

GLEBE ADMINISTRATION BOARD

AS TRUSTEE FOR THE
DIOCESAN ENDOWMENT

ANNUAL
REPORT
2 0 1 6



OUR PURPOSE

We hold the property of the Diocesan Endowment on trust for the purpose of the Anglican Church of Australia in the Diocese of Sydney. As trustee of that property we act in a way which preserves the real value of that property and, subject to that requirement, enables the payment of distributions for spending by the Synod.

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2016 HIGHLIGHTS

- Surplus of \$13.71 million earned, being a return on opening equity of 9%
- Distributions of \$4.3 million paid for spending by the Synod
- Net assets increased to \$161.5 million from \$152.2 million

CHAIR'S REPORT



ROSS SMITH
CHAIR

It is my privilege to continue to serve as chair of the Glebe Administration Board, with fellow board members who are committed and engaged, and with a professional staff team led by Robert Wicks, the Acting Chief Executive Officer.

We remain focused on our mandate to maintain the real value of the property of the Diocesan Endowment and subject to that requirement, to pay distributions for spending by the Synod to fund the mission goals of the Diocese.

In 2016, the investment return on the portfolio for the year was a pleasing 10.2%. The net surplus was \$13.7 million (2015: \$13.15 million) and, after providing for the distributions of \$4.4 million to be paid in 2017, the net assets of the Diocesan Endowment increased to \$161.5 million as at 31 December 2016 from \$152.2 million as at 31 December 2015.

We aim to provide consistency in the level of distributions, particularly during a funding triennium, so that the Synod can budget with a reasonable level of confidence. A reliable level of distributions allows the Synod to make long term planning and budget allocation decisions that are strategic and important for the work of the Gospel. Subject to significant adverse market movements, our aim is to maintain the level of distributions, regardless of short term market fluctuations from long run average returns.

The Synod's current funding triennium commenced in 2016. In 2016 distributions of \$4.3 million were paid for spending by the Synod. We advised a distribution of \$4.4 million for 2017 (subject to any significant adverse market movements) and expect to be able to make distributions of a similar amount (with CPI adjustments) in 2018 and 2019.

For some years, GAB has operated a financial services business of which the Glebe Income Accounts have been part. Last year I reported that GAB determined to close the Glebe Income Accounts with effect from 30 June 2017, since the continued operation of those accounts could not be justified from a commercial perspective. In early 2016, GAB agreed to a transition plan for closing the Glebe Income Accounts which allows account holders a reasonable time to make alternative account arrangements.

In conjunction with the closure of the Glebe Income Accounts, we established the Diocesan Cash Investment Fund. This is our new treasury structure which will enable us to manage cash on behalf of diocesan organisations.

Further information about the closure of the Glebe Income Accounts and the establishment of the Diocesan Cash Investment Fund is set out in the Chief Executive Officer's report.

There were three changes in the membership of GAB during 2016:

- Mr Ian Miller, a member since 23 August 1999, and Mr Andrew McLoughlin, a member since 7 December 2009, retired in November 2016 when their terms of office came to an end. We are thankful to God for their service.
- Mr David Sietsma was appointed to the Board in November 2016. Further information about David (and other members) is set out later in this report. We look forward to his contribution to our work.

I am thankful also for the ongoing contribution of my fellow members to the work of GAB.

In November 2016 Mark Payne resigned as the Chief Executive Officer, having served in that role since 2010. I thank Mr Payne for his service to GAB. I also thank Robert Wicks and the other members of the management team for their continued commitment and servant-hearted approach to our work.

Above all we thank God for His continued blessing. We continue to pray that our work, and the funds generated by our work, will bring glory to His name in the Diocese and beyond.

ROSS SMITH

CHIEF EXECUTIVE OFFICER'S REPORT



ROBERT WICKS
ACTING CHIEF EXECUTIVE OFFICER

The Diocesan Endowment is a perpetual endowment to be preserved for the benefit of present and future generations.

For this reason, preserving the real value of the property of the Diocesan Endowment is a key objective of the Glebe Administration Board as trustee. In addition, the Diocesan Endowment remains a significant source of funding for the mission of the Diocese of Sydney, providing more than 75% of the funds distributed through the Synod allocations process each year.

An essential component of GAB's work therefore is determining the level of funding that can be made available to the Synod for spending while still meeting the overarching obligation of preserving the real value of the property of the Diocesan Endowment.

During 2016, GAB undertook the following key activities:

- Undertaking a 3 year financial review of the investment objective for the Diocesan Endowment. This review was undertaken with the advice of our asset consultant, Mercer Investments (Australia) Limited ("Mercer").
- Approving a revised Ethical Investment Policy outlining the principles we will consider in determining whether our investment in securities should be made or maintained.
- Implementing a plan for the orderly closure of Glebe Income Accounts by 30 June 2017.
- Establishing the Diocesan Cash Investment Fund as a new vehicle to enable cash to be managed on behalf of the Anglican Church Property Trust and other diocesan organisations.

- Updating the constitutions of GAB and the Diocesan Endowment so that they comply with modern standards and practices for corporate governance, current legislative requirements and, in the case of GAB, the Synod's Governance Policy for Diocesan Organisations.
- Reviewing GAB's risk register, including a review of the key business risks for GAB and the ratings assigned to these risks.

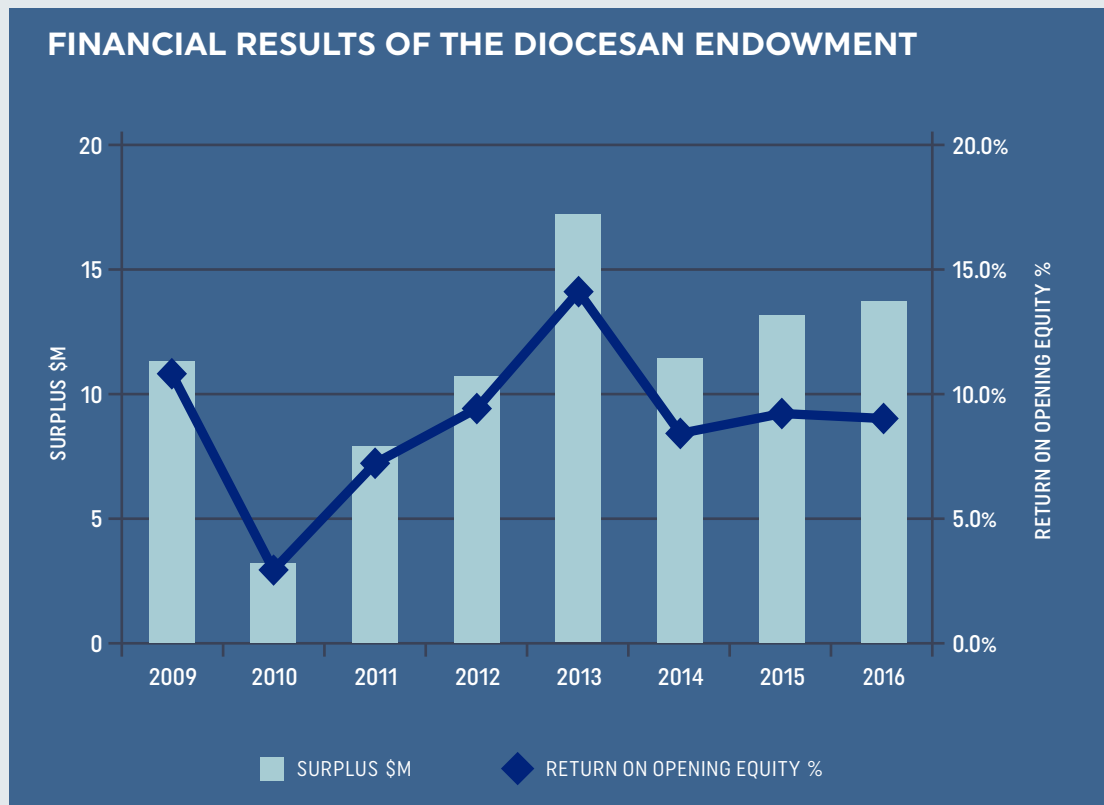
Further information about these activities is provided later in this Annual Report.

