

# Glebe Administration Board as trustee for the Long Term Pooling Fund

## Investment Policy Statement

as at 1 June 2023

### Purposes of this Statement

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

### Context and Background

#### *Trusts and Powers*

2. GAB is the trustee of the Property which is held on the trusts set out in the *Long Term Pooling Fund Ordinance 2012* (“Ordinance”). By clause 4 of the Ordinance, the Property is held on trust for the purposes of the Anglican Church in the Diocese of Sydney to enable the pooled long term investment of church trust property in a manner aligned to the ethical investment policy of the Diocese.
3. By clause 5(1) of the Ordinance GAB must manage the LTPF so as to –
  - (a) maintain the real value of the LTPF, and
  - (b) subject to that requirement, enable distributions to be made in accordance with clauses 5(2) and 5(3) of the Ordinance.
4. The powers of GAB in relation to the investment of the Property are set out in clause 6 of the Ordinance, including -
  - (a) such powers as are necessary or desirable to enable it to fulfil its functions and duties as trustee, including those powers set out in the Glebe Administration Board Ordinance 1930. These include delegating the Trustee’s powers of investment to one or more asset consultants or investment managers (including authorising those asset consultants or investment managers to sub-delegate the Trustee’s powers of investment to one or more other investment managers), and
  - (b) the power to invest the Property in accordance with the *Trustee Act 1925* (NSW) provided that the Trustee must do so in accordance with any ethical investment policy approved by the Synod or the Standing Committee for the purposes of the investment of the Property.
5. A trust in which the Property is invested, or an underlying pooled product, must comply with the LTPF’s Ethical Investment Policy <https://www.sds.asn.au/acpt-ethical-investment-policy-0> . Any amendments made to the Ethical Investment Policy need to be endorsed by the Standing Committee.

### *Capital of the LTPF*

6. There are occasional material inflows and outflows of capital into and out of the LTPF on behalf of individual unit holders.

### *Spending and Unit Holder Distributions*

7. Spending from the LTPF comprises the distributions to unit holders and administrative and other costs (not including external investment management expenses).
8. The GAB has adopted a distribution formula being the sum of 2 components. The first component is 70% of the sum of the prior four quarters distribution indexed by CPI. The second component is 30% of 3.00% of the average ex distribution unit price over the prior twelve quarters.
9. Quarterly distributions for the next calendar year are calculated using the same data up to 30 September of the prior year, ie the cents per unit payments occurring in January, April, July and October of a particular year will be the same.
10. A resolution of the GAB is required to effect the proposed level of distributions each year.
11. The purpose of this spending formula is to provide a reasonable and relatively stable income from the LTPF consistent with the Investment Objective.
12. Miscellaneous costs of managing the LTPF, such as asset consultant fixed costs, audit costs, and fees are deducted from the LTPF. These are approximately 0.5% per annum.

### *Investments in the LTPF*

13. Since October 1996 the LTPF has been unitised, so that interests held in the fund are divided into units. The price of a unit is calculated periodically having regard to the value of the underlying investments in the fund. Investments are made in the LTPF by purchasing units, and investments are withdrawn by redeeming units.
14. Until 1 January 2023, only the ACPT could hold units in the LTPF as trustee for the purposes of a parish, diocesan organisation or some other purpose of the Diocese. From 1 January 2023, units in the LTPF are able to held directly by parishes and diocesan organisations. This is possible by reason of an ASIC class order exemption obtained for the LTPF in conjunction with the transfer of the trusteeship of the LTPF from the ACPT to GAB on that date.

### *Asset Consultant*

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

### *Investment Manager*

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

### *Other matters*

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

## Responsibilities

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

## Investment Objective

18. The investment objective for the LTPF is –

“To achieve a real rate of return over rolling 10 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 LTPF units over a 10 year period with a 70% probability, and
- (b) adopting a distribution policy that is consistent with this objective.

