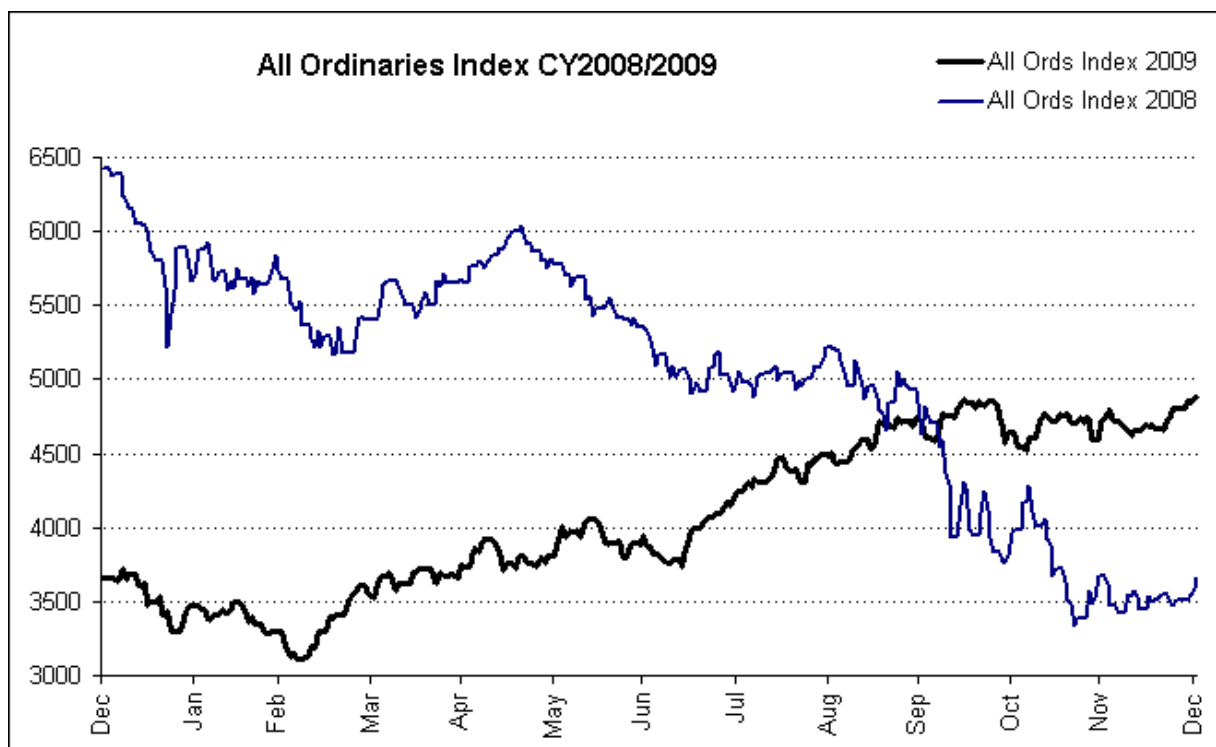
	12 Months to December			
	2009 Return		2009 Benchmark	2008 Return
	\$000s	%	%	%
Australian Shares	19,325	46.8	40.9	(42.6)
Overseas Shares – Hedged	-	-	26.7	(44.8)
Overseas Shares – Unhedged	-	-	(0.3)	(26.0)
Australian Fixed Interest	126	4.7	1.7	5.2
Loans & Mortgages	7,281	6.1	4.2	9.8
Direct Property	(4,664)	(14.7)	7.1	(14.7)
Unlisted Property	(170)	(1.9)	(9.2)	-
Australian REITS	(46)	-	9.6	(54.7)

	12 Months to December			
	2009 Return		2009 Benchmark	2008 Return
	\$000s	%	%	%
International REITS	-	-	30.5	(60.3)
Cash & Short Term Deposits	2,468	4.7	3.3	7.2
Other	(57)	N/A	-	N/A
Total	24,263	9.3	2.0	(26.3)

25. The total 2009 return of \$24.263 million can be reconciled to the Annual Finance Report as follows –

Reconciliation to Annual Financial Report	\$000s
Revenue from continuing operations	38,059
Share of net (loss) of SAHC accounted for using the equity method	(4,664)
Surplus attributable to minority interests	(8,145)
Fee revenue	(980)
Other	(7)
Total Asset Class Returns	24,263

26. Australian Shares are the significant “growth” asset class in which the Diocesan Endowment invested. The market recovered strongly in 2009 as the Australian economy recovered from recession more quickly than other developed economies. The Diocesan Endowment’s investment in Australian shares performed broadly in line with the index. The following chart shows the extent of the recovery in the All Ordinaries Index in 2009, compared to 2008 –



27. It is to be noted that the gains in the All Ordinaries Index in the last few months of 2009 were reversed by falls in global markets in May 2010.
28. GAB redeemed its investments in overseas shares in 2008.

