Review of Diocesan Investment Strategy

(A report from the Standing Committee)

Key Points
• Currently the three key pools of central investments in the Diocese are governed by two separate entities – the Glebe Administration Board (**GAB**) and the Anglican Church Property Trust (**ACPT**).
• Creating a single trustee investment vehicle with the capability of providing varied investment options offers the opportunity to provide improved governance and accountability, together with more effective use of resources.
• The board of the trustee investment vehicle should have significant investment governance expertise and periodic and robust accountability to Synod for its governance, performance and risk management.
• The GAB is the most appropriate organisation to act as trustee of the centralised investment vehicle.

Purpose

1. The purpose of this report is to recommend the creation of a centralised investment vehicle for the Diocese with the GAB as trustee.

Recommendations

2. Synod receive this report.

3. Synod, noting the report *Review of Diocesan Investment Strategy*, request the Standing Committee to establish the Glebe Administration Board as the centralised investment vehicle for the Diocese, including responsibility for the assets of the Diocesan Endowment, the Diocesan Cash Investment Fund and the Long Term Pooling Fund.

Background

4. The Diocese's investment resources are governed by two separate entities: the Glebe Administration Board (**GAB**) overseeing the investments of ~$225m in the Diocesan Endowment (**DE**) and the Diocesan Cash Investment Fund (**DCIF**); and the Anglican Church Property Trust (**ACPT**) overseeing investments of ~$80m in the Long Term Pooling Fund (**LTPF**). Currently the GAB and the ACPT use the same investment manager (Mercer) to manage both investments.

5. The creation of a single investment vehicle for the Diocese was one of the recommendations of the Archbishop's Strategic Commission (**ASC**) in 2011. At that time further consideration of this matter was deferred pending the implementation of a number of other structural changes and resolution of issues relating to the creation of a centralised investment body.

6. There were a number of issues raised by the ASC that have been addressed through restructuring and enhanced processes of central Diocesan organisations –
   (a) There is now a high degree of cooperation between the GAB and ACPT in their governance of the DE and the LTPF. Investment objectives and policy, structure and asset allocation are now similar, and joint meetings with the investment manager (Mercer) are held.
   (b) Regular reporting on investment performance against long term objectives is provided to Standing Committee by the GAB in relation to the DE.
   (c) The GAB as trustee for the DE and the DCIF provides comprehensive reporting to Synod on its investment governance and performance, risk management as well as its conformity with the Governance Policy.
   (d) Financial statements are provided annually to Synod by the GAB as trustee for the DE and DCIF and the ACPT as trustee for the LTPF in accordance with the *Accounts, Audits and Annual Reports Ordinance 1995* (**AAARO**).

7. However, a number of issues remain outstanding from the initial recommendations of the ASC –

   (a) Scarce investment resources are still being split between the two primary organisations charged with governance of significant amounts of funds. Investment governance is a specialist area with significant skills required to provide the appropriate amount of oversight and challenge to asset consultants and investment managers. The ACPT is predominantly focused on real property related matters, including oversight and administration of building projects, heritage matters, insurance and administering government grants. The investment portfolio it is trustee for is of a relatively smaller size and dealing with its investment management could be seen as a diversion from the expertise required to govern the more complex property side of its operations.

   (b) While the ACPT provides quarterly reporting on performance against long term objectives to investors in the LTPF (predominantly parishes), there is little investment governance accountability provided by the ACPT to Standing Committee or Synod. Brief reporting on investment performance and compliance with the ethical investment policy is provided to Synod as part of its Annual Report.

   (c) Risk management reporting (one of the components of the previous enhanced reporting) is no longer required under the AAARO and accordingly there is no formal requirement for reporting of how investment-related and other risks are identified and managed by the boards of these organisations. However, the GAB currently provides reporting on its risk management framework as part of its annual report to Synod.

Proposal for a single investment vehicle

8. More recently the GAB has been re-examining the recommendation for a centralised investment body, particularly as the issues that previously existed surrounding its creation have been resolved. The potential to amalgamate the (liquid) investments of the DE and the LTPF was in particular focus. The GAB has held discussions with the ACPT in relation to both the practicalities of a single investment vehicle and the options for the structure and trusteeship of such a vehicle.

9. However, while the GAB sees advantages in moving the liquid assets of the Diocese to a single investment vehicle, the ACPT is of the view that would be undesirable and the current arrangements for investing those funds should continue. The Standing Committee received submissions from the GAB and the ACPT, and commissioned an analysis of these submissions from the Finance Committee. The principal report of each submission is attached as **Attachments 1 and 2** respectively, and the analysis provided by the Finance Committee as **Attachment 3**.

10. After considering both submissions we invited each body to provide a further submission addressing a number of particular matters. The Endowment of the See Corporation (**EOSC**) was also invited to comment but chose not to make a submission. *[The further submissions are available on the Synod webpage as Attachment 4 and 5).]*

11. The GAB's further submission (Attachment 4) can be summarised as follows –

   (a) Single diocesan investment vehicle: the GAB provided reasons why a single diocesan investment vehicle should be preferred, noting that had been the recommendation of the ASC and is consistent with the approach taken in relation to short-term cash investments through the DCIF, and respectfully disagreed with or rebutted each of the counter arguments offered by the ACPT.

