Annual Report for 2008

Glebe Administration Board
Sydney Diocesan Secretariat
Sydney Anglican Church Investment Trust

(Being bodies corporate under the Anglican Church of Australia (Bodies Corporate) Act 1938 and constituted to manage, govern and control church trust property for the Anglican Church Diocese of Sydney.)

This Annual Report should be read in conjunction with the Audited Financial Statements for 2008 for Sydney Diocesan Secretariat and Glebe Administration Board which can be found in pages 326 to 419 of the "Annual Report of the Standing Committee and Other Reports and Papers". This publication is also contained in the Synod mailing pack.

Contents

Abbreviations used in this Report

'ACPT'	means Anglican Church Property Trust Diocese of Sydney
'EOS'	means Endowment of the See
'DE'	means Diocesan Endowment
'GAB'	means Glebe Administration Board
'GIA'	means Glebe Income Accounts
'SACIT'	means Sydney Anglican Church Investment Trust (dormant)
'SAH'	means St Andrew's House
'SAHC'	means St Andrew's House Corporation
'SDS'	means Sydney Diocesan Secretariat

Constitution and Mission

1. SDS is constituted by the Sydney Diocesan Secretariat Ordinance 1973 to administer the affairs of the Anglican Church within the Diocese of Sydney. It provides services through its personnel to the Synod, parishes and Anglican organisations.

2. The GAB is constituted by the Glebe Administration Ordinance 1930 to manage and control the DE, being the capital from sales of certain glebes granted to the Church in the 19th century.

3. Distributions to the Synod from the DE are made each year to fund diocesan Mission activities. The formula used to calculate the amount of the distribution had been transitioned to a new basis which became fully effective from the year 2009. The new formula was calculated as to 30%, being 4.2% of the net assets of the Endowment averaged over 3 prior years, and as to 70% being the prior year's distributed adjusted by the movement in the consumer price index.

4. As a result of the major investment losses in 2008, the Standing Committee approved a reduction in the distribution to an average of $5.3 million per annum for the years 2010, 2011 and 2012.

5. The GAB is also trustee and manager of St James' Hall and also manages St Andrew's House for SAHC.

Membership

6. The members of SDS, who are also the members of the GAB and SACIT, are appointed by the Standing Committee. One-third retire each year, being the longest in office since their last appointment. The names of the members in office on 31 December 2008 and their meeting attendance records in 2008 follow:

	Meetings Attended	*Last Appointed*
Canon B A Ballantine-Jones OAM	10 out of 12	2006
Mr P R Berkley	10 out of 12	2008
Mr P P Driscoll	9 out of 12	2008

Bishop R C Forsyth	9 out of 12	2007
Dr S E Judd	7 out of 12	2007
Mr R H Y Lambert	10 out of 12	2006
Mr N R Lewis	6 out of 12	2008
Mr D B McDonald AC*	6 out of 11	2005
Mr I C Miller	6 out of 12	2007
Mr W H Olson AM	9 out of 12	2007
Dr L A Scandrett	8 out of 12	2006
Mr P R Shirriff (Chairman)	11 out of 12	2006
Mr M Todd*	0 out of 1	2008

**Mr D B McDonald resigned on 10 November 2008 and Mr M Todd was elected to fill the vacancy on 11 November 2008.*

7. Meetings are held at St Andrew's House, Sydney Square (PO Box Q190, QVB Post Office NSW 1230): telephone (02) 9265 1555. Normal business hours are 8.30 am to 5.30 pm.

8. SDS and GAB have several board committees:

(a) The Board Asset Liability Committee (“ALCO”) is responsible for monitoring and reviewing the investment and balance sheet management policies, strategies, transactions and performance of the GAB. The ALCO is currently focussed on increasing the diversification of the DE’s investments and other aspects of risk management.

(b) The Board Audit Committee oversees the audit and financial reporting functions of the SDS and GAB.

(c) The Board Management Remuneration and Nomination Committee monitors remuneration of SDS staff and ensures that the SDS develops and implements competitive and effective remuneration and nomination processes.

(d) The Board Risk and Compliance Management Committee seeks to ensure that the SDS and GAB maintain effective and informed policies for operational risk management and compliance with relevant laws and policies.

9. The members of these board committees are mainly drawn from the non-executive membership of the SDS and GAB. The Asset and Liability Committee includes the Chief Executive Officer and since March 2008, has one external non-Board member.

10. Following the significant reduction in the value of the DE, there have been a number of important changes initiated relating to Board processes and these are described in paragraphs 76 to 83.

Glebe Administration Board

Financial Results

11. For the year ending 31 December 2008, GAB has recorded a deficit of $160m which represents 60% of opening net assets. Net assets of the DE fell from $265m in December 2007 to $105m in December 2008. The first section of this paper is focused on the causes of this result and the responses that are being made to it. The second section provides a general overview of GAB's operations in 2008.

Reduction in Value of DE

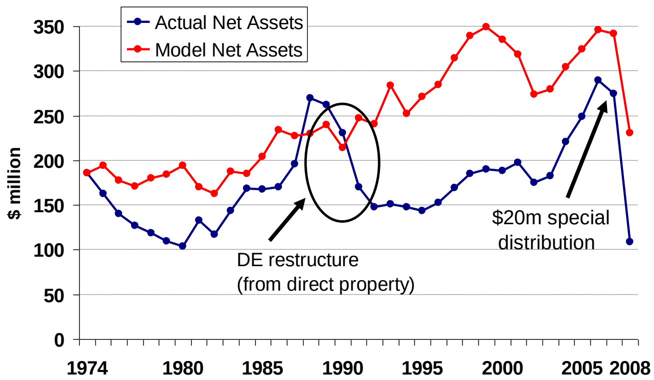
GAB Charter and History of the DE

12. The Charter of the GAB is to:

- Preserve the real value of the DE.
- Provide a reasonable income from the DE.

