Glebe Administration Board

Diocesan Endowment
Report on Investment Performance – June 2013

Key Points

- During the 12 months ended 30 June 2013, the total return on the investment of the Diocesan Endowment was 10.23%, which was under the weighted average benchmark return of 11.48%.
- The main reason for underperformance compared to benchmark was the underperformance of the investment in the St Andrew's House Trust.
- The net assets of the Diocesan Endowment increased from $122 million as at 31 December 2012 to $125.5 million as at 30 June 2013.
- The major contributors to the increase in the value of the net assets were the Australian Shares and Overseas Shares asset classes.

Background

Investment Management of the Diocesan Endowment

1. The investment objective for the Diocesan Endowment is –

   "To achieve a real rate of return over rolling 5 year periods of 4% 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 4%, on average over rolling 5 years periods."

2. More information about the investment objective, the strategic asset allocation and GAB's investment policies is set out in the Investment Policy Statement for the Diocesan Endowment which can be found on the website at http://www.sds.asn.au/Site/104303.asp?ph=cb.

Investments of the Diocesan Endowment

3. The following table sets out the investments of the Endowment as at 30 June 2013 –

Assets	As at 30 June 2013	
	$000s	**% weight**
Growth Assets		
Australian Shares	22,178	17.7
Overseas Shares – Developed	15,318	12.2
Overseas Shares – Emerging	3,215	2.6
St Andrew's House	42,396	33.7
Total Growth	**83,107**	**66.2**

Defensive Assets		
Australian Sovereign Bonds	12,888	10.3
Overseas Sovereign Bonds	5,147	4.1
Financial Services	14,804	11.8
Investment Cash	9,586	7.6
Total Defensive	**42,425**	**33.8**
Total Assets	**125,532**	**100.0**

Investment Performance

4. The performance of the portfolio for the year and 3 years ended 30 June 2013 was as follows –

Assets	**Year ended 30 June 2013**		**3 years ended 30 June 2013**	
	Return (after fees)	**Index***	**Return (after fees) pa**	**Index* pa**
Growth Assets				
Australian Shares	25.40	21.90	9.93	8.24
Overseas Shares – Developed	24.12	27.87	9.69	13.43
Overseas Shares – Emerging	16.66	15.19	-	-**
St Andrew's House	1.54	6.89	14.95	7.19
Defensive Assets				
Australian Sovereign Bonds	0.90	0.32	6.07	6.24
Overseas Sovereign Bonds	5.23	3.61	7.31	6.98
Financial Services	7.64	7.47	15.25	12.01
Cash	5.05	3.12	5.91	4.26
Total Return on Investible Assets vs Weighted Index	**10.23**	**11.48**	**11.01**	**8.72**

* Information about the indices used to measure the performance of each asset class is set out in the Investment Policy Statement.

** The Endowment did not invest in this asset class for the entire 3 year period ending 30 June 2013.

5. GAB meets with Mercer, the investment manager, each quarter to discuss the performance of the investments managed by Mercer. The particular focus of recent meetings has been the underperformance of the Overseas Shares asset classes compared to benchmark. Mercer have outlined their reasons for the underperformance, and the actions taken and proposed to be take to address that underperformance.

6. The return for Financial Services over the year ended 30 June 2013 was significantly less than the return averaged over the last 3 years. This reflects that the new Capital Adequacy Policy has required that additional capital be allocated to the Financial Services business, and that a greater portion of the Financial Services investments be made in bank deposits rather than in higher yielding loans. Both of these factors have had the effect of reducing the return from this asset class.

7. The underperformance of the St Andrew's House investment over the year ended 30 June 2013 reflects lower growth in the value of the building as at 31 December 2012. However, this has to be offset against the strong returns measured over the last 3 years.

MARK PAYNE
Chief Executive Officer

16 July 2013