   (b) LTPF or new trust: the GAB noted while it did not have a strong view, cost considerations would indicate an expanded LTPF would be the preferred option.

   (c) Corporate trustee and member skills: the GAB provided reasons why the ACPT should not be the trustee given their significant other responsibilities and noted while there would be some synergies and cost advantages in using GAB there would also be some potential (but manageable) conflict of interest issues.

   (d) Different investor objectives: the GAB noted that historically there was a very high commonality of objectives and this was likely to continue, but even if that were to change in future there are simple mechanisms available to accommodate different objectives within one investment vehicle.

   (e) Open to other investors: the GAB noted a single investment vehicle would facilitate this possibility, but the business case is not dependent on other investors.

12. The ACPT's further submission (Attachment 5) stressed that –
    (a) best practice governance demands that a trustee retain direct oversight and accountability of its assets,
    (b) governance will be more effective if representatives of 3 different trustees (ACPT, GAB and EOSC) meet collectively with the asset manager,
    (c) the status quo with two separate funds managed by different trustees is optimal, efficient and sensible,
    (d) the marginal benefits (of a single investment vehicle) do not outweigh the risk associated with having a single trustee board, and
    (e) the formation of single diocesan investment vehicle would be of such significance that the matter would need to be referred to Synod.

Comments on specific concerns raised

13. During the course of consideration of this matter, a number of concerns were raised by members of the Standing Committee and the ACPT. The following paragraphs provide comment on these specific concerns.

ACPT duty as trustee of parish funds

14. The ACPT was primarily concerned about its duty as trustee of parish funds if investment decisions are made by another organisation and how this could be fulfilled under an alternative structure. The separation of ACPT duties could be achieved by Ordinance. The relevant Ordinance could provide that –
    (a) if client funds are placed in the LTPF by the ACPT, the ACPT is not accountable for the investment performance of the LTPF; and
    (b) the trustee of the LTPF is directly accountable to parishes (and other diocesan entities which are currently invested in the LTPF through the ACPT) for the investment performance of the LTPF (in the same way as the GAB is accountable to Synod / Standing Committee as trustee of the DE, and to investors in relation to the DCIF).

15. In addition, the Ordinance could also confirm that the ACPT is not responsible for those aspects of its management that fall outside its duties. A similar approach has been taken in relation to the ACPT's responsibilities in respect to Anglican Church Growth Corporation Pilot Program developments.

Determination of distribution policy and communication with parishes

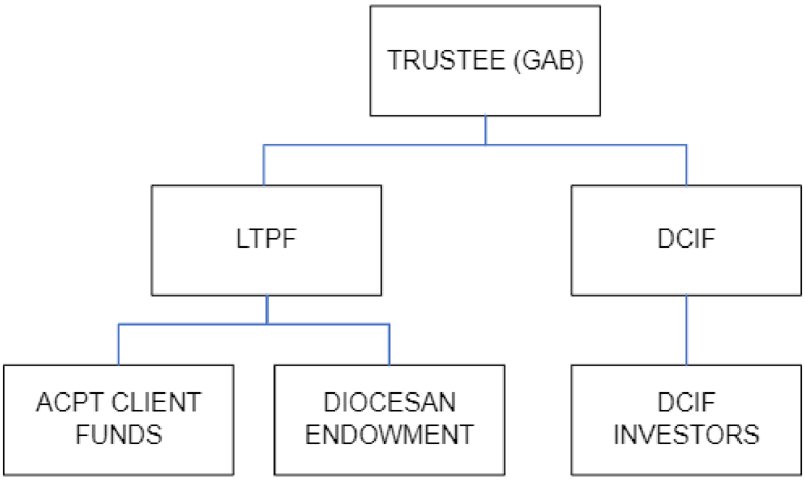
16. It is expected that the trustee of the LTPF will determine its distribution policy, taking into account the objectives of the LTPF and its investors. As outlined above, the Ordinance could prescribe appropriate reporting to the underlying investors in the LTPF, including in relation to matters such as the Synod-endorsed approach to environmental, social and governance criteria. It is anticipated that SDS would provide services to the trustee of the LTPF and continue to answer questions from parishes.

If the GAB were trustee, how could the more frequent investments and withdrawals of funds be managed?

17. The GAB currently oversees the DCIF and the DE. These are managed for the GAB by SDS, the same service provider that serves the LTPF. The GAB is therefore confident the skills to manage the LTPF continue to exist within SDS irrespective of the model. The DCIF is managed to ensure individual accounts for all 220-odd investors are maintained and that unit prices are calculated for each account on a weekly basis. There are between 2,200 and 2,800 unitholder transactions per year in the DCIF. SDS advises that there are 30-60 unitholder transactions in the LTPF every year. The GAB is confident that the board can oversee, and SDS can manage, the increased number of transactions that would be created by LTPF clients.