13. The movement in the real value of the DE from 1974 to 2008 is compared to a "model" portfolio on the following chart:

Actual vs Model Net Assets



14. This chart shows the performance of the DE from 1974 to 2008. The darker line shows the movement in the "real value" of the net assets of the DE. The actual dollars from prior years have been adjusted for the time value of money. For example, while the chart shows a value of $186m for the DE in 1974 expressed in 2008 dollars, the actual balance in 1974 was $30m.

15. Up until the end of the 1980s, the DE was mainly invested in commercial property assets. This led to a significant increase followed by a major reduction in value in the early 1990s. Following that experience a more diversified investment portfolio was established.

16. The extent of the increase in 2002-2007 period was attributable to very favourable investment markets accentuated by the gearing strategy, (ie using borrowed money to boost the overall level of investments).

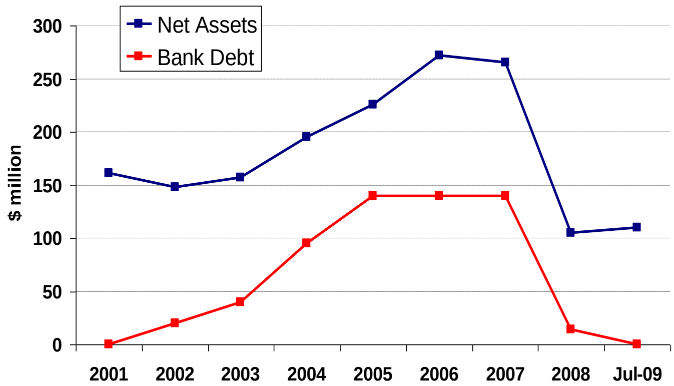
17. The shortfall in 2008 was caused by the large drop in investment markets accentuated by the gearing in the balance sheet.

18. The lighter line represents a comparison of what might have happened to the real value of net assets if investments had been placed for the whole period in a balanced fund with no gearing. Net assets for a balanced fund would have been higher in 2008 for a number of reasons:

- The DE would have avoided the commercial property crash in the late 1980s/early 1990s.
- Less would have been paid out in distributions.
- The impact of the market falls in 2008 would not have been as severe.

19. Bank debt was taken onto the balance sheet from 2002 onwards. The rate of accumulation is set out in the following chart:

DE: Net Assets vs Bank Debt



20. While the DE has taken deposits for many years, the level of gearing was boosted from 2002 onwards by borrowing money from banks.

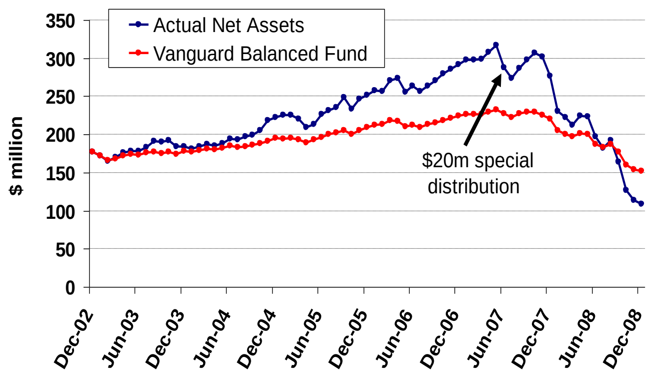
21. This chart shows how the level of bank debt increased from 2002 to 2005 and then remained stable through to 2007. This debt was substantially repaid during 2008 and totally repaid in April 2009. While the movement in net assets during this period appears to track the level of debt there were, of course, a number of other factors impacting net assets. The strategy from 2002 onwards was to use these additional funds to boost returns across a diversified range of

investments. This strategy assisted in increasing returns and distributions until 2007.

22. Standing Committee was informed of the gearing strategy prior to implementation. Debt levels and investment results were reported monthly to Standing Committee. Synod was informed annually on the implementation of the strategy and also provided with financial statements.

23. The movement in the real value of the DE from 2002 to 2008 is compared to a “model” portfolio on the following chart:

Actual vs Model Net Assets



24. The darker line shows the movement in the “real value” of the net assets of the DE, adjusted for the time value of money. The extent of the increase in net assets up to 2007 was attributable to very favourable investment markets accentuated by the gearing strategy. This was followed by the dramatic market falls in 2008.

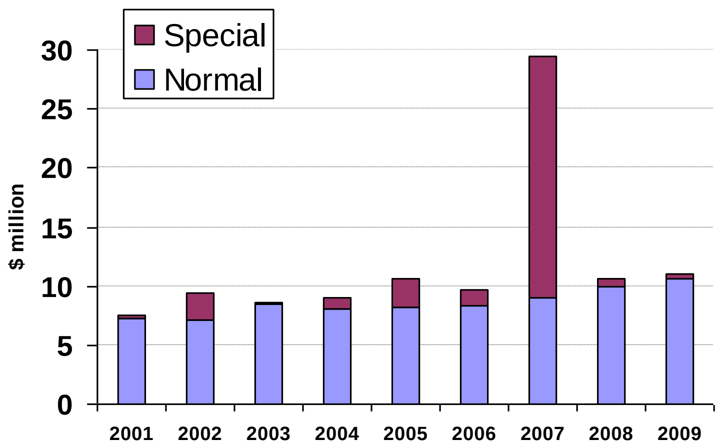
25. The lighter line represents a comparison of what might have happened to the real value of net assets, if investments had been placed for the whole period in a balanced fund with no gearing. This comparison fund is assumed to have 70% of its investments in growth assets such as shares and 30% in defensive assets such as fixed interest and cash.

26. Net assets in the balanced fund would have been higher at the end of 2008 for two reasons:

- Less would have been paid out in distributions.
- The impact of the market falls in 2008 would not have been as severe.

27. The following chart sets out the level of distributions paid from 2001 through to 2009:

DE Distributions Paid



28. This chart shows the actual distributions paid in the last decade. The first component is the normal distributions which were subject to a formula approved by Standing Committee. The second component is the special additional distributions approved by Standing Committee.