*The GAB notes that the 70% probability over rolling 10 year periods is dependent on a number of assumptions from the Asset Consultant which include inflation, capital market returns, interest rates, etc. If the measure drops below 70% then GAB will liaise with the Asset Consultant about an appropriate response such as updating the rebalancing policy or capital market assumptions prior to constructing any new SAA.*

19. For the purpose of the investment objective, the “real rate of return” is to be measured as the excess of the nominal return above the corresponding movement in the CPI – All Groups Index published by the Australian Bureau of Statistics. “Real value” has a corresponding meaning.

20. External investment management expenses include investment management fees, custody fees and other similar expenses.

21. Returns are to be adjusted for tax effects by grossing-up for imputation credits that the LTPF can reclaim on dividends paid by Australian companies and deducting any withholding or similar taxes on overseas investments that the LTPF cannot reclaim.
22. The investment objective includes not only a return objective, but also a risk objective and a distribution policy. While each of these components is related, it is not necessarily appropriate to measure them over the same time periods.

## Investment Policies

### *Hedging Policy*

23. The following principles apply in relation to hedging foreign currency exposure back to Australian dollars –
  - (a) exposure to the overseas shares developed asset class and overseas shares emerging markets is to have a strategic long term allocation of 50% hedged, and
  - (b) all other exposure to overseas asset classes is to be 100% hedged, wherever practicable.
24. Where the Australian dollar is viewed by the Asset Consultant as being at extremely high or low relative to foreign currencies underlying the LTPF's investments, GAB may agree from time to time to adjust the hedge ratio accordingly.

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

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

### *Confirmation re Compliance with Investment Policies*

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

## Strategic Asset Allocation

### *General*

27. The following SAA has been determined for the investments of the LTPF –

<b>Asset Class</b>	<b>SAA %</b>
Australian Shares	30
Overseas Shares – Developed (unhedged + hedged)	20
Australian Direct Property	10
Unlisted Infrastructure	10
<b>Total Growth Assets</b>	<b>70</b>
Australian Sovereign Bonds	8
Global Sovereign Bonds (hedged)	5.5
Global Credit (hedged)	9.5
Cash	7
<b>Total Defensive Assets</b>	<b>30</b>
% of Overseas Shares (All funds) to be Currency Hedged	50

*Due to the in-species transfer of all Mercer funds from the DE into the LTPF, in June 2023 – there will*

*be residual holdings in Emerging Markets, Global Listed Property, Global Listed Infrastructure and Global Absolute Return Bonds. These exposures will be removed as the LTPF is fully rebalanced after the 2023 Triennial review is completed.*

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

#### *Externally managed investments*

29. The actual asset allocation of the LTPF, will be monitored at the end of each month and at such other times as may be warranted (e.g. in the event of a change in the LTPF's SAA or a major movement in investment markets). Where the value of the investments in any asset class ceases to comply with the requirements of paragraphs 27 to 28, SDS (acting for GAB) will give instructions to reweight the asset class as soon as practicable, typically after discussion with the Investment Manager, and having regard to any other relevant factors (such as expected cash flows). Where the value of the investments in any asset class has deviated from the SAA, but still complies with the requirements of paragraphs 27 to 28, SDS (acting for GAB) may give instructions to reweight the asset class.
30. Any breach of the requirements of paragraphs 27 to 28 is to be reported forthwith by SDS to GAB. Rectifying breaches will be undertaken with 10 working days, subject to available liquidity.
31. For the purposes of the investments managed by Mercer Investments (Australia) Limited the following funds are approved –

<b>Asset Class</b>	<b>Mercer Investment Product</b>
Australian Shares	Mercer SR Australian Shares Fund
Overseas Shares – Developed (unhedged)	Mercer Passive International Shares Fund
Overseas Shares – Developed (hedged)	Mercer Passive Hedged International Shares Fund
Overseas Shares – Emerging	Mercer Emerging Markets Shares Fund
Australian Direct Property	Mercer Australian Direct Property Fund
Global Listed Property (hedged) *	Mercer Global Listed Property Fund
Unlisted Infrastructure (hedged)	Mercer Global Unlisted Infrastructure Fund
Global Listed Infrastructure (hedged) *	Mercer Global Listed Infrastructure Fund
Australian Sovereign Bonds	Mercer Australian Sovereign Bonds Fund
Global Sovereign Bonds (hedged)	Mercer Global Sovereign Bonds Fund
Global Credit (hedged)	Mercer Global Credit Fund
Global Absolute Return Bonds (hedged)	Mercer Global Absolute Return Bond Fund

