

Glebe Administration Board

Diocesan Endowment Report on March 2011 Quarter Performance

Introduction

1. The purpose of this paper is to report on the investment performance of the Diocesan Endowment for the March 2011 quarter.

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. Having regard to this objective, in early 2010 GAB reviewed the investment objective for the Diocesan Endowment, the investment risk tolerance, the nature of the asset classes in which the Diocesan Endowment invests, and the strategic asset allocations for those asset classes. In undertaking this review GAB was assisted by its asset consultant, Mercer Australia Pty Limited.
3. The asset consultant has recently undertaken its first annual review of the strategic asset allocation of the Diocesan Endowment having regard to the investment objective. Minor changes to the strategic asset allocation were recommended. These are referred to later in this paper.
4. These recommendations have been incorporated into a revised Investment Policy Statement for the Diocesan Endowment which was approved by the GAB on 30 March 2011. A copy of the revised Investment Policy Statement can be found on the website at <http://www.sds.asn.au/Site/104303.asp?ph=cb>.

Investment Objective for the Diocesan Endowment

5. 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.”
6. Further explanation about the investment objective is set out in the Investment Policy Statement.

Asset Classes and Strategic Asset Allocation

7. As mentioned, the asset consultant recently undertook a review of the strategic asset allocation of the investments of the Diocesan Endowment. The recommendations arising from that review were as follows –
 - a) because of the illiquidity of the St Andrew’s House investment, to re-set the neutral asset allocation of that investment on an annual basis to reflect its actual allocation; and
 - b) for operational reasons, to make a specific asset allocation for cash for investment purposes.

8. Following the review, the property of the Diocesan Endowment is now invested in accordance with the following asset classes, strategic asset allocations and asset class ranges –

Asset Class	Min %	SAA %	Max %
Australian Shares	15	23	35
Overseas Shares – Developed	0	16	28
Overseas Shares – Emerging	0	2	5
St Andrew’s House ¹	20	29	30
Legacy Assets ²	0	0	3
Total Growth Assets	50	70	80
Australian Sovereign Bonds	0	9	20
Overseas Sovereign Bonds	0	7	20
Banking Services (net capital) ³	10	13	20
Investment Cash (not included in Banking Services)	0	1	30
Total Defensive Assets	20	30	50

Notes:

1. GAB, as trustee of the Endowment, is a holder of 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 legacy assets comprise a range of assets currently held by GAB which are being realised when the opportunity permits. The value of the legacy assets is now about \$50,000.
3. The strategic asset allocation for the banking services reflects the amount of capital of the Endowment allocated to the banking services activities (lending, deposit taking and treasury activities) undertaken by the Endowment.

Invested Funds

9. 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.
10. 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

11. 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.

12. The oversight of the investment in St Andrew's House, the management of the Legacy Assets, the undertaking of Banking Services and the management of cash is undertaken by staff of Sydney Diocesan Secretariat on behalf of GAB.

Measurement of Performance

13. The performance of each of the asset classes is monitored according to the indices referred to in paragraph 17.

Risk

14. 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. As has been mentioned an annual review of the strategic asset allocation has recently been completed.

Investments of the Diocesan Endowment – March 2011 Quarter

15. The following table sets out the investments of the Endowment as at 31 March 2011 and 31 December 2010 –

Assets	SAA as at 31 March 2011	As at 31 March 2011		As at 31 December 2010	
	%	\$000s	% weight	\$000s	% weight
Growth Assets					
Australian Shares	23	26,050	23.4	26,752	24.4
Overseas Shares – Developed	16	18,167	16.3	17,530	16.0
Overseas Shares – Emerging	2	2,277	2.0	2,820	2.6
St Andrew's House	29	32,048	28.8	31,629	28.8
Legacy Assets	0	1,031	0.9	1,032	0.9
Total Growth	70	79,573	71.4	79,763	72.6
Defensive Assets					
Australian Sovereign Bonds	9	9,950	8.9	9,953	9.1
Overseas Sovereign Bonds	7	4,317	3.9	4,297	3.9
Banking Services	13	13,073	11.7	14,070	12.8
Investment Cash	1	4,533	4.1	1,736	1.6
Total Defensive	30	31,873	28.6	30,056	27.4
Total (Net Assets)	100	111,446	100.0	109,819	100.0

