

# Glebe Administration Board as trustee for the Diocesan Endowment

## Investment Policy Statement

as at 1 June 2023

### Purposes of this Statement

1. The purposes of this statement are to –
  - (a) reflect the implementation of the Investment Beliefs Statement and Risk Appetite Statement as set by the Glebe Administration Board (“GAB”).
  - (b) outline the context and background matters relevant to the investment of the property of the Diocesan Endowment (“DE”) by GAB, and
  - (c) outline the responsibilities of different parties in relation to the investment of the DE, and
  - (d) state the investment objective and the spending policy adopted by GAB for the DE, and
  - (e) state the risk management metrics adopted by GAB for the investment of the DE, and
  - (f) state the permitted asset classes, the Strategic Asset Allocation (“SAA”), and the rebalancing policy, for the investments of the DE, and
  - (g) state the approved investment managers and pooled investment funds, and
  - (h) state the key policies adopted by GAB for the investment of the DE, and
  - (i) state the requirements for –
    - (i) the periodic review of the investments of the DE, and
    - (ii) the evaluation of the performance of the Asset Consultant and Investment Manager engaged to assist in the investment of the property of the DE (“Property”).

### Context and Background

#### *Trusts and Powers*

2. GAB is the trustee of the Property which is held on the trusts set out in the *Diocesan Endowment Trust Ordinance 2016* (“Ordinance”). By clause 4(1) of the Ordinance, the Property is held on trust for the purposes of the Anglican Church in the Diocese of Sydney.
3. By clause 4(2) of the Ordinance GAB must manage the DE so as to –
  - (a) preserve the real value of the DE, and
  - (b) subject to that requirement, enable distributions to be made in accordance with clause 6 of the Ordinance.
4. Clauses 4(3) and 4(4) of the Ordinance require GAB is to determine and notify the Standing Committee of the Synod a time frame over which the preservation of real value is to be measured, and a methodology for assessing whether the real value of the DE has been preserved. GAB has advised the Standing Committee of the Synod that it will -
  - (a) measure the preservation of real value over a 20 year rolling time frame (commencing from 1 July 2010), and
  - (b) assess whether the real value has been preserved by comparing the actual real value with the inflation adjusted value at the commencement of the relevant 20 year period at a 70% probability.
5. The powers of GAB in relation to the investment of the Property are set out in clause 7 of the Ordinance, including -
  - (a) to invest the Property in accordance with the *Trustee Act 1925* (NSW) provided that the Trustee must do so in accordance with any ethical investment policy approved by the Synod or the Standing Committee for the purposes of the investment of the Property, and
  - (b) to delegate the Trustee’s powers of investment to one or more asset consultants or investment managers (including authorising those asset consultants or investment managers to sub-delegate the Trustee’s powers of investment to one or more other investment managers).

6. A trust in which the Property is invested, or an underlying pooled product, must comply with the Ethical Investment Policy <https://portal.sds.asn.au/node/32017> approved by GAB on 23 March 2016 and endorsed by the Standing Committee of the Synod on 30 May 2016, as may be amended from time to time.

#### *Capital of the DE*

7. There are no regular material inflows of new capital into the DE.

#### *Spending and Synod Distributions*

8. Spending from the DE comprises the distributions to Synod and administrative and other costs (not including external investment management expenses). Synod distributions are provided for each year from the DE, to be paid at the direction of the Synod in the following year to fund activities of the Church.
9. For the calendar year 2022 and in each succeeding calendar year, the limit of annual spend from the DE is to be calculated using a modified Yale formula as follows -
  - (i) 70% (first Yale factor) of the average of the prior 3 years total spend (excluding special appropriation's) plus CPI indexation, and
  - (ii) 30% (second Yale factor) of the "spend rate" of the average quarter-end Portfolio Asset Value ("PAV") over the prior 5 years,

noting that –

- (a) The "spend rate" is the limit of spending stipulated in the Investment Objective in paragraph 14(b).
- (b) The calculation is to be undertaken having regard to the PAV available as at 31 December in the year which is two years prior before the year which distributions to Synod are to be paid.
- (c) The PAV is the summation of the market values of the assets in the DE, usually valued at redemption price.
- (d) The first quarter-end available for this calculation will be 30 September 2017, being the first quarter-end post the removal of the 50% interest in the St Andrew's House Trust ("SAHT").
- (e) The asset consultant will confirm that the results of the formula above complies with the probability of real value maintenance as stipulated in paragraph 14(a), on a forward looking basis.