29. GAB increased its exposure to Australian fixed interest, switching from cash. The fixed interest portfolio performed strongly.
30. The loans and mortgages portfolio class continued to perform strongly.
31. The direct property investment represents the Diocesan Endowment's interest in the St Andrew's House. The decrease in the value of direct property is due to a reduction in the value of St Andrew's House, caused principally by the impact of economic conditions on commercial property values.
32. GAB redeemed its investments in Australian and International REITs (property trusts) in 2008.
33. Following the sale of assets in 2008, the amount of cash remained at historically high levels during 2009. Active management of the cash portfolio resulted in a return which exceeded benchmark.

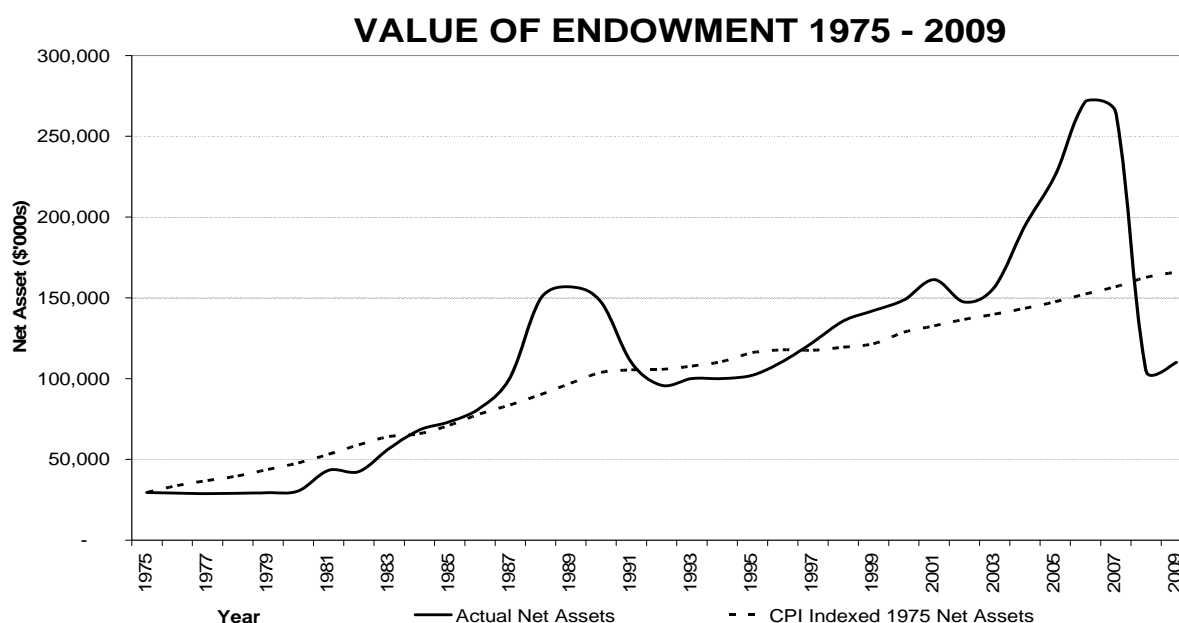
Liabilities

34. At the beginning of 2009, GAB had 2 sources of debt – bank debt and borrowings via the Glebe Income Accounts. The bank debt was repaid by April 2009. An undrawn line of credit of \$50 million remained in place during 2009 to provide liquidity, if required. The line of credit was reduced to \$15 million in June 2010 as the Board considered that a limit of \$50 million was no longer necessary.
35. The debt of the Diocesan Endowment as at 31 December 2009 (with 2008 for comparison) was –

\$000s	31 Dec 2009	31 Dec 2008
Debt		
Glebe Income Accounts	143,753	154,486
External Borrowings	-	14,000
Total Debt	143,753	168,486
Net Assets	110,841	104,914
Gearing Ratio	1.30	1.61