29. The most notable special distribution was an amount of $20m allocated to the Mission Property Committee in 2007. This money is being used to fund the acquisition of land for future church construction in new growth corridors and also to assist in some construction projects on existing church sites.

30. The total amount distributed from the DE from 2003 to 2009 was $89m. This was $35m higher than would have been received from a balanced fund with no gearing. This accounts for the bulk of the $45m difference between the actual and model net assets for the period 2002 to 2008.

31. The charts set out above highlight the extent to which gearing boosted the growth in net assets when markets were rising and the extent to which gearing has accentuated the reduction in net assets when markets have been falling.

32. Analysis was conducted prior to borrowing from the banks, to estimate the impact on return and risk of gearing the investment portfolio.

33. In February 2007, the Asset and Liability Committee (ALCO) commenced a review of the investment strategy for the DE. This was the second review for the DE and followed up on a review in November 2005. Prior to the review, the DE was invested in a number of asset

classes including Australian and international equities, Australian listed and unlisted property, Australian fixed interest securities, loans and cash.

34. The scope of the 2007 review:

- Included a review of the investment objectives (eg inflation plus 5% pa) and investment strategy (ie, strategic asset allocation) for the DE.
- Excluded the impact of the lending and deposit operations.

35. Intech (asset consultants) were engaged to undertake this assignment. The final report was accepted from Intech in August 2007. From this report, the GAB:

- Established an investment return objective for the DE of inflation plus 5% over a rolling five year period.
- Engaged with the Standing Committee to revise the distribution formula for the DE.

36. Following the report from Intech the GAB commenced the implementation of the strategic recommendations. The review recommended additional asset classes as this was expected to provide the greatest benefit for the DE in terms of its expected risk and return profile. The asset classes that were considered included both listed securities (eg, international bonds, international REITs, emerging markets debt and equity, infrastructure) as well as unlisted securities (eg, timber, private equity, structured finance).

37. To assist with the process of identifying and reviewing both new asset classes and potential managers, the GAB engaged the services of Mercer (another asset consultant; as Intech were undergoing a corporate restructure). Work on this commenced in January 2008, with the appointment of Vanguard as an asset manager for international REITs (listed property trusts).

38. Due to the impact of the global financial crisis, further work on the implementation process was suspended while ALCO and management focused upon a number of risk management issues in the DE; most notably the overall level of risk (particularly as a result of gearing).

39. Due to the specialist nature of the DE (being an endowment with embedded lending and deposit portfolios), most of the work on the risk review was driven by ALCO and management, with some advisory input from Mercer as well as from other industry participants (including some overseas endowments).

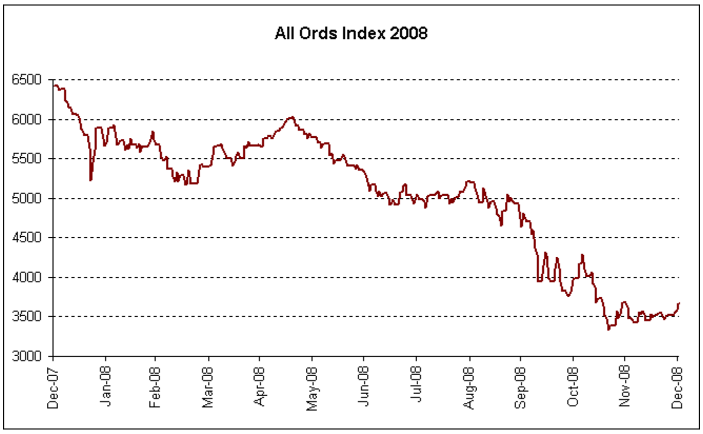
Causes of Losses and Learnings to be Taken

40. In the 12 months to 31 December 2008 the losses on the gross assets of the DE were as follows:

Actual Return:	-26.3%
Benchmark Return:	-23.6%

41. The losses on gross assets are mainly attributable to market movements. As noted above, the asset allocations were in accordance with carefully considered ALCO resolutions, which had been based on appropriate external advice.

42. The extent of the fall in the markets is demonstrated by the following chart:



43. This chart shows both the volatility and the series of very significant falls in the equity markets that occurred during 2008. This chart shows only Australian equities, which recorded the worst calendar year performance in 100 years. The bulk of the other growth asset classes we were invested in also sustained similar losses.

44. We thought we would be able to ride out the fluctuations in the market and hold the bulk of our market positions. We did not, however, envisage the severity of the falls that occurred concurrently in the various markets due to the Global Financial Crisis. Our diversification strategy did not provide the protection we had expected.

45. This meant our repayment of debt was too slow. In hindsight it would have been better to deleverage much more quickly.

46. As a long term endowment it was not considered appropriate to seek to time markets and switch back to cash purely because prices were falling.

47. The level of gearing in the balance sheet led to the negative return of 26% on gross assets translating into a negative return of around 60% on net assets.

48. In recent years, the level of bank debt was measured against a set of 4 bank covenants, which were fully complied with until 30 September 2008. The most notable of these covenants was the gearing ratio which required bank debt + GIA deposits not to exceed 1.5 times net assets.

49. In the 9 months to 30 September 2008 an accounting loss of $97m was recorded and net assets fell to $162m. In that period bank debt was reduced from $140m to $83m.

50. Over a number of years, there had been discussion about the implications of the gearing in the portfolio. During 2007 a modification of the VAR (Value at Risk) calculation was explored as a possible way to measure the amount of risk generated by the level of gearing in the portfolio. This modified VAR measure was established and progressively refined during 2008. In hindsight we would have reduced our losses if we had strictly applied this methodology earlier. The VAR number would not however, have precisely measured our risk because it simply gives a probability of losses exceeding a certain threshold. It does not predict the maximum loss that can eventuate in extreme market conditions.