FINANCIAL PERFORMANCE OF THE DIOCESAN ENDOWMENT DURING 2016

The surplus of \$13.7 million earned in 2016 was a return of 9% on the opening equity of \$152.2 million.

This is consistent with the expected annual return for the portfolio over the long term.

The graph shows the financial results in recent years.



INVESTMENTS OF THE DIOCESAN ENDOWMENT

The Investment Policy Statement for the Diocesan Endowment sets out the objective and policies for the investment of the property of the Diocesan Endowment. A copy of that Statement can be found at www.sds.asn.au.

Mercer is the asset consultant to GAB and provides advice about the investment strategy for the Diocesan Endowment.

Investment objective

Every 3 years, a full review of the investment objective for the Diocesan Endowment is undertaken. We completed such a review in 2016 with the assistance of Mercer.

In undertaking their review, Mercer took into account two specific issues in relation to the strategic asset allocation of the Diocesan Endowment. Firstly, by reason of the changes in the valuation of the Diocesan Endowment's interest in the St Andrew's House Trust as at 31 December 2015, and the illiquidity of that interest, the allocation of the St Andrew's House interest had to be increased from 34% to 36%. Secondly, with the unwinding of GAB's financial services activities, the capital allocated to such activities was assumed to be reallocated to other defensive asset classes after 12 months.

Mercer also changed the basis upon which its long term asset class returns had been determined in previous years from "steady state" to "market aware" assumptions. The market aware assumptions represent Mercer's long term expected returns for each asset class but also take into consideration the current levels of the markets. Use of the market aware assumptions showed that on the basis of the current strategic asset allocation, the 10 year expected returns would fall from 7.9% to 6.9% per annum and the probability of achieving the current return objective of CPI + 4% per annum over the next years would fall from 72% to 63%.

As a consequence of this review we approved from 1 May 2016 a change in the investment objective for the Diocesan Endowment to reduce the investment return objective from CPI + 4% per annum to CPI + 3.5% per annum, and the spending limit objective from 4% per annum to 3.5%. The revised investment objective is as follows -

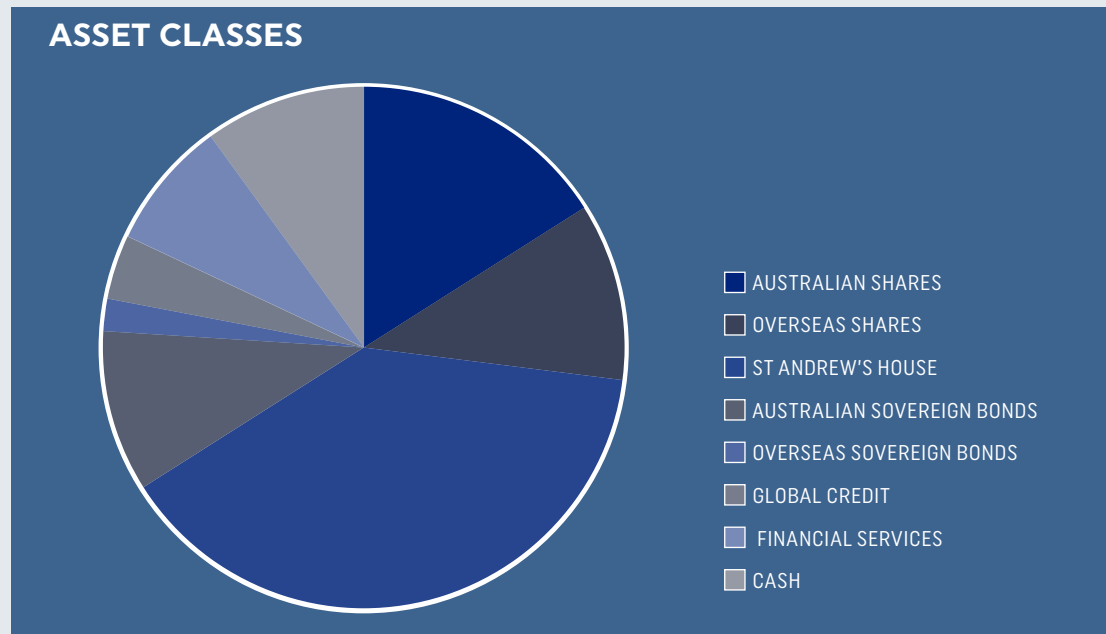
To achieve a real rate of return over rolling 5 year periods of 3.5% per annum net of external investment management expenses and adjusted for tax effects, subject to:

- a. preserving the real value of the 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 3.5%, on average, over rolling 5 year periods.

Asset classes

The property of the Diocesan Endowment is invested in a diversified range of asset classes in accordance with the Investment Policy Statement.

As at 31 December 2016, the property of the Diocesan Endowment was invested in the following asset classes.



The investments in the Australian Shares, Emerging Markets, Australian Sovereign Bonds, Overseas Sovereign Bonds and Global Credit asset classes are made through funds managed by Mercer and approved by GAB. Each of these funds is a multiman-ager fund, meaning that we invest in a Mercer fund which, in turn, invests in underlying funds operated by fund managers who specialise in the relevant asset class and provide further diversification. Each of these funds is actively managed.

The investments in the Overseas Shares asset class are largely undertaken through a passive (index based) fund rather than actively managed funds. This reduces the degree to which the performance of the Overseas Shares investment varies from the underlying index against which investment performance is measured.

The investment in St Andrew's House comprises a half interest in the St Andrew's House Trust, which is managed by St Andrew's House Corporation. The principal asset of the St Andrew's House Trust is the St Andrew's House building (office tower, car park and retail arcade). The return on this investment is largely impacted by the return from the St Andrew's House building.

The investment in Financial Services comprises the capital of the Diocesan Endowment allocated to provide prudential support for the Glebe Income Accounts and the lending and treasury activities undertaken by GAB. The undertaking of these activities earns a return on the capital which is part of the overall return of the investments of the Diocesan Endowment. Further comment about the future of the Financial Services activities is made later in this report.

Cash investments are made in a range of term deposits with authorised deposit taking institutions. As at 31 December 2016, the portfolio continued to have a higher

investment in cash, and a lower investment in Australian Sovereign Bonds and Overseas Sovereign Bonds, than the long term strategic asset allocation for the Diocesan Endowment contemplates. This reflects the relative unattractiveness of bond investments in the current environment.

