

# Glebe Administration Board

## Diocesan Endowment Report on Investment Performance – March 2012

### Introduction

1. The purpose of this paper is to report on the investment performance of the Diocesan Endowment for the March 2012 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 undertook a comprehensive review of 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. An annual review of the strategic asset allocation for the Diocesan Endowment is undertaken by the asset consultant. The second annual review has recently been undertaken and, as a consequence, changes to the strategic asset allocation have been adopted. These are referred to later in this paper.
4. These changes have been incorporated into a revised Investment Policy Statement for the Diocesan Endowment which was approved by GAB on 28 March 2012. 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. A further explanation about the investment objective is set out in the Investment Policy Statement.

#### ***Strategic Asset Allocation***

7. As a consequence of the second annual review of the strategic asset allocation undertaken by the asset consultant the following changes were made –
  - a. because of the illiquidity of the St Andrew’s House investment and the substantial increase in the value of that investment, it was necessary to reduce the exposure to Australian shares and overseas shares to maintain an overall allocation of 70% to growth assets in the portfolio; and
  - b. the exposure to overseas bonds has been reduced because it is considered that this asset class is overvalued, and the investment in cash has been increased as a consequence.

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

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

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 strategic asset allocation for the Deposit & Lending Services reflects the amount of capital of the Endowment allocated to the Deposit & Lending 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 –

<b>Asset Class</b>	<b>Mercer Investment Product</b>
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 undertaking of Deposit & Lending 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, the second annual review of the strategic asset allocation has recently been undertaken.

### Investments of the Diocesan Endowment – March 2012 Quarter

15. The following table sets out the investments of the Endowment as at 31 March 2012 and 31 December 2011 –

<b>Assets</b>	<b>As at 31 March 2012</b>		<b>As at 31 December 2011</b>	
	<b>\$000s</b>	<b>% weight</b>	<b>\$000s</b>	<b>% weight</b>
<b>Growth Assets</b>				
Australian Shares	23,884	20.0	23,619	20.6
Overseas Shares – Developed	14,306	12.0	16,752	14.6
Overseas Shares – Emerging	2,817	2.4	2,452	2.2
St Andrew's House	41,418	34.8	40,950	35.8
<b>Total Growth</b>	<b>82,425</b>	<b>69.2</b>	<b>83,783</b>	<b>73.2</b>
<b>Defensive Assets</b>				
Australian Sovereign Bonds	8,333	7.0	8,295	7.2
Overseas Sovereign Bonds	2,408	2.0	4,232	3.7
Deposit & Lending Services	12,500	10.5	11,588	10.2
Investment Cash	13,428	11.3	6,528	5.7
<b>Total Defensive</b>	<b>36,669</b>	<b>30.8</b>	<b>30,643</b>	<b>26.8</b>
<b>Total (Net Assets)</b>	<b>119,094</b>	<b>100</b>	<b>114,426</b>	<b>100</b>

## Investment Performance

16. The performance of the portfolio for the year ended 31 March 2012 was as follows –

Assets	Year ended 31 March 2012		
	%		
	Return (after fees)	Index	Variance
<b>Growth Assets</b>			
Australian Shares	(1.66)	(6.27)	4.61
Overseas Shares – Developed (hedged)	0.66	5.02	(4.36)
Overseas Shares – Developed (unhedged)	(2.31)	0.69	(3.01)
Overseas Shares – Emerging (unhedged)	(6.09)	(8.96)	2.87
St Andrew's House	29.23	7.29	21.94
<b>Defensive Assets</b>			
Australian Sovereign Bonds	10.23	11.08	(0.86)
Overseas Sovereign Bonds (hedged)	11.89	12.08	(0.18)
Deposit & Lending Services	22.77	15.00	7.77
Cash	6.27	4.56	1.71
<b>Total Return on Net Assets Vs Weighted Index</b>	<b>12.10</b>	<b>4.65</b>	<b>7.45</b>

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)
Australian Sovereign Bonds	UBSW Australian Treasury Bond Index (All Maturities)
Overseas Sovereign Bonds	JP Morgan Global Government Bond Index in \$A (Hedged)
Deposit & Lending Services	Benchmark return of 15% pa
Cash	Reserve Bank of Australia cash rate

## Comments on Externally Managed Investments

18. 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**

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 2012 quarter primarily due to a strong performance by one of the underlying managers because of stock selections. In addition, another of the underlying managers had an underweight exposure to resources stocks which helped relative performance because resources stocks underperformed the index during the March quarter.

20. The overall negative performance of the index over the 12 months to 31 March 2012 reflects the decline in the markets during the second half of 2012. But, over the 12 month period, the return for the Endowment's investment in Australian shares was significantly better than benchmark.

#### ***Overseas Shares – Developed***

21. The investments of the Mercer Overseas Shares Fund, in which the Endowment invests, are invested through the funds of 7 underlying investment managers. Both the hedged and the unhedged components of the Fund outperformed the index during the March 2012 quarter primarily due to stock selections by several of the underlying managers, and the exposure to emerging markets which performed strongly.
22. The overall modest performance of the indexes over the 12 months to March 2012 reflects the underperformance of markets in 2011 and the impact of currency movements on the unhedged portion of the portfolio. Over the same period, the return for the Endowment's investment in Overseas Shares – Developed was under benchmark primarily because of underperformance in the September and December quarters last year.

#### ***Emerging Markets***

23. 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 March quarter primarily because one of the underlying managers had an underweight exposure to China (which assisted performance). Another manager had an overweight exposure to the IT and energy sectors which benefited the portfolio.
24. The overall negative performance of the index over the 12 months to March 2012 reflects the significant decline in markets in 2011, which was offset (in part) by the strong performance in the March 2012 quarter. Over the same period, the Endowment's investment in Emerging Markets Shares outperformed the index, although the overall performance was negative.

#### ***Australian Sovereign Bonds***

25. 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 March quarter because of the short duration strategy of one of the underlying investment managers. However, overall, the Fund modestly underperformed the index over the 12 months to 31 March 2012.

#### ***Overseas Sovereign Bonds***

26. 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 March quarter. However, overall, the Fund modestly underperformed the index over the 12 months to 31 March 2012.

### **Comments on Internally Managed Investments**

27. The following comments are made about the St Andrew's House and Deposit & Lending Services asset classes.

#### ***St Andrew's House***

28. The value of the interest in the St Andrew's House Fund increased marginally during the March 2012 quarter, principally by reason of the retention of cash in the Fund to pay for major works, and the repayment of debt. The very strong performance of the Fund over the 12 months to 31 March 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.

***Deposit & Lending Services***

29. Deposit & Lending Services comprises the lending, deposit taking and treasury activities undertaken by the Endowment. For prudential purposes, capital of the Endowment is allocated to Deposit & Lending Services – as at 31 March the capital allocated was \$12.5 million.

MARK PAYNE  
**Chief Executive Officer**

18 May 2012