Proposed structure and steps to implement

18. The proposed legal structure is shown in the following diagram.



19. The GAB would be trustee of the LTPF. The ACPT would invest in the LTPF in each of its various trustee capacities in much the same way as it does now. The GAB would also be an investor as trustee of the DE. It is expected that the DCIF would sit alongside the LTPF and that investors could allocate assets between each fund depending on liquidity and growth/defensive investment objectives. The steps required to implement the changes would include the following –

(a) The Synod deciding to establish GAB as the centralised diocesan investment vehicle and requesting Standing Committee to pass an ordinance and suggested motions to put that decision into effect.

(b) Standing Committee reviewing GAB's membership and policy settings to ensure they account for the proposed changes to its functions. This may include amending the *Glebe Administration Board Ordinance 1930*.

(c) Standing Committee amending the *Long Term Pooling Fund Ordinance 2012* to facilitate the new structure and GAB's appointment as trustee, and appointing GAB as trustee of the Long Term Pooling Fund under section 14 of the *Anglican Church of Australia Trust Property Act 1917*.

(d) GAB lodging an identification statement for the LTPF with the Australian Securities and Investments Commission and developing an offer document that complies with the requirements of *ASIC Corporations (Charitable Investment Fundraising) Instrument 2016/813.* This will mean that GAB does not require an Australian Financial Services Licence (**AFSL**) and that the LTPF is granted relief from the fundraising provisions of the *Corporations Act 2001*. It would be very similar to the process the GAB has undertaken for the DCIF.

(e) GAB as trustee for the DE buying units in the LTPF.

(f) The agreements with Mercer and reporting arrangements being varied consequent to the new investment vehicle.

(g) (Optional) GAB applying to the Australian Transaction Reports and Analysis Centre (**AUSTRAC**) for an exemption from the *Anti-Money Laundering and Counter Terrorism Act 2012*. AUSTRAC have already granted an exemption for the DCIF and the considerations would be much the same.

(h) Notifying the Australian Charities and Not-for-profits Commission and the Australian Business Register of the 'change of details'.

Financial services licence

20. As noted above, an exemption would be sought with respect to the requirements for an AFSL and an application would be made to grant relief from the fundraising provisions of the Corporations Act.

Charging of management fees by the ACPT

21. The ACPT management fee structure is currently under review. Initial discussions indicate the merits of ensuring parishes are charged for the services they receive from the ACPT. If services and associated costs are transferred to another entity, the parishes and other organisations receiving those services will pay the relevant fee to the new entity. *[Subsequent to the Standing Committee considering this matter, the ACPT management fee matter was resolved with the result that ACPT management services from 2023 will be charged to all parishes through Parish Cost Recoveries, reflecting the reality that all parishes benefit from the ACPT services. This will replace the current ACPT percentage fee on LTPF investment returns.]*

What difference does it make to parishes?

22. It is not expected there will be any diminishment in value or service level for parishes from the change. However, there is the potential for improved investment governance with a more specialised board responsible for all Diocesan long term investments, together with more transparent risk management and accountability.

The ACPT's ongoing objection to the change

23. The ACPT's view is that there is no need to change the current arrangement as there are no underlying issues with the way parish funds are currently invested in the LTPF under the trusteeship of the ACPT; the investment performance of the fund has been sound; there are no significant cost reductions likely to come about because of the amalgamation; and the benefits of having one trustee board do not outweigh the risks.

Summation

24. Most of the factors identified in the ASC's report as supporting the creation of a central investment management board remain applicable today. The existence of a single diocesan investment vehicle offers the opportunity to achieve operational and financial efficiencies and a single point of accountability and governance.

25. The proposal for a single investment vehicle is not intended to cast doubt on the levels of expertise of the current boards of the ACPT or the GAB. This is more a question of putting resources available to the most effective use for the benefit of the whole Diocese.

26. A simplification of the investment structures and processes would drive a range of efficiencies at both an operational and governance level. In particular –
    (a) Effective use of scarce investment expertise – the duplication and spreading of effort by GAB and ACPT board members in investment governance is rationalised and experienced specialists are freed up to volunteer their time and expertise in other areas of service,
    (b) Clear accountability and governance – clear governance and accountability for funds invested and reporting by one special-purpose investment body to Standing Committee and Synod,
    (c) Operational savings – direct cost savings in the order of $50k pa are likely (due to efficiencies in the transaction costs related to investment rebalancing trades and the accounting and investment work undertaken by SDS staff), and
    (d) Opportunity – for increased scale to provide lower cost investment management and wider investment opportunity.

27. Additionally, there is potential to leverage the benefits of the simplified structure if funds presently under the control of other bodies and organisations in the Diocese were to be added in the future. (However, the proposal is still beneficial with only the investments managed by the GAB and ACPT.)

28. A single investment vehicle would not reduce the range of investment options available, as a single vehicle could support and manage multiple pools of investments with differing objectives. It is noted that currently the GAB is trustee for two quite distinct investment pools: the DCIF (~$115m) as well as the DE (~$110m).

29. The amalgamation would require some one-off implementation effort, and may carry some (small) additional risk as a result of the concentration of decision making. However, if this was considered a concern it can be managed by addressing governance and accountability. It should be noted that it may be perceived that there currently exists a concentration of decision making with the use of the same asset consultant and investment manager by the two funds.