Investment Performance

The returns in 2016 for each of the asset classes in which investments are made, and the corresponding benchmark returns were as follows:

ASSET CLASS	2016 RETURN	2016 BENCHMARK	VARIANCE
Aust shares	10.8	11.8	(1.0)
Overseas shares	8.6	9.2	(0.6)
Emerging Markets	11.6	11.7	(0.1)
St Andrews House	18.4	5.0	13.4
Aust Sov Bonds	2.4	2.5	(0.1)
Overseas Sov Bonds	5.7	5.8	(0.1)
Financial Services	(0.7)	0.0	(0.7)
Cash	2.6	1.7	0.9

The underperformance of Australian shares compared to benchmark was due to the underperformance of 2 of the 3 underlying fund managers. These managers are reviewed by Mercer taking into account their longer term performance and future plans. However it is to be noted that over the last 5 years, Australian shares have returned a net 14.4% per annum, compared to the benchmark return of 11.6% per annum.

The underperformance of Overseas Shares reflect an overweighting in the unhedged overseas shares asset class. The return for Financial Services reflects the reduction in total loan balances as a result of GAB's decision to withdraw from the business of making loans and the consequent insufficiency of income generated from treasury assets to cover the cost of financial services activities.

MONITORING AND REPORTING ON THE FINANCES AND INVESTMENTS OF THE DIOCESAN ENDOWMENT

GAB monitors and reports on the finances and investments of the Diocesan Endowment in a number of different ways.

Management liaises with Mercer and the investment accounting service provider several times per week about the investments of the Diocesan Endowment.

Reports about the finances of the Diocesan Endowment and the performance of its investments and Financial Services are provided by management to each meeting of GAB. Where necessary, reports about key issues are sent to members of GAB between meetings.

GAB meets with Mercer each quarter to review the investment performance of the relevant Mercer funds.

Each year, with the assistance of Mercer, GAB undertakes a "health check" of the portfolio to identify and review key issues. Every 3 years, a full review of the investment objective for the Diocesan Endowment is undertaken. The results of each annual and 3 yearly review are reported to the Standing Committee in detail.

Through me, GAB reports to the Standing Committee every quarter about the financial performance of the Diocesan Endowment.

GAB also provides reports each quarter to the Standing Committee about the investment performance of the Diocesan Endowment. Each report is posted on the website shortly after the meeting of the Standing Committee at which the report is considered. See www.sds.asn.au.

GAB considers that it has robust processes for the monitoring and reporting about the finances and investments of the Diocesan Endowment.

Ethical Investment Policy

Last year GAB undertook a full review of its ethical policy. The revised ethical policy was adopted by GAB in March 2016 and endorsed by the Standing Committee in May 2016 before being implemented.

The policy includes a positive statement as to the behavior which GAB will seek to encourage and take into account in determining whether an investment is made or retained. It also retains the "negative screens" (that is, the "disapproved businesses") set out in the former policy – alcohol, armaments, gambling, pornography and tobacco – and includes 3 additional "negative screens" – stem cell research involving the destruction of embryos, abortifacients and elective abortions.

Mercer reports on our compliance with the negative screens in the policy each quarter. There were no breaches reported in 2016.

In relation to climate change, the policy states an intention to reduce the carbon intensity of the Australian Shares component of the portfolio (compared to a benchmark set by reference to the ASX300) in accordance with predetermined targets. Although predetermined targets have not yet been set, as at 31 December 2016 the carbon intensity of the Australian Shares component of the portfolio was 35.9% below benchmark. It is proposed to similarly reduce the carbon intensity of other parts of the portfolio in due course.

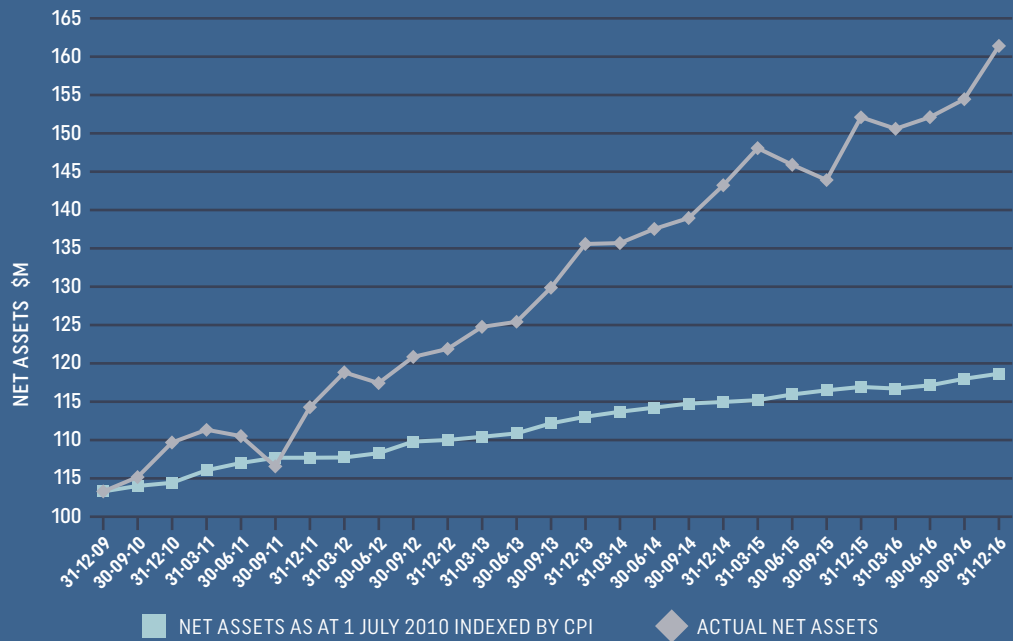
A copy of the ethical investment policy can be found at www.sds.asn.au.

MAINTENANCE OF THE REAL VALUE OF THE DIOCESAN ENDOWMENT

GAB measures its performance against the requirement to maintain the real value of the Diocesan Endowment from 30 June 2010, being the date from which the major restructure of the investment processes of the Diocesan Endowment was undertaken.

The movement in the net assets of the Diocesan Endowment since 30 June 2010 (after distributions for spending by the Synod and administration costs) is shown in the following graph.

NET ASSETS OF THE DIOCESAN ENDOWMENT

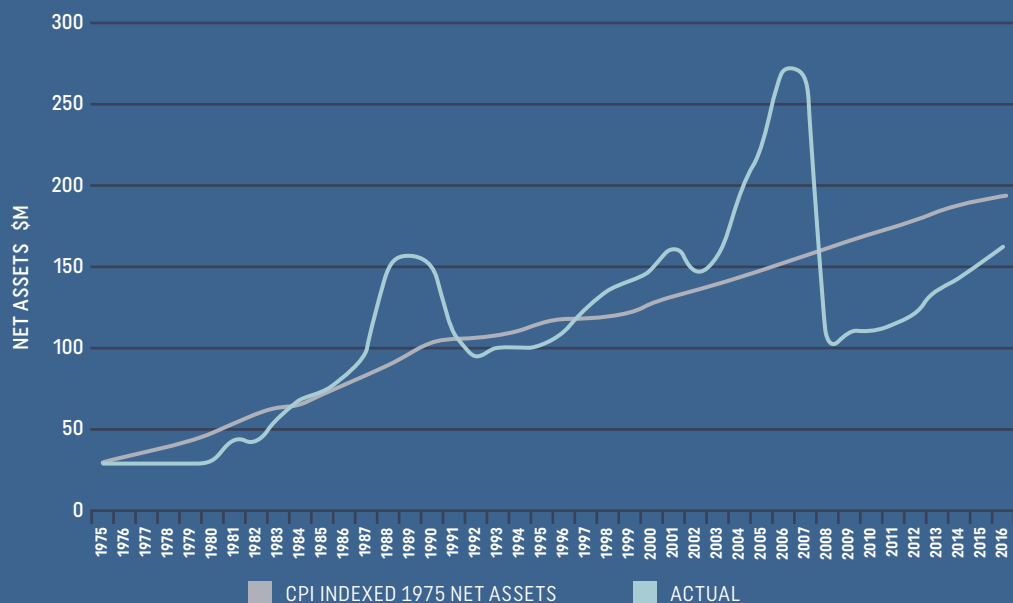


The graph shows that from 30 June 2010 to 31 December 2016 the real value of the net assets of the Diocesan Endowment has grown. The actual value of the net assets as at 31 December 2016 exceeded the value of the net assets as at 30 June 2010 indexed by movements in the Consumer Price Index to 31 December 2016.