*\* Global listed property and global listed infrastructure will be used as a proxy until exposures have been achieved in their unlisted counterparts.*

#### *Other investments*

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

#### **Investment Performance and Monitoring**

33. The principal goals of performance monitoring are –
- to assess the extent to which the LTPF's investment objective is being achieved,

- (b) to monitor asset allocation exposures against asset allocation benchmarks and the rebalancing policy,
- (c) to compare the performance of the funds managed by the Investment Manager against the performance of approved indices, and
- (d) to allow GAB to continually assess the ability of the Investment Manager and the portfolio structure to successfully meet the investment objectives for the LTPF.

34. The total return of the LTPF, adjusted for tax effects and after investment management fees, will be monitored over a range of time periods against the following benchmarks –
- (a) Over rolling 1 year periods: A composite benchmark calculated by the sum product of the LTPF's SAA and the relative benchmark returns.
  - (b) Over rolling 5 and 10 year periods: Consumer Price Index + 3.5% pa.
  - (c) Over rolling 5 and 10 years: SRP50 balanced (60-76) Index, which represents the Super Ratings Pension Indices, untaxed and after fees.

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

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

Asset Class	Index
Australian Shares	S&P/ASX 300 Accumulation Index.
Overseas Shares – Developed (hedged)	Morgan Stanley Capital International World Index (ex-Aust) hedged into \$A with net dividends reinvested ex tobacco ex controversial weapons.
Overseas Shares – Developed (unhedged)	Morgan Stanley Capital International World Index (ex-Aust) in \$A with net dividends reinvested ex tobacco ex controversial weapons.
Overseas Shares – Emerging	MSCI Emerging Markets Free Float Index
Australian Direct Property	MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index
Global Listed Property (hedged)	FTSE EPRA/NAREIT Developed Index in (A\$ hedged)
Unlisted Infrastructure (hedged)	MSCI Australia Quarterly Private Infrastructure Fund Index (Unfrozen)
Global Listed Infrastructure (hedged)	FTSE Global Core Infrastructure 50-50 Index in (A\$ hedged)
Australian Sovereign Bonds	Bloomberg AusBond Treasury Index (All Maturities).
Global Sovereign Bonds	JP Morgan Global Government Bond Index in \$A (Hedged).
Global Credit (hedged)	60% Barclays Global Aggregate – Corporate Index in \$A (Hedged) 40% Barclays Capital Global Aggregate ex Government ex Treasuries Index in \$A (Hedged).
Global Absolute Return Bonds (hedged)	Bloomberg Ausbond Bank Bill Index + 1% p.a.
Cash	The DCIF net investment return benchmark.

36. Expected loss and expected negative return years in 20 are to be monitored by management at least on a quarterly basis.

## Ongoing Review and Reporting

37. The appropriateness of the SAA and the rebalancing policy will be formally reviewed by GAB with the advice of the Asset Consultant at least once a year.
38. Advice will be sought from the Asset Consultant at least every 3 years about the LTPF's investment objective, and the continuing suitability of this Investment Policy Statement.
39. The Investment Manager will report on the performance of the investments undertaken at least quarterly in accordance with a format agreed with GAB.
40. The performance of the Asset Consultant and the Investment Manager will be reviewed by GAB at least once a year.
41. This Investment Policy Statement will be formally reviewed not less frequently than every 3 years.

## History of formally approved revisions to this Statement

42. Approved by GAB on 23 May2023. Last amended with effect from 1 June 2023