30. Each of the reasons noted in 2012 as warranting deferral of any action on this matter no longer apply. In particular –
    (a) the relief now available from ASIC means that an AFSL would not be required,
    (b) the DE and the LTPF currently have the same investment objective,
    (c) the conflicts associated with managing, financing and owning St Andrew's House have been removed,
    (d) the current proposal does not depend other Diocesan organisations to support a diocesan-wide investment solution,
    (e) other pre-requisite reforms have proved effective, and
    (f) the current proposal does not depend on a level of investment expertise within Standing Committee.

31. The vehicle should have a board with significant investment governance expertise and the capability to provide appropriate challenge to external investment professionals.

32. The vehicle should provide periodic and robust reporting appropriate to its varying stakeholders (investors / beneficiaries, Synod / Standing Committee) in order to provide accountability of its investment governance and investment performance, as well as risk management and administrative efficiencies.

Conclusions

33. While the explicit benefits of creating a single investment vehicle are not large, the proposal has a number of appealing factors:
    (a) Simplicity – having multiple organisations with virtually identical objectives and operations is, on the face of it, not the most effective structure,
    (b) Clearer governance and accountability,
    (c) Some reduction in operational costs, and
    (d) Potential for scale related benefits.

34. There are some potential risks, primarily related to governance, however these can be mitigated through effective reporting and oversight.

35. Accordingly, the Standing Committee agreed in principle at its meeting on 6 December 2021 –
    (a) to establish a centralised investment vehicle, initially with responsibility for the assets of the DE, DCIF and the LTPF,
    (b) that the vehicle should have robust accountability and reporting to Synod for its governance, performance and risk management,
    (c) that the members of the trustee board have substantial and appropriate investment governance expertise, along with other skills and qualifications in line with the Synod's Governance Policy, and
    (d) that the GAB, subject to a review of its membership criteria to ensure suitability of qualifications, is the most appropriate organisation to act as trustee of the proposed investment vehicle.

36. Noting the ACPT's position that if any change in the present trusteeship of the LTPF is to occur then the matter must be referred to the Synod, the Standing Committee requested the preparation of this report and its recommendation for Synod.

For and on behalf of the Standing Committee.

DANIEL GLYNN
Diocesan Secretary 6 December 2021

Attachment 1

Standing Committee of Synod

Diocesan Investment Strategy

(A paper from the Glebe Administration Board.)

Key Points

- In 2011 the Archbishop's Strategic Commission ("ASC") recommended that a central investment management board ("CIMB") be created for the Diocese. For various reasons the Standing Committee deferred further consideration of this recommendation until after the end of 2013.
- Upon substantially completing a rationalisation and simplification of operations and assets, the Glebe Administration Board ("GAB") commenced a re-examination of this recommendation in late 2017 in the context of looking at a diocesan investment strategy. GAB sought comments from The Anglican Church Property Trust ("ACPT") on this matter.
- Initial discussions between the GAB and the ACPT contemplated the (liquid) investments of the Diocesan Endowment ("DE") and of the Long Term Pooling Fund ("LTPF"), being the only 2 significant central pools of investment in the Diocese, being amalgamated into a single diocesan investment vehicle. Different options for the most appropriate structure and trusteeship of such a vehicle were also discussed.
- Ultimately the ACPT formed the view that it would be undesirable to amalgamate the liquid assets of the DE and LTPF and that the current arrangements for investing those funds should continue to apply.
- It is appropriate that the Standing Committee be given the opportunity to form its own view regarding the establishment of a CIMB or other single diocesan investment vehicle and, possibly, broader strategic questions concerning the investment of diocesan assets.

Purpose

1. To enable the Standing Committee to determine whether it wishes to further consider the establishment and attributes of a single diocesan investment vehicle as a means of revisiting the recommendations made by the Archbishop's Strategic Commission ("ASC") in 2011 concerning the establishment of a central investment management board ("CIMB").

Recommendations

2. The Standing Committee note this report.

3. The Standing Committee, noting its decision to reconsider after the end of 2013 the recommendations made by the ASC concerning the establishment of a CIMB, request the Finance Committee to –

   (a) review the material set out in this report concerning the possible establishment and attributes of a single diocesan investment vehicle,

   (b) invite submissions from the Glebe Administration Board ("GAB"), the Anglican Church Property Trust ("ACPT") and other interested diocesan bodies on the establishment of such a vehicle and on any broader strategic questions concerning the investment of diocesan assets that the Finance Committee considers are relevant to this enquiry, and

   (c) report its findings and recommendations to the Standing Committee by the end of 2019.

Background

4. The final report of the ASC of 15 August 2011 made a number of recommendations (4, 5, 6 and 8) in relation to the creation of a CIMB. The Standing Committee's response to these recommendations was reported to the Synod in 2012. Extracts of the Standing Committee's response to these recommendations are attached (Attachment A).

5. For various reasons, the Standing Committee decided not to pursue these recommendations at that time. Instead, the Standing Committee determined to reconsider the recommendations after the end of 2013 to allow a number of governance reforms made in response to the ASC to be assessed against performance indicators such as risk, performance, cost and administrative efficiency.