However, the increase in the net assets of the Diocesan Endowment since 1 July 2010 needs to be considered in the context of the long term history of the Diocesan Endowment.

The movement in the net assets of the Diocesan Endowment since 31 December 1975 is shown in the graph below.

VALUE OF ENDOWMENT 1975-2016



The graph shows that notwithstanding the increase in the real value of the Diocesan Endowment since 2010 over the longer term (since 31 December 1975) the real value of the Diocesan Endowment has not been maintained. There are several reasons for this including the volatility of returns in investment markets (particularly the significant losses caused by the Global Financial Crisis of 2007-2009), and the past distribution policies of the Synod and GAB (which, in hindsight, resulted in an unsustainable level of distributions). Notwithstanding the pleasing financial results in recent years, there still remains a considerable gap between the value of the Diocesan Endowment as at 31 December 2016 and the value required if the real value had been maintained, from 31 December 1975.

The graph also shows the effect of the cyclical nature of investment markets on the value of the Diocesan Endowment and, in particular, that periods of significant growth in the value of the Endowment (generally by reason of strong market returns) are followed by periods where there is more subdued growth or even decline in the value of the Endowment (generally, because of flat or negative returns in investment markets). The strong growth in the value of the Diocesan Endowment since 2010 has corresponded with favourable investment market conditions.

Although capital markets have performed strongly in recent years, we have not experienced a full investment cycle since GAB started measuring the maintenance of the real value of the Diocesan Endowment in 2010. Given that the Diocesan Endowment is a perpetual endowment, GAB considers that a conservative spending policy (and, in particular, a conservative distribution policy) remain appropriate, notwithstanding the growth in the value of the Endowment in recent years.

Further comments about the spending from the Diocesan Endowment are made in the next section.

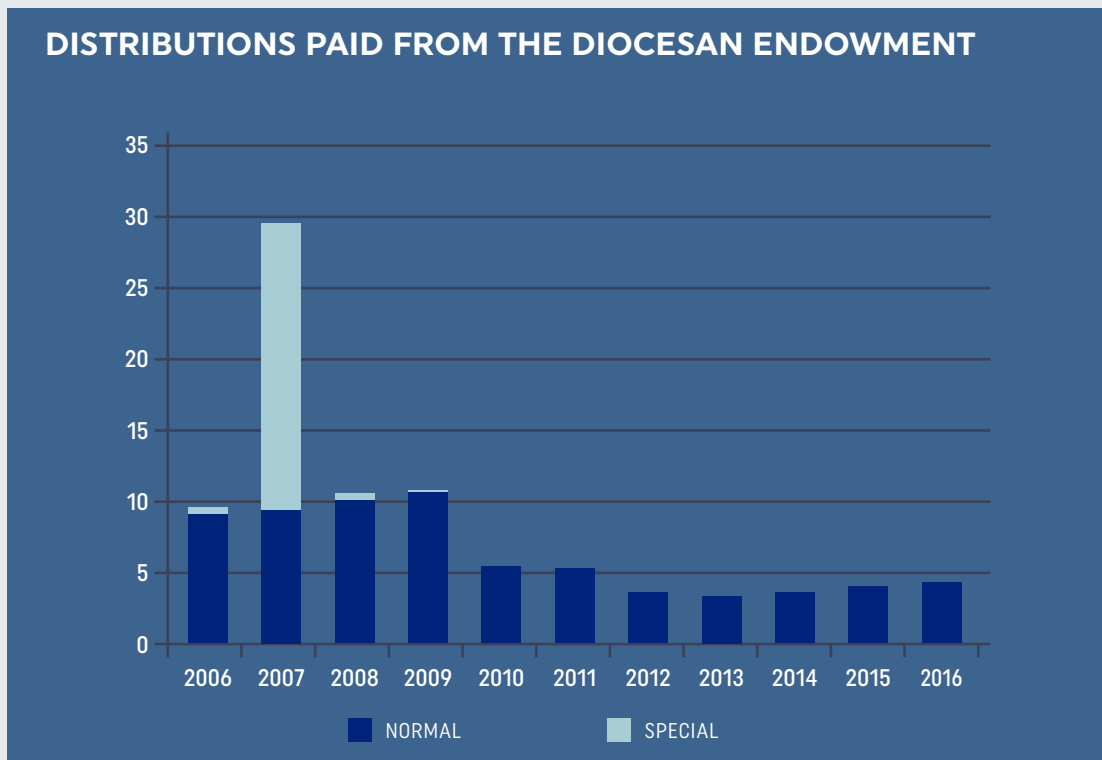
SPENDING FROM THE DIOCESAN ENDOWMENT

Spending from the Diocesan Endowment consists of the payment of the costs of administration of the Diocesan Endowment and the distributions made available for spending by the Synod.

GAB aims to limit the costs of administration to an amount which is not more than 1.1% of the net assets of the Diocesan Endowment. For this purpose the costs of administration are the total expenses of GAB less the expenses of Financial Services. The expenses of Financial Services are excluded for this purpose because they are taken into account in determining the return on the capital allocated to Financial Services.

In 2016, the costs of administration were \$1.2 million, being 0.76% of the net assets of the Endowment as at 31 December 2016.

In recent years, the distributions paid from the Diocesan Endowment for spending by the Synod have been as follows -



“Special” distributions are distributions directed by the Standing Committee for specific purposes. For example, a special distribution of \$20 million in 2007 was made for the purposes of acquiring greenfield sites and funding brownfield site redevelopments.

The graph shows that the amount of the distributions paid from the Diocesan Endowment declined significantly from 2009 to 2013. This reflects that, until recently, the distributions paid from the Endowment were too high for the real value of the net assets of the Diocesan Endowment to be maintained.

In 2016, a distribution of \$4.3 million was paid. GAB proposes that distributions from the Diocesan Endowment will now increase in a steady, sustainable way. A distribution of \$4.4 million will be paid in 2017.

FINANCIAL SERVICES ACTIVITIES

The Financial Services activities undertaken by GAB as trustee for the Diocesan Endowment comprise the taking of investments by way of the Glebe Income Accounts, and the making of loans and treasury investments with the proceeds of the amounts invested. GAB also allocates capital from the Diocesan Endowment as prudential support for these activities.

GAB earns a margin between the interest received on the loans and treasury investments, and the interest paid to investors in the Glebe Income Accounts. The margin, after the payment of the costs associated with providing the Financial Services, contributes to the overall financial results of the Diocesan Endowment.

The Financial Services activities are undertaken in accordance with GAB's Capital Allocation Policy, Credit Risk Management Policy and Liquidity Policy. These policies, based on standards issued by the Australian Prudential Regulation Authority ("APRA"), are reviewed by GAB each year with advice of an external consultant, Protecht.