Maintenance of the Real Value of the Diocesan Endowment

36. GAB is required to invest the property of the Diocesan Endowment in a way which preserves its real value. The movement in the value of the Diocesan Endowment from 1974 to 2009 compared to the real value is illustrated on the following chart –

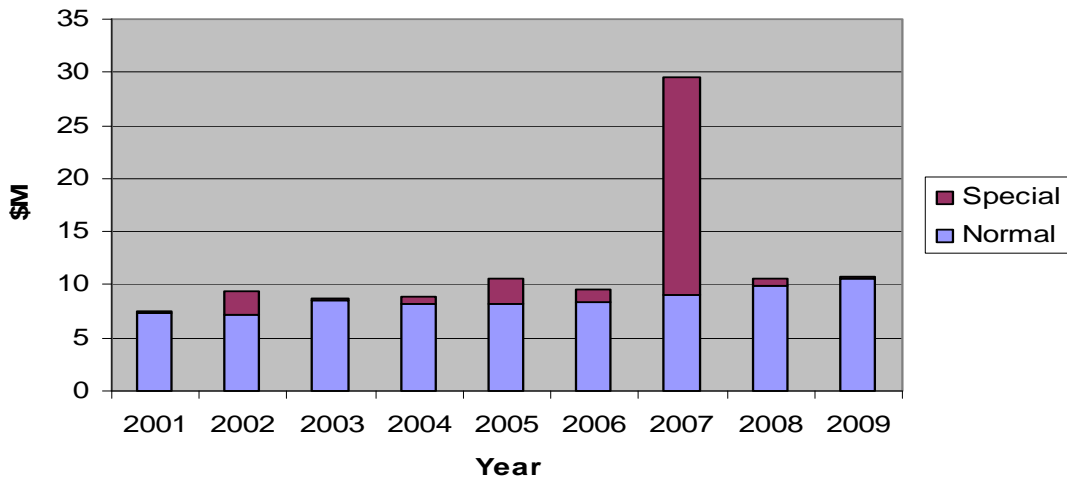


37. The dark line in the chart shows the movement in the value of the net assets of the Diocesan Endowment. In 1974, the net assets of the Endowment were about \$30 million, and, in 2009, about \$110 million. The dotted line is the value of the net assets of the Endowment in 1975, indexed each year by the changes in the Consumer Price Index. This represents the growth in the value of the Diocesan Endowment required to maintain the real value. In any year, where the actual net assets exceeds the value of the CPI Indexed 1975 Net Assets, the real value of the assets has increased. Conversely, if the actual net assets are less than the CPI Indexed 1975 Net Assets, the real value of the assets has declined.
38. Up until the end of the 1980s, the property of the Diocesan Endowment was mainly invested in commercial property assets. This led to a significant increase in the real value of that property during the favourable commercial property conditions of the late 1980s. This was followed by a major reduction in value in the early 1990s. Following that experience a more diversified investment portfolio was established.
39. The extent of the increase in the real value of the property of the Diocesan Endowment during the years 2002 to 2007 was attributable to very favourable investment markets accentuated by the gearing strategy by which borrowed money was used to boost the overall level of investments. While the Diocesan Endowment has taken deposits for many years, the level of gearing was boosted from 2002 onwards by borrowing money from banks.
40. The reduction in net assets in 2008 was a result of the large falls in investment markets, accentuated by the gearing in the balance sheet. In 2009, the net assets grew by 5.7%. However, the value of net assets remains significantly less than the value of the CPI indexed 1975 Net assets.
41. There was volatility in the investment markets during the months of May 2010. As a consequence, the year to date return for the Diocesan Endowment was a loss of \$3.8 million, and the net assets of the Endowment had declined to \$105 million as at that date.