6. Despite the end of 2013 being over 5 years ago, the Standing Committee has yet to reconsider these recommendations.

Re-consideration of the CIMB recommendations

7. Upon substantially completing a rationalisation and simplification of operations and assets in late 2017, the GAB commenced a re-examination of the CIMB recommendations in the context of looking at a diocesan investment strategy. In particular the GAB considered whether the reasons which prevented the Standing Committee from pursuing a CIMB in 2012 continued to apply. In short, it found they did not.

8. A summary of this assessment is set out in Attachment B.

9. In early 2018, the GAB engaged the ACPT in a discussion on ways they might co-operate more closely in the management of the Diocesan Endowment ("DE") and the Long Term Pooling Fund ("LTPF"), being the only 2 significant pools of invested funds in the Diocese.

10. Initial discussions between the GAB and the ACPT contemplated a strategy which involved the liquid investments of the DE and the LTPF being amalgamated into one investment fund. For this purpose, liquid investments are non-cash assets, such as holdings in Australian or overseas share funds, which are capable of being redeemed on short notice. Different options for the most appropriate structure and trusteeship of such a fund were also discussed with a view to the GAB and ACPT preparing a joint paper on these matters for the Standing Committee.

11. In April 2019 the ACPT formed the view that it would not be desirable to amalgamate the liquid assets of the DE and LTPF and that the current arrangements for investing those funds should continue to apply. As a consequence, the ACPT was unable to support the provision of a joint paper to the Standing Committee.

12. Nevertheless, the GAB considers its discussions with the ACPT over the last 18 months have been helpful in identifying the matters to be considered in relation to the establishment of a single diocesan investment vehicle based on the amalgamation of the liquid assets of the DE and LTPF.

13. It is appropriate that these matters are brought to the Standing Committee's attention to give the Standing Committee an opportunity to decide whether it wishes to pursue the recommendation of the ACS to establish a CIMB given the primary reasons to defer doing so no longer exist.

14. If the Standing Committee were minded to do so, the GAB considers that the Standing Committee would be best served by asking its Finance Committee to -
    (a) review the material set out in this report concerning the possible establishment and attributes of a single diocesan investment vehicle,
    (b) invite submissions from the GAB, the ACPT and other interested diocesan bodies on the establishment of such a vehicle and on any broader strategic questions concerning the investment of diocesan assets that the Finance Committee considers are relevant to this enquiry, and
    (c) report its findings and recommendations to the Standing Committee by the end of 2019.

15. Attachment C to this report provides some observations on the following questions which were identified by the GAB in considering the most appropriate structure and trusteeship of single diocesan investment vehicle -
    (a) Should the two significant pools of central diocesan investment, namely the DE and LTPF, be amalgamated into a single diocesan investment vehicle?
    (b) Should a diocesan investment vehicle be formed using an expanded version of the LTPF or a new trust established for this purpose?
    (c) Who should be the trustee of a diocesan investment vehicle?
    (d) Should a diocesan investment vehicle be open to other diocesan and Anglican investors?

16. The GAB is able to provide such further information as the Standing Committee or the Finance Committee requires to complete its review.

ROSS SMITH
Chair, Glebe Administration Board

30 June 2019

Attachment A

Extracts from the Standing Committee's report to the Synod in 2012 indicating its response to those of the ASC on Structure, Funding and Governance recommendations relating to a CIMB

Recommendation 4 – Creation of a central investment management board

19. Recommendation 4 of the ASC proposed the establishment of a central investment management board ("CIMB") and that diocesan bodies be encouraged to work towards ensuring that all investment activity for assets in excess of $5 million in aggregate be undertaken through the CIMB or an external manager appointed by CIMB.

20. In its Final Report dated 15 August 2011, the ASC made the following comments in support of the proposal –

- The ASC observed that the greatest financial expertise serving the Diocese was within SDS and GAB and, while it was evident there were some very able and financial aware people serving on other boards, there was (in the ASC's view) a general scarcity of committed Christians with a genuine depth of financial management experience and insight who were willing to serve. In the ASC's view, this meant that this limited resource was spread too widely, too thinly and ineffectively. The ASC believed that a CIMB would consolidate this limited resource and would consist largely of those within the Diocese who have investment and financial acumen, particularly from GAB and SDS.
- The ASC noted that if the CIMB was the sole body making investment decisions, there would be no need for other boards to have investment expertise. There would be no reason (in the ASC's view) why the investment assets of other diocesan bodies (such as Anglicare and Anglican Retirement Villages) could not be invested by the CIMB on behalf of those bodies. Indeed, the ASC considered that there would be a strong preference for this to occur.
- The ASC considered that while the recommendation that diocesan bodies undertake investments through a CIMB is contrary to the recent tendency for division of effort, the division of effort was not justifiable from the perspective of the overall diocesan financial interests.

21. The ASC acknowledged the significant reforms undertaken by GAB since late in 2009 to reform its investment processes. In the ASC's view, the creation of the CIMB would further enhance the investment processes in the Diocese.