51. The month of October 2008 saw further significant market falls. An accounting loss of $35m was recorded for the month and net assets fell to $126m. In spite of further reductions in bank debt to $48m, continued covenant breaches were reported.

52. As markets continued to fall in the first half of November 2008, a strategic decision was taken to significantly change the asset allocation of the DE to provide protection from further falls in net assets. The decision was to:

- Sell approximately $100m of growth assets.
- Apply the proceeds to repay all bank debt.
- Invest the remainder in cash.

53. The following redemptions were completed by 25 November:

- Australian Equities $40m
- International Shares $35m
- Listed Property Trusts $15m

54. The total value of investments redeemed was $90m.

55. The investment philosophy of riding out market fluctuations was largely maintained in the nine months to 30 September 2008. In that period however bank debt was reduced from $140m to $83m as we

ensured that all risk ratios and bank covenants were complied with. Bank debt was further reduced to $48m in October.

56. The collapse of Lehman Brothers in September 2008 and the market stress that followed in October however required a change of strategy. A number of key ratios and bank covenants were breached. GAB decided in mid November that all bank debt should be repaid, rather than seeking to negotiate any changes to bank covenants.

57. Repayment was never demanded by the banks and substantial credit lines remained in place. Our borrowings were not in the form of margin loans and the banks did not hold security over our assets. It was also decided to further reduce growth assets beyond what was necessary to repay the bank debt. This was done to boost cash holdings and protect net assets from further falls.

58. Summary Balance Sheets for December 2007, June 2008 and December 2008 are set out below:

GAB Balance Sheet	**31.12.07**	**30.06.08**	**31.12.08**
$M			
Assets			
Growth Assets			
Australian Equities	244	197	44
International Equities	73	57	-
Listed Property Trusts			
A-REIT	62	19	-
I-REIT	-	25	-
Other Growth Assets	9	10	11
Total Growth Assets	388	308	55
Cash	38	21	69
Liquid Assets	**426**	**329**	**124**
Loans	95	98	123
SAHC	40	41	33
Other Assets	25	12	6
Total Assets	**586**	**480**	**286**
Liabilities			
GIA	155	155	154
Bank Debt	140	115	14
Total Debt	**295**	**270**	**168**
Provision for Distributions	21	16	11
Other Liabilities	5	2	2
Total Liabilities	**321**	**288**	**181**
Net Assets	**265**	**192**	**105**

59. The balance sheets for December 2007, June 2008 and December 2008 show what happened to the composition and amount of our investments and borrowings throughout the year. Major items are highlighted below:

- Total assets reduced by $300m.
- Growth assets reduced because of market falls and redemptions of investments.
- Cash increased as we moved to de-risk the portfolio. The remaining proceeds from redemptions were used to repay bank debt.
- Loans increased as we met pre-existing approval commitments.
- St Andrew's House was revalued downwards due to property market conditions.
- Liabilities reduced by $140m and net assets reduced by $160m.
- GIA deposits remained very stable and bank debt was largely repaid.

60. The charts set out above demonstrate that even an ungeared endowment would have taken significant losses in this period. In hindsight it was the level of gearing that accentuated our losses as a percentage of net assets and reduced our flexibility to ride out the crisis.

61. In the long bull market, the level of gearing produced very high returns. This growth in capital contributed to increases in the level of regular and supplementary distributions and expectations for increases in future distributions.

62. When markets started to turn down from late 2007 onwards, we did not envisage the severity of the falls that would ultimately occur. We thought we would be able ride out the fluctuations in the market and hold the bulk of our market positions. Our scenario planning did not account for what transpired, which was the worst calendar year performance in Australian Equities in 100 years. These falls were more severe than had been anticipated when the gearing strategy was established. This meant our repayment of bank debt was too slow. In hindsight we would have been better to de-leverage more quickly. This would have meant that we would have crystallised losses at less severe levels and preserved more capital.

Implications for Distributions and Various Recipients

63. Distributions from the DE for recent years are as follows:

	$m	
2003	8.5	
2004	8.4	
2005	8.7	
2006	9.2	
2007	9.4	
2008	10.1	
2009	10.6	(Fully provisioned in the Dec 2008 GAB Balance Sheet)

64. The distributions shown for 2003 to 2008 include some small additional appropriations in each of the years, but exclude the large special appropriation of $20m made in 2007.

65. In August 2007 the Standing Committee approved the adoption of the Yale formula, which was designed to dampen the volatility in distributions that would have otherwise accelerated due to movements in net assets. A reduction in the distribution percentage from 5.4% to 4.2% was also approved. This dampening was to be achieved by calculating the distribution amount as 70% of the previous year's distribution plus 4.2% of the average net assets for the last 3 years, subject to some transitional adjustments. If the Yale formula had not been adopted the distributions calculated for 2008 and 2009 would have been significantly higher.

66. In normal conditions the Yale formula would be expected to continue to provide an appropriate outcome. When we obtained the approval of Standing Committee for this formula we did not envisage the exceptional decline in the net assets that has occurred. A reduction in distributions to an average of $5.3m for 2010, 2011 and 2012 has therefore been approved by Standing Committee.

Stakeholder Communications and Responses

67. Standing Committee have been advised each month of the declines in the DE net assets.

68. A report of the position as at mid October 2008 was provided to Synod in the form of answers to questions read by the Archbishop. These answers were available in written form on the notice board outside the Synod chamber.

69. Standing Committee, Mission Board and recipients of distributions have been kept up to date on the latest position and have worked through the impact of reduced distributions.

70. The Archbishop wrote to all parishes in June 2009 on a number of matters including the implications of the DE investment losses.

71. There have been a number of articles in Southern Cross

72. A series of 5 Pre Synod briefings were held in August 2009 and were attended by 315 Synod members. The CEO, Steve McKerihan, and Chairman, Phil Shirriff made presentations at these briefings. On behalf of management and Board they accepted accountability and responsibility for the investment losses. They acknowledged that mistakes were made in processes and judgments. These briefings provided an opportunity for questions to be answered. A dedicated email address for further questions was made available to Synod members following these briefings.