Closure of Glebe Income Accounts

Following a review of the future of the Financial Services activities, last year GAB determined to undertake a staged closure of the Glebe Income Accounts.

The reasons for deciding to close the Glebe Income Accounts were as follows:

- a. The interest margin earned by GAB had reduced significantly, particularly since GAB withdrew from the business of making new loans in November 2013.
- b. Costs were increasing, particularly in maintaining transaction accounts for parishes.
- c. The decline in the interest margin earned, and the increasing costs, had resulted in a material reduction in the return earned on the capital allocated to the Financial Services activities. The return earned could no longer justify, from an investment perspective, the continuation of the Financial Services activities.
- d. APRA and the Australian Securities & Investments Commission both signaled an intention to amend the existing regulatory exemptions under which the Glebe Income Accounts operate to restrict the taking of investments from "retail" investors, with effect from 1 January 2018.

In February 2016, GAB agreed to a transition plan for closing Glebe Income Accounts in an orderly way by 30 June 2017. In particular, the plan gives account holders a reasonable time to make alternative account arrangements, and appropriately manage operational, liquidity and credit risk.

As at 31 December 2016, 411 retail at call accounts (of a total of 725) had been closed. The closure of Glebe Income Accounts will continue during 2017 and is expected to be completed by the target date of 30 June 2017.

Upon the closure of the Glebe Income Accounts, the capital presently allocated as prudential support for these financial services activities will be able to be reinvested in a way which earns a higher return than the return earned from undertaking those activities. Accordingly, the closure of the Financial Services activities is expected to enhance the return of the Diocesan Endowment.

Establishment of the Diocesan Cash Investment Fund

The closure of wholesale Glebe Income Accounts, being the transaction and term accounts held by Anglican Church Property Trust Diocese of Sydney and other diocesan organisations, is tied to a new internal treasury structure for the management of cash on their behalf called the Diocesan Cash Investment Fund (DCIF). The DCIF was established by the Standing Committee in August 2016. Unlike the Glebe Income Accounts, the DCIF does not form part of the Diocesan Endowment and is therefore a separate trust held by the GAB. The DCIF will become operational in the second quarter of 2017.

CONSTITUTIONAL UPDATE

At GAB's request in May 2016, the Standing Committee of the Synod passed the Diocesan Endowment Trust Ordinance 2016 and the Glebe Administration Ordinance 1930 Amendment Ordinance 2016. These ordinances updated the constitutions of the Diocesan Endowment and GAB so that they comply with modern standards and practices for corporate governance, current legislative requirements and, in the case of GAB, the Synod's Governance Policy for Diocesan Organisations.

In particular the amendments to GAB's constitution provided for the membership of the GAB to be separated from the membership of the Sydney Diocesan Secretariat. In due course, this will allow for members to be appointed to GAB solely on the basis of the skills needed by GAB. The amendments also prescribe a maximum term of continuous service for members of 14 years and require that a person sign a statement of personal faith in order to be eligible for election as a member.

CONCLUDING COMMENTS

GAB has continued to be able to achieve the preservation of the real value of the property of the Diocesan Endowment and the provision of reasonable, stable distributions for spending by the Synod. GAB continues to monitor its processes to ensure that an appropriate investment and governance framework is maintained where risk is monitored and managed, and there is ongoing timely reporting to key stakeholders. Within these parameters, GAB will continue to explore ways in which the returns from the Diocesan Endowment can be enhanced in future years.

ROBERT WICKS

CONSTITUTION AND CHARTER

GAB is constituted by the *Glebe Administration Ordinance 1930* and is incorporated under the *Anglican Church of Australia (Bodies Corporate) Act 1938*.

GAB is the trustee of the Diocesan Endowment which is property held on trust for the purposes of the Diocese under the *Diocesan Endowment Trust Ordinance 2016*.

By clause 4 of the *Diocesan Endowment Trust Ordinance 2016* –

- a. the Diocesan Endowment is held in trust for the purposes of the Anglican Church of Australia in the Diocese of Sydney, and
- b. GAB, as trustee of the Diocesan Endowment, is to act in a way which preserves the real value of the Diocesan Endowment and, subject to this requirement, enables distributions to be paid to the Standing Committee each year to be applied in accordance with the determination or direction of the Synod.

CHARITY STATUS

GAB as trustee of the Diocesan Endowment (ABN 84 797 589 118) is registered as a large charity under the *Australian Charities and Not-for-Profits Commission Act 2012* (the "ACNC Act").

An annual information statement for 2016 which complies with the ACNC Act has been given to the ACNC. In its capacity as trustee of the Diocesan Endowment, GAB is a basic religious charity under the ACNC Act which means that it is exempted from the financial and auditing requirements under the ACNC Act.

ACCESS

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
8.30 am and 5.30 pm.

STRUCTURE

Information about the membership of GAB is set out later in this Annual Report.

GAB has no employees. Administration, secretarial and accounting services are provided to GAB by Sydney Diocesan Secretariat on a fee for service basis. The executives of SDS with the greatest authority for the strategic direction and management of GAB are:

- **Robert Wicks** Acting Chief Executive Officer
- **Michael Blaxland** Chief Financial Officer
- **Isaac Kuruvilla** Head of Investments

The fees charged by Sydney Diocesan Secretariat to GAB for the supply of its services are reviewed as to reasonableness by the Finance Committee of the Standing Committee.

GOVERNANCE STANDARDS

GAB is committed to the highest standards of governance, which are fundamental to its sustainability.

In determining its governance standards, GAB has considered:

- The governance standards applying to charities registered with the ACNC.
- The "Corporate Governance Principles and Recommendations" (3rd Edition, 2014) published by the ASX Corporate Governance Council.
- The Governance Policy for Diocesan Organisations approved by the Synod on 20 October 2014, as amended from time to time.

GAB's governance standards are set out in its Governance Statement which can be found at www.sds.asn.au.

GAB's governance standards are set out below:

GOVERNANCE STANDARD 1

Object and Not-For-Profit character

Under the Glebe Administration Ordinance 1930 (the "1930 Ordinance") the object of GAB is to advance the purposes of the Anglican Church of Australia in the Diocese of Sydney by managing and controlling the property of the Diocesan Endowment in accordance with the trusts on which it is held, and by managing and controlling other property of which it is trustee from time to time in accordance with the terms of the relevant trusts.

Under the Diocesan Endowment Ordinance 1984 (the "1984 Ordinance"), the property of the

Diocesan Endowment is held by GAB on trust for the purposes of the Anglican Church of Australia in the Diocese of Sydney and, as trustee, the GAB is to act in a way which preserves the real value of the Diocesan Endowment and, subject to that requirement, enables distributions to be paid to the Synod in accordance with clause 6 of the 1984 Ordinance.

Under the 1984 Ordinance, GAB is to advise the Standing Committee each year of the amount which may prudently be distributed from the property of the Diocesan Endowment during the year which follows the year in which advice is given, having regard to the trusts set out in the 1930 Ordinance.

GAB is to pay the Standing Committee the amount so advised during the year which follows the year in which the advice is given, at such time or times as the Standing Committee determines. GAB is to provide this advice no later than 30 April each year. Amounts so paid by GAB are applied by the Standing Committee in accordance with the determination or direction of the Synod.