The purpose of this spending formula is to provide a reasonable and relatively stable income from the DE consistent with the Investment Objective.

10. GAB will recommend to the Standing Committee each year the amount of the distribution to be provided for in that year for spending by the Synod in the following year, having regard to the principal objective specified in clause 4(2) of the Ordinance and, in particular, the distribution formula in paragraph 9 which assists the requirement to maintain the real value of the Property.

#### *Other matters*

11. The DE is exempt from tax on Australian income and capital gains and derives economic benefit from imputation credits attached to dividends from investment in shares of Australian companies; but it cannot claim foreign tax credits.

#### *Asset Consultant*

12. GAB has appointed Mercer Investments (Australia) Limited as its asset consultant to provide advice on high level strategic issues concerning the investment of the DE, including the investment objective, risk tolerance, SAA, asset class investments and the distribution policy of the DE.

#### *Investment Manager*

13. GAB has appointed Mercer Investments (Australia) Limited as its Investment Manager –
  - (a) to provide advice on and assist with the implementation of the investment arrangements approved by GAB, and
  - (b) to monitor and report on all aspects of investment performance.

## Responsibilities

Party Responsible	Main Responsibilities
Synod / Standing Committee	<ul style="list-style-type: none"> <li>• Makes ordinances relating to the trusts of the DE, and the objects and powers of GAB in relation thereto.</li> <li>• Approves distributions from the DE, by ordinance.</li> <li>• Approves Ethical Investment Policy from time to time for the purposes of clause 7(2) of the Ordinance.</li> </ul>
Glebe Administration Board	<ul style="list-style-type: none"> <li>• Approves the Investment Policy of the DE, including the investment objective, SAA, the rebalancing policy and approved asset classes.</li> <li>• Approves the appointment of the Asset Consultant and the Investment Manager.</li> <li>• Approves pooled investment funds operated by the Investment Manager.</li> <li>• Instructs the Investment Manager on specific reporting requirements.</li> <li>• Receives periodic reports from SDS and the Investment Manager.</li> <li>• Recommends distributions to Synod and the Standing Committee.</li> <li>• Recommends changes to the Ethical Investment Policy from time to time</li> <li>• Notifies Standing Committee of any amendments that are made to the time frame or methodology from time to time in relation to clause 4(3) of the Ordinance.</li> </ul>
SDS	<ul style="list-style-type: none"> <li>• Assists the other parties in this table fulfil their responsibilities.</li> <li>• Assists with the implementation of transitions.</li> <li>• Directs rebalancing of investments, when required.</li> <li>• Provides services to GAB in relation to the administration of the DE generally.</li> </ul>
Asset Consultant	<ul style="list-style-type: none"> <li>• Provides services in accordance with the terms of appointment.</li> <li>• Provides proactive advice on continued suitability of investment policy and spending policy.</li> <li>• Attends meetings, where required.</li> </ul>
Investment Manager	<ul style="list-style-type: none"> <li>• Manages investment managers and reports on performance.</li> <li>• Advises on rebalancing of investments, when required.</li> <li>• Attends meetings where required.</li> </ul>

## Investment Objective

14. The investment objective for the DE is –

“To achieve a real rate of return over rolling 20 year periods of 3.5% per annum net of external investment management expenses and adjusted for tax effects, subject to –

- (a) preserving the real value of the DE over rolling 20 year periods with a 70% probability, and
- (b) the sum of the distributions from the DE plus administrative and other costs (not including external investment management expenses) not exceeding 3.5%, on average, over rolling 5 year periods.”