Further Responses to Investment Losses

73. SDS costs have been addressed. A number of redundancies were announced in November 2008 and most of the people impacted had left the organisation by the end of January 2009. This has flowed through to significant fee reductions for GAB and most other Diocesan clients.

74. SDS Staff numbers have been reduced from 84 in December 2007 to 62 in September 2009. Other discretionary expense items have been reduced.

75. The impact of these changes is as follows:

	SDS Total Expenses	***SDS Fees Charged to GAB***
2008	$14.2m	$7.3m
2009 (Budget)	$10.9m	$5.7m
Reductions	$3.3m	$1.6m
	23%	22%

76. In June 2009, Cameron Ralph Pty Ltd completed a comprehensive, independent assessment of the governance practices of the GAB. While this review has been prompted by the investment losses incurred in 2008, the scope of the review was not intended to address or explain the causes of the losses, nor does it propose specific actions in the area of investment management.

77. The review found the Board to be a highly capable group of individuals who are clearly very committed to the Church and the GAB. However, the changing demands of the external environment and issues with the Board's composition, culture and processes mean that the Board is not adequately meeting the challenges facing the organisation.

78. As part of the review, Cameron Ralph identified a number of strengths and weakness:

Areas in which the Board demonstrated a weakness included:

- A lack of clarity around the respective Board/management roles and decision-making processes;
- The overly-large size of the Board, and the high proportion of Directors with long tenures;
- The quality, timeliness, depth of analysis of the information provided to the Board; and
- A culture of 'forgiveness' instead of hard accountability.

Areas in which the Board demonstrated greatest strengths included:

- Strongly committed group of Directors with a capacity to work together;
- Positive relationship with management team;
- A willingness to change and improve; and
- A highly diligent Chairman.

79. Cameron Ralph acknowledged the significant environmental challenges facing all boards in the past 12 months, especially those operating in the financial markets. They also acknowledged the recent progress that the Board and management have made to tackle a wide range of difficult issues.

80. Having said that Cameron Ralph found that the environment and challenges facing the organisation demanded further changes if the Board is to provide sound governance. They proposed a number of ways in which the Board can position itself to be more effective into the future. These include:

- Succession Planning including the retirement of some long-serving Directors and the establishment of tenure limits;
- Reduction in the size of the Board;
- Regular performance assessment for the Board and Individual Directors;
- Improved clarity as to respective roles of management and the Board;
- Development of a more rigorous and robust Board culture;
- Systematic revision of Board information;

- Re-vamped Board meeting process including greater time spent;
- Revise the roles, composition, and operations of the Board committees; and
- Build stronger accountability mechanisms.

81. The Board have adopted all of these recommendations and are reporting to Standing Committee on their implementation. The Standing Committee has passed an ordinance to reduce the size of the Board from 12 to a range of 8 to 10 members. Board members scheduled to retire in November 2009 are:

- Dr L Scandrett
- Mr P Shirriff
- Canon Ballantine-Jones
- Mr R Lambert

82. Dr Scandrett and Mr Shirriff have offered themselves for re-election. Canon Ballantine-Jones and Mr Lambert will not be offering themselves for re-election. Messrs Lewis, Driscoll and Berkley are resigning effective November 2009.

83. The Standing Committee has been provided with a skills matrix to assist in the November 2009 election process.

The Current Position

84. The Balance Sheets set out below show the changed shape of the DE's activities:

GAB Balance Sheet	**31.12.08**	**31.08.09**
$M		
Assets		
Growth Assets		
Australian Equities	44	57
International Equities		
Listed Property Trusts		
A-REIT	-	-
I-REIT	-	-
Other Growth Assets	11	14
Total Growth Assets	55	71
Cash	69	45
Liquid Assets	124	116
Loans	123	123
SAHC	33	34
Other Assets	6	3
Total Assets	286	276
Liabilities		
GIA	154	154
Bank Debt	14	-
Total Debt	168	154
Provision for Distributions	11	7
Other Liabilities	2	2
Total Liabilities	181	163
Net Assets	105	113

85. The balance sheet at 31 August shows the following movements:

On the asset side:

- Some recovery in the value of Australian equities.
- A stable loan portfolio, with no delinquency or impairment.
- A reduction in cash, largely to repay the remaining bank debt.

On the liability side:

- A stable GIA deposit portfolio.
- The repayment of the remaining bank debt.
- A YTD growth of $8m in net assets.

86. The loan portfolio is now the largest asset class, followed by Australian equities, cash holdings and SAHC. While there is now much less risk in the portfolio, there is also less upside potential.

87. On the liability side, the GIA Deposits have been very stable. These deposits are very well supported by substantial cash holdings, a well performing loan portfolio, a stable SAH investment and a substantial undrawn bank line of $50m. Deposits are therefore being used to fund loans and cash investments, and the deposits are therefore not exposed to fluctuations in the value of growth investments.

88. The new shape of the balance sheet provides the foundation to gradually rebuild the DE. This rebuilding process will also require further cost savings in SDS and GAB and these are being pursued.

89. The performance and ownership structure of SAH is also under review. From a pure investment perspective this asset has two major issues:

- It represents an excessive concentration for the DE and EOS (the 50/50 beneficial owners).
- It has not met return requirements.

90. While these issues are important they need to be balanced with the historical importance of the building to the Diocese.

Conclusion

91. It is a matter of great regret for the Board and management that such significant losses have been incurred by the DE. While we did not envisage the magnitude of the global financial crisis we acknowledge that mistakes were made in the management of debt and the timing of investment realisations.

92. As noted in this report a number of actions have been now been taken:

(a) Investment management, risk management and accounting processes continue to be refined and improved.

(b) All bank debt has been repaid.

(c) GIA deposits have been matched against cash investments and the loan book.

(d) Significant cost savings are being achieved in GAB/SDS.

(e) The DE is being gradually rebuilt.