GOVERNANCE STANDARD 2

Roles And Responsibilities

The members of GAB, acting collectively, are responsible for:

- Providing leadership and setting the strategic objectives of GAB
- Appointing the Chairman and Deputy Chairman
- Appointing, and where necessary replacing, the Chief Executive Officer
- Approving the appointment, and when necessary replacement, of other senior executives
- Overseeing management's implementation of GAB's strategic objectives and its performance generally
- Approving operating budgets and major capital expenditure
- Overseeing the integrity of GAB's accounting and corporate reporting systems, including the external audit
- Overseeing GAB's process for making timely and balanced disclosure of information to its stakeholders
- Ensuring that GAB has in place an appropriate risk management framework and setting the risk appetite within which the members expect GAB to operate
- Monitoring the effectiveness of GAB's governance practices.

GAB has an Audit Committee to assist it in fulfilling its responsibilities. The main role of the Audit Committee is to monitor, report and make recommendations to GAB about the financial reporting processes of GAB, the internal control systems and the independent audit process. The charter of the Audit Committee is reviewed periodically by GAB.

GAB also has a Nominations Committee. The main role of the Nominations Committee is to make recommendations to GAB, for its advice to the Standing Committee, about the preferred skills and experience of a potential candidate to fill a vacancy in the members of GAB.

GAB has delegated to the Chief Executive Officer of Sydney Diocesan Secretariat and through the CEO to the other executive staff of SDS, responsibility for the day to day management of the business of GAB. The scope of that delegated authority, and the limits on that authority, is documented and reviewed periodically by GAB.

GOVERNANCE STANDARD 3

Membership of GAB

Under clause 5(1) of the 1930 Ordinance, the members of GAB consist of at least eight and up to ten members elected by the Standing Committee.

The name of each member, together with information about their qualifications and experience, is set out elsewhere in this report.

Appointment of Members

GAB is to have an adequate number of members with appropriate skills and commitment to adequately discharge their responsibilities and duties.

GAB, in making recommendations to the Standing Committee about the preferred skills and experience of candidates to fill vacancies in the office of member, has regard to the skills and experience required of a person to serve as a member of GAB.

The Standing Committee may appoint, as a member, a person other than a potential candidate recommended by GAB.

A person must sign a prescribed statement of personal faith to be eligible for election as a member.

Independence of members

No member of GAB is an employee of GAB or an entity which provides services to GAB (for a fee).

Each member of GAB is to be free from any business or other relationship that could interfere with the exercise of their unfettered and independent judgment as a member.

Each member is expected to disclose any business or other relationship which they may have with GAB.

Term of office

A member of GAB holds office for a term of 3 years. Eligible members may offer themselves for re-election by the Standing Committee (subject to a 14 year limit on continuous service as a member). GAB also makes recommendations concerning the reelection of any members by the Standing Committee.

Induction of members

On appointment, a member receives a letter of appointment which sets out the expectations of the member and the conditions of appointment. A member is also offered an induction program to familiarise them with matters relating to the business, strategy and any current issues before GAB.

The induction program includes meetings with the Chairman, the chairman of the Audit Committee, and the CEO and senior executives, as appropriate.

Meetings of members

The members of GAB meet quarterly during the year (February, May, August and November) and at other times when required.

GAB has operating protocols for its meetings which cover matters such as the business of the meeting, attendance at a meeting, and how matters are to be discussed and determined at a meeting.

The CEO attends all meetings. The Chairman, on the recommendation of the CEO, determines which other staff members or external consultants will be present at a meeting.

At each meeting, there is the opportunity for members of GAB to discuss matters in the absence of the CEO and other staff members.

Review of performance of members

The members of GAB regularly review their performance and effectiveness.

Learning & Development

GAB endorses and supports the appropriate development of its members, and expects that they will undertake ongoing learning and development which is relevant to their role as a member. GAB has a Member Learning & Development Policy which describes how GAB will support its members in undertaking learning and development.

Remuneration

A member is not remunerated for their services as a member.

Chair

The members appoint one of their number as Chair for a term which ends on the date set out in the resolution making the appointment, the third anniversary of appointment or otherwise when revoked by the board.

GOVERNANCE STANDARD 4

Accountability

GAB is to be accountable to the Archbishop, the Synod and the Standing Committee being the representatives of the Diocese of Sydney for whose purposes GAB is constituted.

In accordance with its obligations under the 1930 Ordinance, GAB:

- reports to the Standing Committee from time to time about its affairs, and
- provides the Standing Committee with such information regarding the affairs of GAB as the Standing Committee may require from time to time.

GAB also complies with the provisions of the Accounts, Audits & Annual Reports

Ordinance 1995 which include provisions as to reporting.

GAB publishes its annual financial statements, its annual report and quarterly reports about the investment performance of the Diocesan Endowment on its web site.

Archbishop

The GAB is to send a copy of the Agenda for each meeting to the Archbishop if requested by him. The Archbishop may attend meetings of GAB and put before its members any matter for their consideration and express his views on any matter being considered by the members. The Archbishop is not entitled to vote on any such matter.

GOVERNANCE STANDARD 5

Acting Ethically and Responsibly

GAB promotes ethical and responsible conduct.

Responsibilities of members to act ethically and responsibly

In undertaking their responsibilities, members of GAB are:

- to act with reasonable care and diligence
- to act honestly in the best interests of GAB and for its purpose
- not to misuse their position as members
- not to misuse information they gain in their role as members
- to disclose conflicts of interest
- to ensure the financial affairs of GAB are managed responsibly
- not to allow GAB to operate while it is insolvent.

The members of GAB collectively, and each member individually, may seek independent professional advice, at GAB's expense, to help them carry out their responsibilities. The Chairman's prior approval is required, but will not be unreasonably withheld.

Conflicts of interest

GAB's conflict of interest policy provides guidelines for recognising and managing potential conflicts of interest of members – all members are required to disclose any actual or potential conflict of interest upon appointment and are required to keep those disclosures to GAB up-to-date, and any member with a material personal interest in a matter may not participate in discussion or vote on that matter, unless GAB resolves otherwise.

In addition, staff of SDS are not permitted to participate in activities which involve a conflict with their duties and responsibilities or which are prejudicial to GAB.

GAB has entered into a service level agreement where, on a fee for service basis, SDS undertakes management responsibilities for GAB. In recognition of the conflict which exists because the members of SDS are also the members of GAB, GAB requests that the Finance Committee of the Standing Committee of the Synod review as to the reasonableness the quantum of the fee to be paid by GAB to SDS.

Compliance with Australian law

GAB is subject to a number of specific legal and regulatory obligations by reason of the activities it undertakes. GAB has identified those obligations and monitors compliance with those obligations.

Ethical Investment Policy

GAB invests the property of the Diocesan Endowment in accordance with its ethical policy set out in the Investment Policy Statement for the Diocesan Endowment.

GOVERNANCE STANDARD 6

Safeguard Integrity in Financial Reporting

Core principles

GAB's approach to financial reporting reflects the following core principles:

- its financial reports present a true and fair view
- its financial reports fully inform the members as to financial exposures
- its accounting methods are comprehensive and relevant and comply with applicable accounting rules and policies
- appropriate internal controls are maintained
- its external auditor is independent.

Integrity in the financial reporting system is maintained through:

- the work of the Audit Committee
- the work of the External Auditor
- CEO and CFO assurance.

Audit Committee

The Audit Committee reviews and assesses any significant estimates and judgments in financial reports and the processes used to monitor and comply with laws, regulations and other reporting requirements.

Members of the Audit Committee are chosen on the basis of relevant skills and experience. The Audit Committee has the flexibility to augment the skills and experience by appointing persons who are not members of GAB, subject to GAB approval.

