

# About Your Invested Funds

## March 2020 Update

### Your invested funds

The capital of each Client Fund held by the Anglican Church Property Trust Diocese of Sydney ("ACPT") is invested in one or both of a Diocesan Cash Investment Fund Account ("DCIF") with the Glebe Administration Board, or the Long Term Pooling Fund ("LTPF").

The purpose of this circular is to report about the performance of the LTPF and the DCIF.

### Investment protocol

When new monies are received for investment, ACPT will liaise with the Wardens/Authorised Officers of the relevant parish/diocesan organisation to determine when the invested funds are expected to be required. The funds will then be invested in either DCIF and/or into the LTPF in accordance with the following protocol –

- a) funds expected to be required within a five year horizon are invested into the DCIF, and
- b) funds that are not expected to be required within five years are invested into the LTPF.

A letter is sent to the relevant parish/diocesan organisation confirming the investment so that all stakeholders are appropriately informed.

### Investments in the Diocesan Cash Investment Fund

Investments in the DCIF receive quarterly interest payments based on the net income earned during that quarter. The Investment Objective for the DCIF is to return the RBA cash rate + 0.06% (0.31%) on an annualised basis. The March 2020 quarterly distribution of 0.2065 cents per unit was paid on 14 April 2020 and represents an annualised return of 0.798% per annum, which exceeds the Investment Objective by 0.488% per annum.

### COVID-19 and related matters

The quarterly distribution above reflects the easing of official cash rates by the RBA in response to COVID-19 associated issues during the quarter. The comparative amount for the December 2019 quarter was 0.2714 cents per unit.

### Investments in the Long Term Pooling Fund

The LTPF is constituted under the *Long Term Pooling Fund Ordinance 2012*. Clause 4 of that Ordinance states that the ACPT is to "invest, manage, and administer the LTPF and, in connection therewith, to maintain the real value of the LTPF".

The ACPT has adopted the following Investment Objective for the LTPF –

"To achieve a real rate of return of 3.5% per annum over rolling 5 year periods (after external investment management fees and tax effects) subject to –

- a) preserving the real value of a unit in the LTPF over a 10 year period with a 70% probability, and
- b) adopting a distribution policy that is consistent with this objective."

*Note – the Investment Objective was CPI + 4% per annum prior to 1 September 2017*

The ACPT considers that maintaining the "real value of the LTPF" is achieved by maintaining the real value of a unit in the LTPF and has determined that the maintenance of the real value of a unit in the LTPF is to be measured having regard to the movement in the unit price and the corresponding movement in the CPI – All Groups Index published by the Australian Bureau of Statistics over rolling 10 year periods. The Board periodically reviews the investment policy statement in consultation with the investment consultant and prescribes two measurement periods for adherence to the Investment Objective – by 1 July 2015 and again by 1 July 2020.

The investment objective was originally adopted with effect from 1 July 2010 and the average investment return to 31 March 2020 was 7.77 % per annum, net of external management expenses and adjusted for tax effects. Over the same period, the average inflation rate was 2.05 % per annum. Accordingly, the real rate of investment return for the period was 5.72% per annum which exceeded the Investment Objective.