(f) An external review of governance processes has been undertaken with all recommendations adopted.

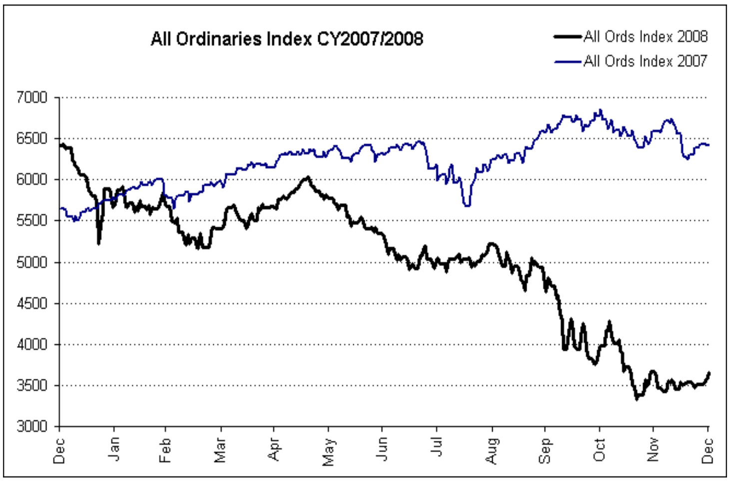
General Overview of GAB Operations

93. This second section of the report returns to a more standard format which will entail some repetition of the matters covered in the first section.

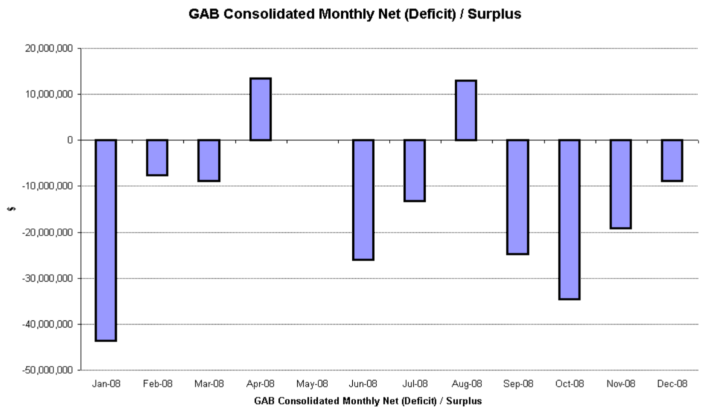
94. GAB's 2008 results can be summarised as follows, from the audited Annual Financial report:

	12 months to December	
$000s	***2008***	***2007***
Revenue		
(Loss) / income from equity related investments	(122,670)	44,236
(Loss) from property related investments	(32,881)	(4,574)
Income from loans and mortgages	9,724	7,939
Income from fixed interest investments	2,393	3,156
(Loss) from other investments	(6)	-
Fee income	751	1,384
Other income	-	250
Total (loss) / revenue	**(142,689)**	**52,391**
Share of net (loss) / profits of St Andrew's House Corporation	(5,743)	4,925
Interest expenses	(18,442)	(18,996)
(Surplus) / loss attributable to minority interests	17,326	(6,003)
Other expenses	(10,480)	(9,557)
Net deficit / surplus	**(160,028)**	**22,760**
Total Assets	310,333	634,507
Total Liabilities	205,419	369,305
Net Assets	**104,914**	**265,202**

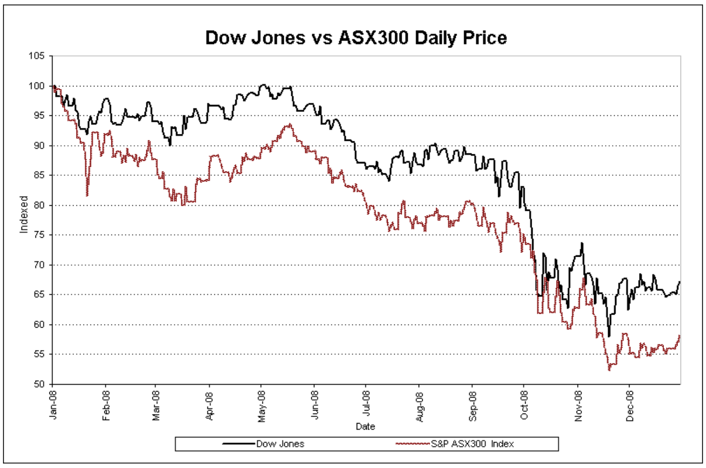
95. The following chart shows the extent of the fall in the All Ordinaries in 2008, compared to 2007:



96. This chart, of GAB's month-by-month results, reflects the extent of investment markets' negative movements in 2008. As Australian Equities was the largest single asset class for much of 2008, the monthly results show a clear correlation to the movement in the All Ordinaries Index in the chart above.



97. The following chart highlights the movements in both the Dow Jones and ASX during 2008. The two indexes moved in a relatively coordinated manner reflecting the effects of the financial economic crisis in both markets. The indexes fell sharply in January, October and November.



98. Total funds managed for the DE, Anglican Church Property Trust and the Endowment of the See are set out below. The decreases in Australian Shares, Overseas Shares and Australian REITS are a combination of market movements and redemptions by the DE to repay bank debt and protect the Endowment from further falls in net assets, as discussed in part one of this paper. The increase in loans and mortgages is mainly due to the drawdown of facilities previously committed. The decrease in direct property is due to declines in commercial property values due to the impact on the property sector of current economic conditions.

