Glebe Administration Board

Diocesan Endowment
Report on Investment Performance – March 2013

Key Points

- During the 12 months ended 31 March 2013, the total return on the investment of the Diocesan Endowment was 8.53%, which was under the weighted average benchmark return on 10.51%.
- The main reason for underperformance compared to benchmark was the underperformance of the Overseas Shares asset classes and the investment in the St Andrew's House Trust.
- The net assets increased from $122 million as at 31 December 2012 to $124.9 million as at 31 March 2013.
- The major contributors to the increase in the value of the net assets were the Australian Shares and Overseas Shares asset classes (notwithstanding that the Overseas Shares asset classes underperformed the benchmark).

Background

Investment Management of the Diocesan Endowment

1. Until 31 March 2013 the investment objective for the Diocesan Endowment was –

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

2. Following the triennial review undertaken in March 2013, the investment objective has been amended so that –

   (a) the real value of return objective is now 4% per annum (rather than 5%), and

   (b) the spending limit objective is now 4% on average over rolling 5 year periods, not 5%.

3. 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

4. The following table sets out the investments of the Endowment as at 31 March 2013 –

Assets	As at 31 March 2013	
	$000s	**% weight**
Growth Assets		
Australian Shares	25,306	20.3
Overseas Shares – Developed	17,817	14.3
Overseas Shares – Emerging	3,051	2.4
St Andrew's House	42,226	33.8
Total Growth	**88,400**	**70.8**

Defensive Assets		
Australian Sovereign Bonds	10,105	8.1
Overseas Sovereign Bonds	2,483	2.0
Financial Services	14,869	11.9
Investment Cash	9,018	7.2
Total Defensive	**36,475**	**29.2**
Total (Net Assets)	**124,875**	**100**

5. From 1 April 2013, the investments of the Diocesan Endowment have been reweighted so that 65% of the portfolio is invested in Growth Assets and 35% in Defensive Assets.

Investment Performance

6. The performance of the portfolio for the year and 3 years ended 31 March 2013 was as follows –

Assets	**Year ended 31 March 2013**		**3 years ended 31 March 2013**	
	Return (after fees)	**Index***	**Return (after fees) pa**	**Index* pa**
Growth Assets				
Australian Shares	21.36	19.15	6.24	4.97
Overseas Shares – Developed	11.01	14.33	5.76	8.02
Overseas Shares – Emerging	0.53	1.08	-	-**
St Andrew's House	1.95	7.60	15.50	7.49
Defensive Assets				
Australian Sovereign Bonds	5.94	5.84	7.41	7.58
Overseas Sovereign Bonds	8.41	8.12	-	-**
Financial Services	8.58	8.73	15.94	12.87
Cash	5.54	3.37	6.02	4.39
Total Return on Net Assets vs Weighted Index	**8.53**	**10.51**	**8.91**	**7.36**

* 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 these asset classes for the entire 3 year period ending 31 March 2013.

7. GAB has recently met with Mercer, the investment manager, to discuss the performance of the investments managed by Mercer and, in particular, 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.

8. It is to be noted that the returns for Financial Services over the past year are significantly less than the returns 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.

9. The underperformance of the St Andrew's House investment 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

27 May 2013