Investment Performance

16. The performance of the portfolio on a year to date basis and for the 9 months ended 31 March 2011 was as follows –

Assets	Year to Date %			9 months ended 31 March 2011 %		
	Return (after fees)	Index	Variance	Return (after fees)	Index	Variance
Growth Assets						
Australian Shares	3.3	3.1	0.2	14.1	16.9	(2.8)
Overseas Shares – Developed (hedged)	4.2	4.8	(0.6)	25.4	26.0	(0.4)
Overseas Shares – Developed (unhedged)	3.3	3.9	(0.6)	4.7	5.7	(1.0)
Overseas Shares – Emerging (unhedged)	(2.9)	1.1	(4.1)	1.3	5.6	(4.3)
St Andrew's House	1.3	2.7	(1.4)	14.8	6.6	8.2
Legacy Assets	1.3	2.7	(1.5)	7.0	6.6	0.4
Defensive Assets						
Australian Sovereign Bonds	1.8	1.8	0.0	2.1	2.1	0.0
Overseas Sovereign Bonds (hedged)	0.5	0.5	0.0	2.5	2.5	0.0
Banking Services	4.5	3.6	0.9	13.6	11.1	2.5
Cash	2.0	1.2	0.8	5.1	3.5	1.6
Total Return on Net Assets Vs Weighted Index	2.5	2.7	(0.2)	11.6	10.2	1.4

17. 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)
Legacy Assets	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)
Banking Services	Benchmark return of 15% pa
Cash	Reserve Bank of Australia cash rate

Comments on Externally Managed Investments

18. Mercer has reported in writing to GAB about the performance of the investments in the Mercer multi-managed funds for the March quarter, and made 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

19. 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 benchmark during the March quarter primarily due to a stronger performance by the financial sector, to which the Fund has an overweight position compared to index.

Overseas Shares – Developed

20. The investments of the Mercer Overseas Shares Fund, in which the Endowment invests, are invested through the funds of 8 underlying investment managers. The Fund modestly underperformed the index during the March quarter due to underweight positions in energy stocks, and an underweight exposure to France and Canada which were 2 of the better performing markets during the quarter.

Emerging Markets

21. The investments of the Mercer Australian Sovereign Bond Fund, in which the Endowment invests, are invested through the funds of 2 underlying investment managers. The Fund underperformed the index during the March quarter primarily because of an overweight exposure to the Egyptian market and an underweight exposure to the better performing energy sector.

Australian Sovereign Bonds

22. The investments of the Mercer Australian Sovereign Bond Fund in which the Endowment invests, are invested through the funds of 2 underlying investment managers. The Fund modestly outperformed the index during the March quarter because of the short duration strategy of one of the underlying investment managers.

Overseas Sovereign Bonds

23. The investments of the Mercer Overseas Sovereign Bond Fund are made through the funds of 2 underlying investment managers. The Fund modestly underperformed the index during the March quarter.

Comments on Internally Managed Investments

24. The following comments are made about the St Andrew's House and banking services asset classes, which are managed by staff of Sydney Diocesan Secretariat.

St Andrew's House

25. The value of the interest in the St Andrew's House fund increased significantly, principally by reason of the retention of cash in the St Andrew's House fund in anticipation of major works to be undertaken later in the year.

Banking Services

26. Banking services comprises the lending, deposit taking and treasury activities undertaken by the Endowment. For prudential purposes, a portion of the capital of the Endowment is allocated to banking services – that portion is 12.5% of the total amount of the loans made by GAB from time to time. The return on capital is ahead of the index because the amount of capital allocated is decreasing because of a reduction in the total amount of loans made by GAB.

Performance having regard to the Investment Objective

27. The investment objective for the Diocesan Endowment (set out in paragraph 4 of this report) can be broadly restated as the maintenance of the real value of the capital of Endowment and an additional return of 5% per annum for spending by the Synod and paying of the expenses of the Endowment.
28. The restructure of the investments of the Endowment (in particular, the settling of revised investment policies including approved asset classes and the adoption of a new strategic asset allocation) was undertaken in June 2010. Over the period 30 June 2010 to 30 March 2011, the value of the net assets of the Endowment increased from \$103.4 million to \$111.5 million. Accordingly, given the current inflation rate (of about 3% per annum), the real value of the net assets of the Endowment has been maintained over that period.

MARK PAYNE
Chief Executive Officer

18 May 2011