22. The Working Group noted that since early 2010 GAB had undertaken a series of major reforms to enhance its investment processes for the Diocesan Endowment. Those reforms included reviewing the investment objective of the Diocesan Endowment, reviewing the strategic asset allocation and investment policies (particularly having regard to risk), and outsourcing the investment management and investment accounting functions to professional external service providers. These reforms had been reported to the Standing Committee and to the Synod. The Property Trust has undertaken similar reforms in relation to the investment processes for its Long Term Pooling Fund ("LTPF").

23. There is now a high degree of co-operation between GAB and Property Trust in relation to their investment processes which allows the relevant expertise on both boards to be pooled. For example, both GAB and Property Trust have appointed the same asset consultant and investment manager for the funds they respectively manage and joint meetings are held with the consultant and manager to discuss investment strategy and performance. However, while there is a high level of co-operation, the processes allow GAB and Property Trust to each adequately weigh and serve the distinct investment objectives of the funds they respectively manage.

24. GAB has also enhanced its reporting to both the Synod and the Standing Committee. By way of example, GAB now reports to the Standing Committee quarterly about the investment performance of the Diocesan Endowment, and those reports are widely available.

25. The Working Group understood that this co-operative model adopted by GAB and the Property Trust has reduced the complexity and cost of their investment management processes. Previously, GAB and the Property Trust undertook the investment of their funds through a central investment vehicle known as the Glebe Group. Among other things, that vehicle required an Australian

Financial Services Licence ("AFSL") to undertake the investment management function. However, the Glebe Group has subsequently been effectively closed because of the burdensome and costly administrative and external regulatory requirements associated with holding such a licence. The present co-operative model minimises those burdens and costs.

26. The reforms which GAB has undertaken have also sought to address conflicts of interest which existed in relation to St Andrew's House. Prior to early 2010 GAB was the manager of St Andrew's House (on behalf of the Corporation), as well as being the lender and the "beneficial owner" of part of that property. This created a number of conflicts which are likely to have contributed to many of the recent issues associated with the management and finances of St Andrew's House. GAB sought to deal with these conflicts by initiating the withdrawal of its authority to undertake the day to day management of the building (which has been assumed by the Corporation).

27. The Working Group advised the Standing Committee that the ASC's proposals for a CIMB required more thought if some of the complexities, costs and conflicts of past processes were to be avoided –

- The Working Group advised that it is likely that a CIMB, in the form proposed, would need to hold an AFSL. As mentioned, holding an AFSL is burdensome and costly.
- Care needed to be taken to ensure that a CIMB was aware of, and effectively manages, the distinct investment objectives of the underlying funds invested in it.
- A CIMB would also need to ensure that conflicts (such as the conflicts associated with the management, financing and ownership of St Andrew's House) are avoided or effectively managed. In relation to St Andrew's House, the model proposed by the ASC appeared to the Working Group to reinstate the structure which GAB sought to unwind, which gave rise to the conflicts of interest.

28. If it was only the funds of GAB, the Property Trust and the Corporation which were invested through a CIMB the Working Group was doubtful, at the present time, that the benefits of a CIMB would outweigh the benefits of the present arrangements which involve a high level of co-operation between these bodies. Rather, the Working Group was concerned that a CIMB would add to the cost and complexity with little net benefit. The Working Group acknowledged that there would be greater force in the argument for a CIMB if it was a diocesan investment vehicle through which all organisations invested. However, the Working Group understood that informal soundings with members of other diocesan organisations suggested that it is unlikely that those organisations would want to utilise the investment services of a diocesan entity such as a CIMB.

29. Accordingly, while the Working Group recognised the possible merits of a CIMB, it did not support the creation of a CIMB at this time. In coming to this view it was influenced by the significant reform in existing investment processes which appeared to have been effective and ought be further encouraged. But the Working Group was conscious that such reforms may not be maintained and, over time, unhelpful practices of the past might re-emerge.

30. Accordingly, the Working Group recommended that the proposal for the CIMB be reconsidered after the end of 2013, being 3 years after the initial reforms, to allow such reforms to be assessed against performance indicators such as risk, performance, cost and administrative efficiency. This recommendation was adopted by the Standing Committee.

31. The Working Group also recommended that, in the meantime, GAB, the Property Trust and the Corporation should be requested to report to the Standing Committee each 6 months in terms of such performance indicators to enable the Standing Committee to monitor the ongoing effectiveness of the reforms until such time as the proposal for a CIMB is reconsidered. This recommendation was also adopted by the Standing Committee, and the first of such reports is to be provided by the end of 2012.

Recommendation 5 – Investment strategy and related matters

32. Recommendation 5 of the ASC proposed that –

- the Standing Committee approve the CIMB's investment strategy at the level of asset allocation and material variations of asset mix, and
- the CIMB be subject to a borrowing limit approved by the Standing Committee, and
- the constituting ordinance of the CIMB be amended to clarify that the objective should be to first preserve the real value of the assets invested, and then provide a reasonable income.

33. Since Recommendation 5 was tied to the creation of a CIMB the Working Group considered that this recommendation ought also be deferred and reconsidered when the proposal for a CIMB was reconsidered. The recommendation of the Working Group that further consideration of Recommendation 5 be deferred was adopted by the Standing Committee.