	Total Funds Managed by GAB	
$000s	***2008***	***2007***
Australian Shares	78,387	295,997
Overseas Shares	11,135	75,218
Fixed Interest	12,406	12,883
Loans & Mortgages	126,032	94,856
Direct Property	112,950	131,300
Unlisted Property	10,424	8,711
Australian REITS	3,655	88,999
International REITS	4,275	-
Cash & Short Term Deposits	72,671	60,918
Other	200	-
Total	**432,135**	**768,882**

Asset Class Returns

	12 Months to December			
	2008 Return		***2008 Benchmark***	***2007 Return***
	$000s	***%***	***%***	***%***
Australian Shares	(84,057)	(42.6)	(39.9)	16.4
Overseas Shares – Hedged	(10,835)	(44.8)	(39.1)	N/A
Overseas Shares – Unhedged	(9,158)	(26.0)	(25.0)	(6.6)
Australian Fixed Interest	422	5.2	14.9	2.2
Loans & Mortgages	9,716	9.8	7.7	9.2
Direct Property	(6,827)	(14.7)	8.7	13.2
Unlisted Property	(159)	-	(0.3)	15.4
Australian REITS	(18,256)	(54.7)	(55.3)	(8.2)
International REITS	(14,520)	(60.3)	(42.5)	-
Cash & Short Term Deposits	1,590	7.2	7.0	7.0
Other	7	N/A	N/A	-
	(132,077)*	(26.3)	(23.6)	8.6

*Reconciliation to Annual Financial Report	*$000s*
(Loss)/Revenue from continuing operations	(142,689)
Share of net (loss)/surplus of SAHC accounted for using the equity method	(5,744)
Deficit/(surplus) attributable to minority interests	17,326
Investment management fees paid to a controlled entity (Glebe Equities Trust) eliminated in the Income Statements	(970)
Total Asset Class Returns	(132,077)

99. Australian Shares - As noted in part 1 of this report, the market posted an unprecedented decline in 2008. The DE's investment in Australian shares performed broadly in line with the index, with some relatively minor under performance associated with the market's volatility during the time when investments were redeemed.

100. Overseas Shares - Consistent with its risk management strategy the DE maintained a mix of Hedged and Unhedged overseas shares. The decline of the Australian dollar against the US dollar reduced the scale of the losses in the Unhedged portfolio. The difference between actual and benchmark returns primarily reflects the timing differences following a total redemption from this asset class by the DE in November 2008.

101. Fixed Interest - The fixed interest portfolio is one of the smallest asset classes, however, the performance achieved, while positive, was disappointingly below the benchmark. The Board has been carefully reviewing the relevant manager's performance and noted reasons for the under performance. These relate to the manager's style in the current economic conditions.

102. Loans & Mortgages - The portfolio continues to perform strongly. As interest rates have fallen in the second half of the year, the interest yield has declined as the majority of loans reset interest on a monthly basis.

103. Direct Property - The decrease in direct property is due to declines in commercial property values caused by current economic conditions. During the year management presented a strategic review of the operations of St Andrew's House Corporation to the Board. A number of initiatives are being undertaken to improve the financial performance of SAH.

104. Australian & International REITS - REITS produced the most disappointing performance of 2008, however, this must be viewed in the context of several years of strong performance, particularly by Australian REITS. Confidence in this sector was dramatically affected by a number of factors including:

- Forced sales and freezing of redemptions by several high profile trusts following their inability to refinance maturing loans.
- Concerns about the level of gearing and complex financial structures in various trusts.
- Expectations of reduced income due to the recessionary economic environment.

As previously noted, the Board redeemed its investments in Australian and International REITS during the year.

105. Cash & Short Term Deposits - Following the sale of growth assets as previously noted, the amount of cash held has increased significantly compared to the previous year.

Liabilities

106. As noted in the first section of this paper, bank debt was largely repaid by December 2008 and totally eliminated by April 2009. An undrawn line of credit of $50m remains in place.

107. It is pleasing to note the consistency of the GIA deposits. Depositors can take considerable comfort from:

- Increased cash holdings for GAB.
- Reduced exposure to growth assets.

- A well performing loan book.
- A stable and conservatively valued investment in SAH.
- Significant undrawn bank lines.

$000s	***31 Dec 2008***	***31 Dec 2007***
Glebe Income Accounts	154,486	155,486
External Borrowings	14,000	140,000
Total Gearing	**168,486**	**295,486**
NTA	104,914	265,202
Gearing Ratio	1.61	1.11

108. The increase in the gearing percentage has been addressed by altering the asset composition of the DE as explained earlier in the report and set out below.

Asset Allocation

109. Asset allocations at the beginning and end of the year were:

	2008		***2007***
	Actual	***Target***	***Actual***
	%	***%***	***%***
Australian Shares	15.5	34.5	43.0
Overseas Shares			
- Hedged	-	4.9	5.9
- Unhedged		7.4	7.1
Overseas Shares - Total	-	12.3	13.0
Australian Fixed Interest	0.6	2.2	1.6
Loans & Mortgages	44.5	26.0	16.8
Direct Property	11.7	9.4	6.7
Unlisted Property	3.6	2.5	1.5
Australian REITS	-	2.9	10.8
International REITS	-	5.0	-
Cash & Short Term Deposits	24.0	3.0	6.6
Other	0.1	2.2	-
Total	**100**	**100**	**100**

110. The reduction in allocations to growth assets, such as Australian and Overseas Shares reflects decisions previously noted in part one of the report to change the asset allocation of the DE, to provide protection from further falls in net assets.

Managed Entities

St Andrew's House

$000s	***2008***	***2007***
Sinking Fund Reimbursement	252	433
Rent and related income	10,079	9,376
Property expenses	(5,126)	(5,008)
Revaluation of SAH	(14,605)	6,478
Other income	182	51
Other expenses	(2,268)	(1,601)
Net (Deficit) / Surplus	**(11,486)**	**9,729**

111. The operations of SAH were reviewed during 2008, A number of initiatives to reduce costs and increase rental income are being undertaken.

112. The major elements of SAH income were:

Car Park	$958,000
Arcade	$1,429,000
Office Tower	$2,741,000

113. During 2008 a major project was undertaken, funded from the sinking fund, to upgrade the air-conditioning water condenser system at a cost of around $1m.