## COVID-19 and related matters

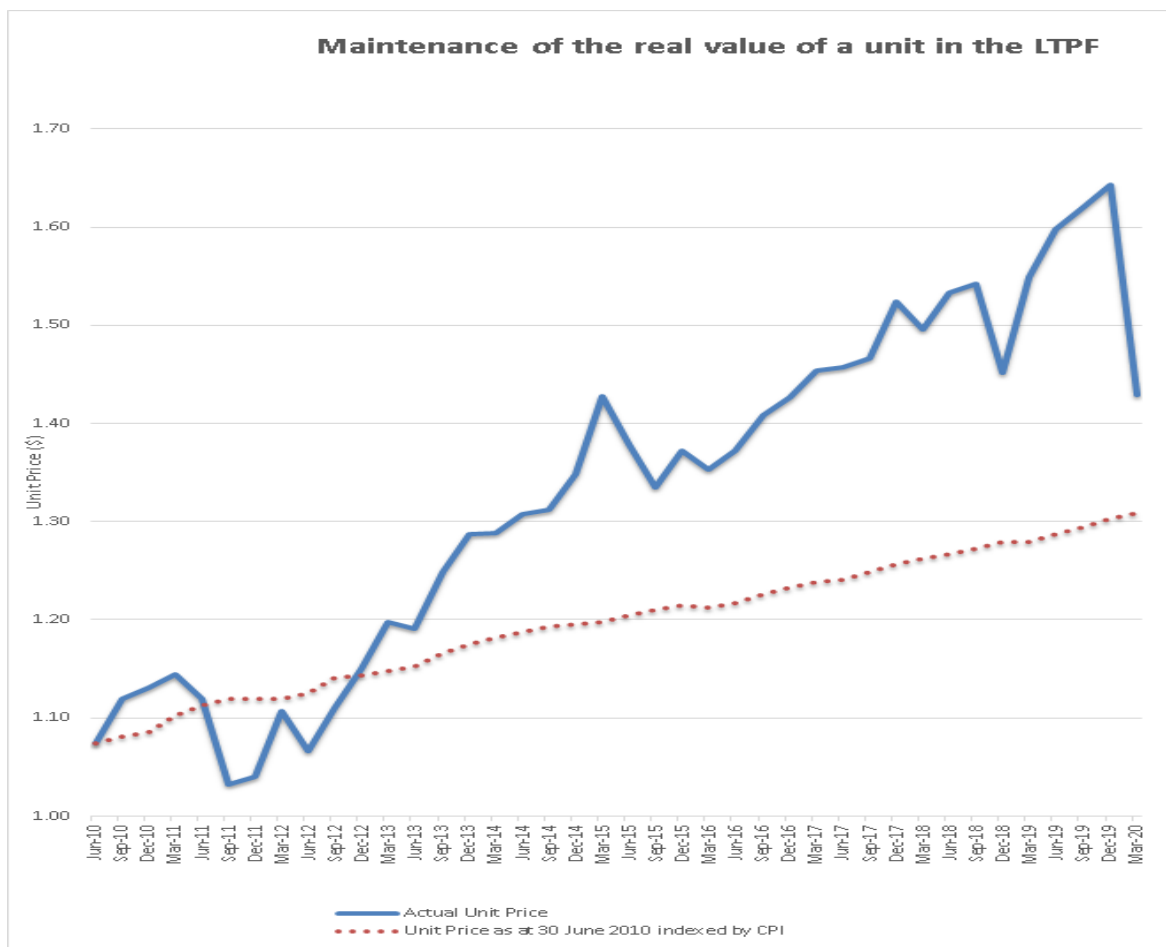
The performance of the LTPF has been adversely affected by COVID-19 associated issues during the March 2020 quarter, which also includes the effect of the RBA's reduction in official cash rates during the period. The value of a unit in the LTPF has fallen by 12.38% from 1.6311 as at 31 December 2019 to 1.4291 before the 31 March 2020 distribution. Putting this performance into some perspective, the ASX 200 and ASX 300 have fallen by 23.10% and 23.41% respectively over the quarter. The market weighted benchmark, which represents the return if all asset classes achieved a return equal to the market, fell by 12.61% over the quarter. The LTPF's asset mix is designed to buffer the portfolio during periods of volatility.

While the impact on the capital investment of a volatile unit price is generally only felt by investors when and if a redemption of units is made, from a distribution perspective, since the ACPT Board has previously set the quarterly distribution rate for all quarters ending 31 September 2020, there will be no impact on distributions that are declared during 2020. Moreover, the LTPF has sufficient cash on hand to pay all distributions and anticipated expenses for at least the next 2 years. The negative investment performance YTD is within the risk parameters set by the ACPT on advice from Mercer as documented in the LTPF Investment Policy Statement and is ahead of the real value maintenance objective from 1 July 2010.

The extent of any longer term deleterious impact on distribution rates beyond 2020, is expected to depend upon how long COVID-19 continues to impact economic markets between now and the September 2020 date on which the ACPT, in consultation with the investment manager, Mercer, sets distributions for 2021. This is because the modified Yale Formula that underpins the distribution setting process, has a weighted impact of the unit price over the past 3 years.

From 31 March 2020 to 14 April 2020, equity markets have experienced a reasonable rebound with Australian shares having increased by 8.2% and the U.S S&P 500 index having risen by 10.2%. The LTPF unit price is estimated to have grown by around 5.0% during this short time period. This said, the market continues to be extremely volatile and there is no certainty that the gains achieved over the first half of April 2020 will be sustained. More information about the investments of the LTPF is contained in Attachment 1.

## Maintenance of the real value of a unit in the LTPF



The graph plots the movement in the value of a unit price in the LTPF since 1 July 2010 and shows that over the period 1 July 2010 to 31 March 2020 the real value of a unit in the LTPF has been maintained. The unit price has grown by 2.97% per annum over that period.