*The GAB notes that the 70% probability over rolling 20 year periods is dependent on a number of assumptions from the Asset Consultant which include inflation, capital market returns, interest rates, etc. If the measure drops below 70% then GAB will liaise with the Asset Consultant about an appropriate response such as updating the rebalancing policy or capital market assumptions prior to constructing any new SAA.*

15. In accordance with clause 4(3) of the Ordinance, the GAB measures the preservation of real value over a 20 year rolling time frame (commencing from 1 July 2010), and assesses whether the real value of the DE has been preserved by comparing the actual real value with the inflation adjusted value at the commencement of the relevant 20 year period at a 70% probability.
16. For the purpose of the investment objective, the “real rate of return” is to be measured as the excess of the nominal return above the corresponding movement in the CPI – All Groups Index published by the Australian Bureau of Statistics. “Real value” has a corresponding meaning.
17. External investment management expenses include investment management fees, custody fees and other similar expenses.
18. Returns are to be adjusted for tax effects by grossing-up for imputation credits that the DE can reclaim on dividends paid by Australian companies and deducting any withholding or similar taxes on overseas investments that the DE cannot reclaim.
19. The investment objective includes not only a return objective, but also a risk objective and a distribution policy. While each of these components is related, it is not necessarily appropriate to measure them over the same time periods.
20. Given the long term nature of the investment objective in paragraph 14, GAB will monitor the spending over a shorter time period, which has been determined to be 5 years.

## Investment Policies

### *Policy re Skill & Expertise of Managers*

21. The Investment Manager is to ensure that at all times the managers of the underlying pooled products display the skill and expertise of professional investment managers and have adequate resources to apply their particular strategy.

### *Confirmation re Compliance with Investment Policies*

22. The Investment Manager will provide a confirmation each year that the investments managed by the Investment Manager comply with GAB’s gearing, derivatives, hedging and ethical policies and policy re skill and expertise of managers. If the Investment Manager becomes aware that an investment managed by it does not comply with GAB’s investment policies, the Investment Manager is to advise SDS as soon as possible thereafter and provide recommendations about the action to be taken to rectify the non-compliance.

## Strategic Asset Allocation

### *General*

23. The following SAA has been determined for the investments of the DE –

<b>Asset Class</b>	<b>SAA %</b>
Long Term Pooling Fund (“LTPF”)	98
Cash	2

24. The following rebalancing policy has been determined for the investments of the DE and are based on SAA weights to avoid significantly shifting the portfolio without board oversight. These ranges set the limits for management. Cash is the other side of all rebalancing trades and therefore does not require a formal rebalancing process.
  - (a) Rebalance only when the asset class is greater than +/- 3% from the recommended SAA in force.
  - (b) As a rule of thumb, rebalance half of the way to the SAA position, to avoid overtrading and additional transaction costs in volatile markets.
  - (c) Management to be cognisant of any structural positions in the portfolio that should be maintained (such as the Loans legacy asset).

### *Externally managed investments*

25. The LTPF is a long term balanced investment vehicle managed by the GAB.

### *Other investments*

26. The other investments of the DE comprise the loan book which is due to be wound down by 2025 and cash.

27. Cash may be invested in the Diocesan Cash Investment Fund only.

### Investment Performance and Monitoring

28. The principal goals of performance monitoring are –

- (a) to assess the extent to which the DE's investment objective is being achieved,
- (b) to monitor asset allocation exposures against asset allocation benchmarks and the rebalancing policy,
- (c) to compare the performance of the funds managed by the Investment Manager against the performance of approved indices, and
- (d) to allow GAB to continually assess the ability of the Investment Manager and the portfolio structure to successfully meet the investment objectives for the DE.

29. The total return of the DE, adjusted for tax effects and after investment management fees, will be monitored over a range of time periods against the following benchmarks –

- (a) Over rolling 1 year periods: A composite benchmark calculated by the sum product of the DE's SAA and the relative benchmark returns.
- (b) Over rolling 5 and 20 year periods: Consumer Price Index + 3.5% pa.
- (c) Over rolling 5 and 10 years: SRP50 balanced (60-76) Index, which represents the Super Ratings Pension Indices, untaxed and after fees.

GAB may also use additional benchmarks to monitor the total return of the DE, adjusted for tax effects and after investment management fees.

30. Performance of the investments in the asset classes managed by the Investment Manager will be measured against comparable market indices. The benchmarks at the date of this policy are:

<b>Asset Class</b>	<b>Index</b>
LTPF	LTPF SAA weighted benchmark
Cash	The DCIF net investment return benchmark.

### Ongoing Review and Reporting

31. This Investment Policy Statement will be formally reviewed not less frequently than every 3 years.

### History of formally approved revisions to this Statement

32. Approved by GAB on 23 May 2023.