114. The reduction in value of SAH is due to the effect on the CBD property market of economic events in Australia and overseas. Commercial yields have softened substantially due to a reassessment of risk, a difficult financing environment and higher vacancy levels anticipated in the office leasing market. Similarly the retail sector has been impacted by economic events during 2008, resulting in a softening in retail yields. As a result, the valuation of SAH in 2008 has declined by $14.6m.

St James Hall

$000s	***2008***	***2007***
Rent & Related Income	2,444	2,498
Revaluation of St James Hall	(6,029)	3,678
Property Expenses	(822)	(814)
Other Income	6	10
Other expenses	(361)	(595)
Net Surplus	**(4,762)**	**4,777**

115. The building is now fully let. Any rent derived from this area is paid to the Parish. The valuation was negatively effected by similar factors to those described for SAH commercial offices. During the year the income distribution Ordinance was reviewed to provide for the distribution of income in 2009 and a series of principles agreed which will form the basis a further Ordinance to provide for income distributions from 2010.

Conclusion

116. As noted in the first section of the report, it has been a very difficult and disappointing year for the GAB. Board and management are now focussed on restructuring and rebuilding the DE to provide the best level of support we can for the Diocese and the important objectives of the Diocesan Mission.

Sydney Diocesan Secretariat

117. While clearly impacted by the investment losses in the Diocesan Endowment (DE), SDS personnel have remained strongly focussed on serving the needs of our Diocesan customers and supporting the Diocesan Mission. Information on the DE losses is provided in the separate GAB Report for 2008.

$000s	***2008 Actual***	***2008 Budget***	***2007 Actual***
Income:			
Investments	248	159	289
Fees	11,666	11,490	10,704
Synod Grants	219	217	202
Other Income	1,182	1,458	1,238
Writeback GAB/Edge service fee	1,362	-	-
Total Income	**14,677**	**13,324**	**12,433**

$000s	***2008 Actual***	***2008 Budget***	***2007 Actual***
Expenses:			
Staff & Related Costs	9,362	9,008	8,894
Professional Fees	784	1,040	1,446
Computer & software	838	910	648
Rent & Occupancy	1,062	1,080	796
Depreciation & Amortisation	760	640	431
Other Expenses	1,012	1,315	1,233
Impairment of Edge Project	1,697	-	-
Total Expenses	**15,515**	**13,993**	**13,448**
Net (loss)	**(838)**	**(669)**	**(1,015)**

118. The Balance Sheet shows the reduction in net assets due to the operating loss.

$000s	***2008***	***2007***
Total Assets	5,473	9,380
Total Liabilities	4,826	7,895
Net Assets	**647**	**1,485**

SDS Financial Performance

119. The result for SDS for 2008 was impacted by two rounds of restructuring. In the middle of the year the Property Services Division was absorbed into Parish and Property Services and Investment Services. This created a number of redundancies. Late in the year a number of further redundancies were announced and provisioned. These redundancies were required because of the impact of the

investment losses in the DE. Some deferred software expense (The Edge Project) was also written off. If it were not for these restructuring costs, SDS would have recorded a significant favourable variance to budget.

120. Other Income was down on budget due to a strategic decision to exit the area of “hands on“ property project management.

Achievements and Issues

Customer Related

121. A series of eight regional risk management seminars was conducted. These seminars were well attended and well received.

122. Additional parishes continued to be added to the Diocesan Area Wide Network (DAWN).

123. The asbestos inspection program remains on track.

People Related

124. The performance appraisal and succession planning processes continued to be developed.

125. A number of Management Development programs and training initiatives were undertaken.

Strategic

126. A number of Brownfields parish property projects have commenced with grants approved by the Mission Property Committee. A number of potential Greenfields sites are being considered. Rouse Hill and Hoxton Park projects have been completed.

127. Six of ten Greenoaks apartments (Bishopscourt back block) have been sold. One is now occupied by Bishop Forsyth and the other three are being leased.

128. A strong dialogue is being maintained between the executive team at SDS and other large Diocesan organisations.

129. There has been successful management of insurance premiums and claims.

130. A new set of financial and risk management reporting requirements for Diocesan organisations has been established.

131. The Angliconnect procurement process for parishes and other diocesan organisations continued with gross sales of $750k being recorded.

132. The climate change response program was commenced and reported to Synod.

133. A range of administrative support has been provided to the Connect09 initiative.

134. The Secretarial team has provided consistent support for Standing Committee, Synod and a number other Diocesan committees and organisations.

Expense Reductions

135. SDS costs have been reduced. This has flowed through to significant fee reductions for GAB and most other Diocesan clients.

136. SDS staff numbers have been reduced from 84 in December 2007 to 62 in September 2009. Other discretionary expense items have been reduced. The impact of these changes is as follows:

	SDS Total Expenses	***SDS Fees Charged to GAB***
2008	$14.2m	$7.3m
2009 (Budget)	$10.9m	$5.7m
Reductions	$3.3m	$1.6m
	23%	22%

Human Resources

137. Reductions in staff numbers are driving a large component of the cost savings for SDS and GAB.

(Full Time Equivalents)	***August 2009***	***December 2008 Actual***	***December 2008 Budget***
Executive	6.8*	2.0	2.0
HR / Corporate Services	-	7.4	8.0
Parish & Property Services	19.8	20.0	26.2
Secretarial	6.8	8.6	9.2
Finance	14.0	16.0	17.4
Technology	8.1	10.0	10.0
Investment Services	7.0	10.5	11.8
Total	**62.5**	**74.5**	**84.6**

* Incorporates Corporate Services staff.

Conclusion

138. As we continue the restructuring and rebuilding of the DE, further cost savings will be required. We are focussed on maintaining front line services to parishes and other clients to the greatest extent possible. We will however need to be selective with some of our activities to manage our workload.

For and on behalf of the Board

JOHN B CHAPMAN
Secretary

22 September 2009

Appendix

Sydney Diocesan Secretariat – Organisation Chart – 1 September 2009