Distributions from the Diocesan Endowment

42. Distributions to the Synod from the Diocesan Endowment are made each year to fund diocesan mission activities.
43. In March 2009 the Standing Committee accepted the GAB's recommendation to suspend the operation of clause 5(2) of the *Diocesan Endowment Ordinance 1984* which specifies a formula for calculating the distributions to be made. Rather, it was determined that distributions for 2010, 2011 and 2012 would be \$5,300,000 each year.
44. In April 2009 Standing Committee passed the *Diocesan Endowment (Special Distribution) Ordinance 2009* to give effect to the fixed lower rate of distribution for each of those 3 years.
45. In August 2009 the Standing Committee agreed to a slight revision of these distributions. The change increased the distribution in 2010 by \$100,000 to \$5,400,000, with a corresponding reduction in the following 2 years.
46. The following chart sets out the level of distributions from the Diocesan Endowment from 2001 through to 2009 –

Distributions Paid



47. In each year, the first component is the normal distributions determined according to the formula approved by Standing Committee. The second component is the special additional distributions approved by Standing Committee.
48. The most notable special distribution was an amount of \$20 million allocated to the Mission Property Committee in 2007. This money is being used to fund the acquisition of land for future church construction in new growth corridors and also to assist in some construction projects on existing church sites.
49. GAB considers that the distributions from the Diocesan Endowment remain too high for it to maintain the real value of the Endowment, and intends submitting to the Standing Committee before the end of 2010 a proposal to vary the principles by which distributions are made.

St James' Hall

Introduction

50. St James' Hall is a 14 storey office tower in Phillip Street, Sydney which is held on the trusts specified in the *St James' Phillip Street Property Ordinance 1962*. The building is the principal asset of the St James' Hall Fund. The parish of St James' King Street is entitled to occupy and receive the income from levels 1, 2 and 3. The income from the remainder of the building is distributed between the parish and the Synod in accordance with the provisions of the 1962 Ordinance, as amended from time to time.
51. The building is managed on behalf of GAB by Jones Lang LaSalle. The parish of St James' King Street is consulted in relation to major issues concerning the building, and receives regular reports about the management of the building.

Financial Results

52. For the year ending 31 December 2009, the St James' Hall fund recorded an operating surplus of \$1.6 million, but a total loss of \$1.154 million after a revaluation of the St James' Hall building was taken into account. Net assets of the fund reduced from \$19.6 million as at 31 December 2008 to \$17.51 million as at 31 December 2009.
53. The results of the St James' Hall fund can be summarised as follows, from the audited financial report –

\$000s	2009	2008
Revenue		
Rental income	2,559	2,444
Interest	4	6
Total Revenue	2,563	2,450

\$000s	2009	2008
Expenses		
Interest & Finance Charges	247	378
Property Expenses	809	822
Doubtful Debts	(265)	(40)
Audit Fees	13	24
Bad Debts	160	-
Total Expenses	964	1,184
Operating Surplus for Year	1,599	1,266
Fair value adjustment to property	(2,754)	(6,029)
Total Income / (loss)	(1,155)	(4,763)

54. St James' Hall was formally revalued as at 31 December 2009. The fall in the value largely reflected an increase in the market yield adopted by the valuer, and an allowance for the costs of re-leasing a number of floors in the building which expire in the next 2 years.
55. The balance sheet of the St James' Hall fund as at 31 December 2009 (with 2008 comparatives) can be summarised as follows –

\$000s	As at 31 December	
	2009	2008
Assets		
Current Assets		
Cash	157	184
Receivables	48	71
Non-Current Assets		
Investment Property	21,250	23,500
Total Assets	21,455	23,755
Liabilities		
Current Liabilities		
Payables	19	77
Loans	-	3,691
Income Distribution Payable	-	322
Non-Current Liabilities		
Loans	3,924	-
Total Liabilities	3,943	4,090
Net Assets	17,512	19,665

Distributions from the Fund

56. Distributions from the Fund are paid in accordance with the *St James' Sydney Phillip Street Property Ordinance 1962*. In 2008 an ordinance was passed to provide for the distribution of income earned from the fund in 2009. The intention of the ordinance was to ensure that distributions from the income of the building were set at sustainable levels, having regard to the need to meet expenses, service and repay the

debt of the Fund, and provide for future capital expenditure needs. A similar ordinance to provide for the distribution of income earned in 2010 and in subsequent years is to be considered by the Standing Committee in mid-2010.

Major Capital Expenditure

57. During 2009 a major project to refurbish all the toilets in the building commenced, after consultation with the tenants in the building. The project was successfully completed in March 2010. The cost of the project is the reason the debt of the Fund increased from \$3.69 million as at 31 December 2008 to \$3.92 million as at 31 December 2009. The debt of the Fund will be reduced in future years in accordance with a loan amortisation schedule agreed with the lender to the Fund.

JOHN CHAPMAN

**Secretary
For the Glebe Administration Board**

June 2010