The performance of the Audit Committee is reviewed as part of the annual performance review undertaken by members.

The Audit Committee may meet with the external auditors without management being present.

Given the relatively small size of GAB an internal audit division is not warranted. GAB has instituted internal controls and appropriate division of duties.

The accounting controls monitor for breaches of authority.

External Auditors

The role of the external auditor is to provide an independent opinion that the financial reports are true and fair and comply with applicable regulations.

The external auditor has access to the minutes and papers of GAB and its Audit Committee. The external auditor submits an annual declaration of independence to GAB. Any advisory services by the external auditor are detailed in the notes to the annual financial statements.

The external auditor attends all meetings of the Audit Committee at which a report is presented by the auditor about management, monitoring of financial risks, significant and unusual transactions, any correspondence with regulators and asset valuations.

CEO and CFO Assurance

The members of GAB receive a letter of representation, signed by both the CEO and the CFO of SDS, assuring GAB that in all material respects:

- the financial records have been properly maintained to correctly record and explain its transactions
- the financial statements and notes required comply with the accounting standards
- the financial statements and notes give a true and fair view of the financial position and of the performance of the organisation
- that appropriate internal controls and risk management systems are sound, and continue to run in an efficient manner
- that proper retention processes are in place to ensure these records are recoverable and useable for a period of seven years.

GOVERNANCE STANDARD 7

Recognise and Manage Risk

Risk Management

GAB regards managing the risk that affects its business as a fundamental activity, as it influences its performance, reputation and future success.

Effective risk management involves achieving an integrated and balanced approach to risk and reward, and assists GAB in achieving its objectives of optimizing financial growth and mitigating potential loss or damage.

Risk Management Roles and Responsibilities

GAB approves the organisation's risk identification and management strategy and periodically reviews that strategy.

The CEO and senior managers are responsible for implementing the risk management framework, systems, controls and procedures for identifying risk and management of risks adopted from time to time by GAB.

The CEO and senior managers ensure that risks are quantified, appropriate risk limits (tolerances) are set and that financial exposures are fully reported to GAB.

Compliance Reporting

GAB monitors its compliance with key risk matters, by requiring periodic confirmation certificates from management.

The compliance coverage and depth of review is reviewed in response to changing circumstances.

Compliance reporting is the responsibility of the Corporate Secretary of GAB.

Further information about risk management is set out in the next section.

CONFORMITY WITH SYNOD'S GOVERNANCE POLICY

The provisions of the Glebe Administration Ordinance 1930 and GAB's Governance Statement and other board policies generally conform to the requirements of the Synod's Governance Policy for Diocesan organisations. The main areas of non-conformity are –

- the minimum number of board members being 8 (rather than 9), and
- the absence of a provision which requires at least 2 board members to be clergy or to have formal theological education.

RISK MANAGEMENT

GAB has a risk register which identifies risk, current controls for managing risks, further action and the plan taking that further action. The risk register is reviewed by senior management and the board each year. The Chief Executive Officer, on behalf of the management, periodically certifies to the members of GAB about the adequacy of current controls.

1. The key risks of the business of GAB are:
2. Financial Services management risk
3. Insurance risk
4. Investment management risk
5. Operational risk – systems and processes risk
6. Regulatory and contractual risk
7. Reputation risk
8. Strategic risk

Financial control risks are managed primarily by Sydney Diocesan Secretariat, as an external service provider to GAB. GAB has reviewed the risk register of Sydney Diocesan Secretariat to ensure that it has identified financial control risks and has appropriate controls to manage those risks.

The nature of the key risks and existing controls is as follows:

FINANCIAL SERVICES – MANAGEMENT RISK

NATURE OF RISK	KEY CONTROLS
Inappropriate Financial Services strategy	<ul style="list-style-type: none"> GAB has determined to close the Financial Services activities
Inadequate governance procedures	<ul style="list-style-type: none"> Financial Services reports provided to each meeting of GAB Financial Services policies reviewed each year with the assistance of an external consultant
Failure of external service providers	<ul style="list-style-type: none"> Policy for the Procurement and Monitoring of Services from External Service Suppliers Annual compliance and Information Technology controls reports received from external providers
Failure to control costs and margins	<ul style="list-style-type: none"> Policy for the Procurement and Monitoring of Services from External Service Suppliers Annual Financial Services budget Monthly review of margins Review of costs on a monthly basis via management accounts Closure of Financial services business
Failure to maintain appropriate liquidity	<ul style="list-style-type: none"> Liquidity Risk Management Policy.
Failure to maintain adequate capital	<ul style="list-style-type: none"> Capital Allocation Policy
Failure to earn an adequate return on the capital allocated to Financial Services	<ul style="list-style-type: none"> Annual Financial Services budget Monthly review of margins Review of costs on a monthly basis via management accounts Closure of Financial services business
Risk of default by borrowers from GAB or treasury counterparts	<ul style="list-style-type: none"> Credit Risk Management Policy Periodic review and reporting to the Board about loans made by GAB

INSURANCE RISK

NATURE OF RISK	KEY CONTROLS
Failure to effect appropriate insurances in a timely manner	<ul style="list-style-type: none"> Insurance program managed by Anglican Church Property Trust Diocese of Sydney under the Church Insurances Ordinance 1981 Insurance renewals approved by GAB prior to the renewal date
Effecting insurance on inadequate or inappropriate terms	<ul style="list-style-type: none"> ACPT engages an external insurance broker to advise on terms or policies GAB engages its own external advisor to review the terms of its insurance every 3 years

INVESTMENT MANAGEMENT RISK

NATURE OF RISK	KEY CONTROLS
Inadequate governance procedures	<ul style="list-style-type: none"> • Investment Policy Statement. • Oversight by Management Investment Committee. • Service level standards/agreements with external service providers • Reports about investment management to each meeting of GAB • Quarterly meetings with Investment Manager.
Inadequate performance of investments	<ul style="list-style-type: none"> • Investment Policy Statement • Monthly reporting to management about investment performance • Quarterly reporting about investment performance by external investment managers • Annual review of investment performance
Failure to maintain the real value of the capital of the Endowment	<ul style="list-style-type: none"> • Investment Policy Statement • Triennial review of investment objective and strategic asset allocation undertaken with the advice of the asset consultant • Annual 'health check' of the investments of the Diocesan Endowment undertaken with the advice of the asset consultant • Annual reports to GAB about the performance against the investment objective • Annual review of distributions • Standing Committee special distribution policy
Lack of adequate cost control	<ul style="list-style-type: none"> • Annual budget • Monthly review of costs via management accounts
Risk of inappropriate investments	<ul style="list-style-type: none"> • Investment Policy Statement, including ethical investment policy • Due diligence of investment funds, and ongoing review of funds and fund managers

OPERATIONAL RISK – SYSTEMS AND PROCESSES

NATURE OF RISK	KEY CONTROLS
Inadequate financial services systems	<ul style="list-style-type: none"> • Use of reputable banking systems
Failure of external service providers	<ul style="list-style-type: none"> • Policy for the Procurement and Monitoring of Services from External Service Suppliers • Service level standards/agreements with key external service providers • Regular client relationship meetings with key third party suppliers • Receipt of annual compliance reports