The graph reflects the ACPT's deliberate decision, taken in consultation with the asset/investment manager, Mercer, to reduce distributions in response to the impact of the Global Financial Crisis (GFC) that commenced in late 2007 because continuation of distributions from the LTPF at historical levels would have prevented the real value of a unit from being maintained over the long term. As the impact of the GFC on the unit price of the LTPF that informs the LTPF distribution calculation ceased impacting the calculation during 2018, beneficiaries have seen a growing year by year distribution per unit since 2017.

As noted in the September 2019 Circular, with input from the investment adviser, Mercer, the ACPT approved quarterly distributions for the four quarters commencing the 1 October 2019 at 1.25 cents per unit (representing a 0.81% increase on the previous distribution rate). The March 2020 quarter distributions were paid on 16 April 2020.

### **Income distributions.**

Each quarter, income is received by your Client Fund from distributions from the DCIF and/or the LTPF, as applicable. Your Client Fund Distribution Statement for the September 2019 quarter contains information about the income received by your Client Fund for that quarter. The ACPT accounts for that income, after payment of its management fee, in accordance with the trusts upon which your Fund is held. In this regard, income is either distributed, retained or capitalised. Cash distributions from the LTPF are credited to the related DCIF, rather than being reinvested by way of acquisition of additional units in the LTPF, unless a specific request is received from the parish/diocesan organisation to the contrary.

Periodically, a review of the sums accrued in the DCIF is undertaken and, when balances exceed \$100,000, management contacts the parish/diocesan organisation to discuss the prospect of investing a portion of the DCIF funds into the LTPF. To that end, beneficiaries are also encouraged to actively monitor the timeframe within which invested funds might be required for a specific project, particularly if a project that requires units invested in the LTPF to be redeemed. Similarly, if circumstances have changed so that the horizon within which a project requiring invested funds has been deferred beyond 5 years, then beneficiaries are encouraged to consider the desirability of contacting the ACPT with a recommendation that the investment be transferred from "at call" to the LTPF.

### **Any comments?**

If you have any comments or questions about the investment of your Client Fund please contact us:

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**15 April 2020**

## Long Term Pooling Fund

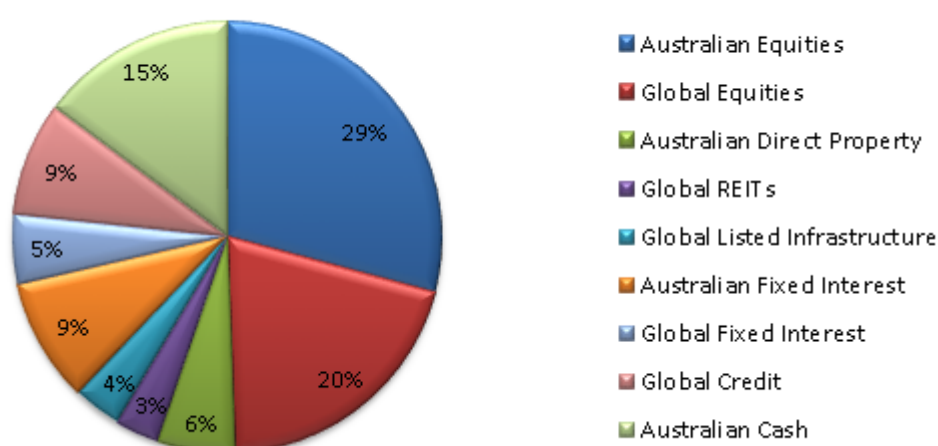
### Investment Objective

The Investment Policy Statement (“IPS”) for the LTPF sets out the investment objective for the LTPF, the permitted asset classes in which the property of the LTPF may be invested and the asset allocations. A copy of the IPS may be accessed by clicking [here](#).

### Investments of the LTPF as at 31 March 2020

The following graph shows the asset classes in which the property of the LTPF is invested as at 31 December 2019.

**Actual exposure as at 31 March 2020**



### Performance of the LTPF to 31 March 2020

	3 years (% pa)	5 years (% pa)	10 years (% pa)
LTPF	3.07	3.83	6.83
Weighted Index	2.65	3.34	6.33

### Monitoring and Supervision

ACPT receives investment advice from Mercer Group.

Individual investment funds held by the LTPF and the DCIF are managed by third party specialist fund managers appointed by Mercer.

The ACPT Board exercises ultimate oversight of the LTPF, while the Glebe Administration Board exercises ultimate oversight of the DCIF.