34. However, in relation to the specific issues raised in this recommendation, the Working Group flagged that at the appropriate time further consideration needs to be given to the major practice and governance issues which would arise if members of Standing Committee were to be involved in decisions about asset allocations and asset mixes.

35. The Working Group considered that it was questionable whether the members of the Standing Committee would have expertise in such complex matters, and whether the Standing Committee's involvement would diminish the responsibility and accountability of the CIMB for undertaking the investment function. It was noted that questions as to whether members of Standing Committee so acting may be 'shadow directors' (with responsibilities under the Corporations Act) needed further reflection.

36. In the meantime, the Working Group considered that the present approach whereby the Standing Committee appoints the members of boards, regularly reviews investment strategy, and if not satisfied informs the relevant body, remains a good one. If still not satisfied, Standing Committee can change the members of the board. The Working Group's suggestion that GAB, the Property Trust and the Corporation report regularly to the Standing Committee was thought to assist the Standing Committee in monitoring the work of those bodies, particularly in relation to reviewing investment strategy.

37. The Working Group also flagged that enshrining the principle that the real value of the capital of a fund must be preserved before any distributions can be made by the fund is not without difficulty. This issue required more detailed consideration at the relevant time. Taken to the extreme the principle could mean that no distributions can be made from the fund if, for example, capital levels declined because of a decline in investment markets as has been experienced in recent times. An alternative approach, and one which GAB and the Property Trust have followed in recent years, is to recognise that there is risk inherent in investment activities, but the key issue is not to try and eliminate risk (as a requirement to maintain the real value implies) but to identify acceptable risk tolerances for the maintenance of the real value, and manage the investments according to those tolerances. GAB reported in some detail to the Synod in 2011 about its approach to maintaining the real value of the capital of the Diocesan Endowment. The Working Group believed that the proposed periodic reports to the Standing Committee will continue to allow this issue to be discussed.

Recommendation 6 – Endowment of the See

38. Recommendation 6 of the ASC was that the Endowment of the See Ordinance 1977 be amended to –

- Insert a clause that establishes the objective to preserve the real value of the EOS.
- Enable the trustee of the CIMB to be responsible for managing the EOS investments and allocate income from those investments to the EOS Committee.
- Enable the EOS Committee to be responsible for budgeting and expenditure, within the amount allocated (as determined by the CIMB, on the recommendation of the Archbishop).
- Clarify that all real property transactions, including mortgages, sales or leases are to be endorsed by the Synod or the Standing Committee.

39. On the basis that the ASC's recommendations for a CIMB are not being further pursued at this time, the Working Group considered that the Property Trust was the appropriate trustee for these purposes.

40. The Working Group proposed that the 1977 Ordinances be repealed and that 2 ordinances, namely the Endowment of the See Capital Ordinance 2012 and the Endowment of the See Expenditure Ordinance 2012, be passed to address the governance matters raised by the ASC and other related ordinances. Both the EOS Committee and the Property Trust were consulted in the course of the preparation of these proposed ordinances.

41. The Standing Committee adopted the recommendation of the Working Group and has passed the 2 ordinances.

42. The basic framework of the ordinances is as follows –

    (a) There are now 2 funds. The existing EOS fund (Fund 301) is now the Capital Fund. A new fund has been created which is known as the Expenditure Fund.

    (b) The Property Trust is the trustee of the Capital Fund. The principal objects of the Capital Fund are –

    - to maintain the real value of the investments of the EOS, and
    - to receive distributions from the St Andrew's House fund (in respect of the EOS's 50% interest in that fund), and
    - to care for, repair, renovate and refurbish the real property of the Endowment of the See to an appropriate standard having regard to the age and use of that property (the real property of the EOS consists of the residences of the Archbishop and those assistant bishops provided with housing owned by the EOS).

    (c) The Property Trust is to provide for distributions from the Capital Fund to the Expenditure Fund in accordance with the Capital Ordinance.

    (d) The mechanism for the calculation and payment of the distributions is a follows –

    - The Property Trust is to determine before 30 June each year the amount which may be distributed to the Expenditure Fund after taking into account its costs and expenses of administering the Capital Fund, the retention of an appropriate amount from the returns of the Invested Property to maintain the real value of that property, and the retention of an appropriate amount to undertake the repair of the real property of the Fund.
    - The Property Trust is to give notice of its determination to the EOS Committee as soon as is practical after the making of the determination and, in any event, by 30 June.
    - The amount determined by the Property Trust is to be paid to the Expenditure Fund by 4 equal instalments due on 1 January, 1 April, 1 July and 1 October in the calendar year following the year in which the determination is made.

    (e) The Expenditure Fund comprises an initial sum of $3 million, the distributions made by the Property Trust from time to time, and other sums paid into the Fund from other sources. The purpose of the Expenditure Fund is to pay the expenses of the Endowment of the See. The Endowment of the See Committee will administer the Expenditure Fund.

    (f) The purpose of providing an initial sum for the Expenditure Fund is to provide adequate working capital for the EOS Committee.

    (g) The Property Trust will report each year about the Capital Fund under the Accounts, Audits and Annual Reports Ordinance 1995. The EOS Committee will provide a copy of the financial statements of the Expenditure Fund each year to the Standing Committee.