REGULATORY AND CONTRACTUAL RISK

NATURE OF RISK	KEY CONTROLS
Non-compliance with significant regulatory obligations	<ul style="list-style-type: none"> • Compliance certification process for significant regulatory obligations • Internal Compliance Audit Plan • SDS authorised to act as GAB's agent for ACNC interactions • Investment staff trained annually in the latest banking regulatory obligations relevant to Financial Services • Annual compliance review for Anti-Money Laundering legislation • Annual external financial audit • Corporate policies reviewed regularly
Lack of awareness of proposed or actual changes to regulatory environment	<ul style="list-style-type: none"> • Receipt of legal / regulatory alerts through various sources • Participation in government reviews/enquiries
Key regulators review existing regulatory exemptions, impacting the ability of GAB to conduct Financial Services business	<ul style="list-style-type: none"> • Monitoring proposals of regulators and making submissions • Maintaining high level of liquidity in the Financial Services activities • Closure of Financial services business
Entry into legally or commercially adverse contracts	<ul style="list-style-type: none"> • Policy for the Procurement and Monitoring of Services from External Suppliers • Policy on approving and managing commercially significant contracts • Powers of attorney for GAB and its subsidiaries • Delegations for management to authorise or approve liabilities to be incurred • Policy on obtaining external legal services
Failure to manage significant contractual obligations	<ul style="list-style-type: none"> • Policy for the Procurement and Monitoring of Services from External Suppliers • Policy on approving and managing commercially significant contracts • Compliance certification process for commercially significant contracts • Management reports to GAB (investment services and financial services) • Internal Compliance Audit Plan

REPUTATION RISK	
NATURE OF RISK	KEY CONTROLS
Investment performance of the Diocesan Endowment fails to meet stakeholder expectations	<ul style="list-style-type: none"> • Periodic reporting to stakeholders about the investment performance of the Diocesan Endowment
Distributions from the Diocesan Endowment fail to meet stakeholders' expectations	<ul style="list-style-type: none"> • Annual reporting to Standing Committee about distributions, including 3 year forecast.
Being linked to an ethical, legal or management failure by an external service provider	<ul style="list-style-type: none"> • Policy for the Procurement and Monitoring of Services from External Service Suppliers • Policy on approving and managing commercially significant contracts
Ethical Investment Policy fails to reflect current stakeholder expectations	<ul style="list-style-type: none"> • Investment Policy Statement, which includes Ethical Investment Policy
Lack of understanding by the Standing Committee, and Archbishop and his leadership team about the work of GAB	<ul style="list-style-type: none"> • Periodic reporting about investment performance of the Diocesan Endowment • Some members of GAB and CEO are members of the Standing Committee • Regular meetings between Archbishop and CEO
Adverse media comment about Glebe Administration Board	<ul style="list-style-type: none"> • Policy on certain external communications
Adverse consequences for Glebe Administration Board by reason of being trustee of St Andrew's House	<ul style="list-style-type: none"> • St Andrew's House Corporation has now been appointed as trustee • St Andrew's House Corporation has assumed the rights and obligations of the Glebe Administration Board • Residual contractual risk may remain for Glebe Administration Board

STRATEGIC RISK	
NATURE OF RISK	KEY CONTROLS
GAB fails to achieve the dual objectives of maintaining the real value of the Diocesan Endowment and providing a reasonable income from there	<ul style="list-style-type: none"> • Investment Policy Statement which articulates the investment objective of the Diocesan Endowment • 3 yearly review of the investment objective undertaken with the advice of the asset consultant • Annual "health check" of the investments of the Diocesan Endowment undertaken with the advice of the asset consultant

MEMBERSHIP OF GLEBE ADMINISTRATION BOARD

The members of GAB comprise at least 8 and up to 10 persons elected by the Standing Committee of the Synod.

As at 31 December 2016, the members of GAB were:



Mr Mark Ballantyne

BEC, MBA, FIAA

Qualified Actuary; General Manager of Financial Wisdom with the Commonwealth Bank, having over 20 years' experience in all facets of financial services. Attends East Lindfield Anglican Church.

Board member since 2009.



The Rev Ted Brush

BTh, DipMin

Rector, Parish of Lower Mountains. Previously served on Standing Committee, Mission Board of the Standing Committee, Council of St Andrew's Cathedral School, George's River Regional Council and Finance & Loans Board. Originally trained as an electrical engineer with extensive experience in supply chain management both in Australia and internationally.

Board member since 2013.



Mr Greg Hammond OAM

BA (Hons), LLB (Hons), Assoc Deg Th

Consultant in banking and finance; formerly partner of King & Wood Mallesons, chairman of Anglican Community Services (t/as Anglicare Sydney) and Olive Tree Media; director of the Australian College of Theology, G&C Mutual Bank, NCNC Funds Limited and Opportunity

International Australia; Adjunct Fellow Macquarie University in the Applied Finance Centre; previous service on Diocesan and other not-for-profit boards and committees. Member of Macquarie Anglican Churches.

Board member since 2014.



Mr John Pascoe

BEC, FCA

Partner Pascoe Whittle Chartered Accountants; Member of Standing Committee, Finance Committee, St Andrew's House Corporation, St Andrew's Cathedral Chapter and Diocesan Resources Committee; Chairman Audit Committee. Attends St Andrew's Cathedral.

Board member since 2009.



Mr David Sietsma

BCom (Fin), Grad Dip AppFin and Investment SIA (now FINSA)

General Manager, Group Treasury at the Commonwealth Bank of Australia. 26 years in financial markets roles with Macquarie Bank, Deutsche Bank, BNP Paribas and Commonwealth Bank of Australia. Earlier experience focussed on trading portfolios covering commodities, foreign exchange, interest rate derivatives, corporate and sovereign fixed income and credit derivatives. Since joining the Commonwealth Bank in 2006 his focus has centred on balance sheet and portfolio management of the Group financial market risks. This has included roles as Executive Manager of Asset and Liability Management and Head of Investment Portfolios. He is currently Chair of the Council of Arden Anglican School. Attends All Saints Anglican Church, North Epping.

Board member since 2016.



Mr Ross Smith (Chair)

MAppFin, BEc, GAICD, Chartered Accountant

CEO, Anglican Schools Corporation. Previously CFO of Anglicare, Sydney. Brings 25 years' experience in Finance, Corporate Restructuring and Acquisition Advisory; Member of The Council of St Andrew's House Corporation. Member of Caringbah Anglican Church.

Board members since 2010.



Mr Andrew Stanley

BEC, LLB, MAppFin, CA, FINSA

Head of Australian Equities, Ralton Asset Management. Over 20 years' experience in financial structuring/investment banking and funds management. Previously a member of Anglican Funds Committee, Melbourne. Member of St Matthias Anglican Church Paddington.

Board member since 2014.



Bishop Michael Stead

BCom(Acc), BD(Hons), DipMin, PhD

Bishop of South Sydney; Member of Standing Committee Diocese of Sydney, Diocesan Representative on General Synod; Member of General Synod Standing Committee, Secretary of the General Synod Doctrine Commission. Prior to ordination, worked for PricewaterhouseCoopers from 1990-1996.

Board member since 2015.



Prof Peter Wolnizer OAM

BEC, MEc PhD, FCA, FCPA

Professor Emeritus at The University of Sydney; formerly Dean of the Faculty of Economics and Business (1999-2010) and Professor of Accounting. Chairman of the International Accounting Education Standards Board (2012-2014). Member Council of Moore College (2000-2004). Attends St Andrew's Cathedral.

Board member since 2012.

Mr Andrew McLoughlin and Mr Ian Miller retired as members of SDS in November 2016 upon the expiration of their terms of office.