    (h) The 1977 Ordinance has been repealed.

Recommendation 8 – Property Trust's investment function

54. Recommendation 8 of the ASC proposed that the Property Trust's investment function be passed over to the CIMB, and that the board of the Property Trust be comprised of members with the skill set to conduct its core business.

55. Since Recommendation 8 was also tied to the creation of a CIMB, the Working Group recommended that Recommendation 8 ought to be reconsidered when the proposal for a CIMB is reconsidered. In any event the Working Group said it was not aware of any suggestion that the present membership of the Property Trust does not collectively possess the skill set required to conduct its core business. The Working Group has been informed that a review of the skills of the members of the Property Trust is part of the annual review of board performance undertaken by the Property Trust.

56. The Standing Committee accepted the recommendation of the Working Group to reconsider Recommendation 8 when the proposal for a CIMB is reconsidered.

Attachment B

Reasons why a CIMB was not pursued in 2012

1. In its report to the Synod in 2012, the Standing Committee gave a number of reasons for not pursuing a CIMB at that time.

2. In general, it appears that the reasons given in 2012 for not pursuing the creation of a CIMB no longer apply.

3. The following table sets out the reasons given in 2012 for not pursuing a CIMB, and comments on why these reasons no longer apply.

	Reasons given in 2012 for not pursuing a CIMB	**Why these reasons no longer apply**
1.	The strong likelihood that a CIMB, in the form proposed would need to hold an Australian Financial Services Licence ("AFSL") which would be burdensome and costly.	In view of the relief now available under the *ASIC Corporations (Charitable Investment Fundraising) Instrument 2016/*813 (the "ASIC relief"), a diocesan entity could act as the trustee of an investment vehicle without an AFSL and the costs and complexities associated with such a licence. This is the same instrument under which the GAB obtains relief from licensing and other Corporations Act requirements as trustee of the short-term investment vehicle, the Diocesan Cash Investment Fund ("DCIF"). However, it would be unnecessary to obtain the ASIC relief to operate a diocesan investment vehicle if all investments in the vehicle were made in the name of the same corporate trustee (as is currently the case with ACPT client fund investments in the LTPF). This would be the situation if – • the LTPF formed the basis of the diocesan vehicle, • the trustee of the vehicle was the ACPT, • the investments in the vehicle were limited to the liquid assets of the DE and the LTPF, and • the trusteeship of the DE's liquid assets was transferred from the GAB to the ACPT to enable such assets to be invested in the LTPF in the name of the ACPT.
2.	Concern regarding the differing investment objectives of the LTPF and the DE.	The LTPF and the DE have shared the same investment objective (CPI + 3.5% p.a.) since September 2017. However, see paragraphs 2, 6, 8 and 9 of Attachment C.
3.	Conflicts associated with the management, financing and ownership of St Andrew's House.	At GAB's instigation, the St Andrew's House Corporation ("SAHC"), took back management of St Andrew's House from the GAB in May 2011. In March 2015 the SAHC replaced the GAB as the trustee and legal owner of St Andrew's House. In September 2017 the DE's 50% interest in the St Andrew's House Trust was removed and is now held by the SAHC directly for the Synod. GAB's loan to the SAHC remains in place but is due to be repaid in full by 31 December 2022.

	Reasons given in 2012 for not pursuing a CIMB	**Why these reasons no longer apply**
4.	Concerns that the CIMB would not be a diocesan-wide investment solution.	The diocesan investment strategy considered in this paper involves the creation of a diocesan investment fund through the amalgamation of the liquid assets of the DE and the LTPF. This would not depend on investment by other diocesan entities and, unlike the original CIMB recommendation, would not mandate such investment. However if the ASIC relief referred to above was obtained it would be possible for other diocesan (and possibly Anglican) entitles to invest in the fund directly in their own name.
5.	Acknowledgement that further reform was needed before the CIMB would be effective.	In 2012 the Standing Committee requested the GAB, SDS, ACPT, EOS, and SAHC to report every 6 months against certain performance indicators in order to monitor the on-going effectiveness of reforms taken by those organisations. In February 2014 the Standing Committee discontinued this reporting requirement on the basis that it was no longer necessary.
6.	Possible lack of expertise within Standing Committee to approve the asset allocation and other investment policy matters concerning the CIMB.	The diocesan investment strategy considered in this paper would not involve the Standing Committee approving asset allocations and other investment policy matters. Such decisions would be made by the trustee of the fund - with the advice of an external specialist consultant, assuming the trustee was a diocesan body, as is already the case for the GAB and the ACPT.

Attachment C

Questions for consideration

Question 1

Should the two significant pools of central diocesan investment, namely the DE and LTPF, be amalgamated into a single diocesan investment vehicle?

1. The primary rationale for a diocesan investment strategy must depend on achieving operational and financial efficiencies through the investment of the liquid assets of the DE and LTPF into a single long-term, diversified investment vehicle.

2. Although the DE and the LTPF have different investment horizons (the DE measures its investment objective over 20 years whereas the LTPF uses a 10 year timeframe), the other key characteristics of these funds are now shared –
   - investment objective (CPI + 3.5%),
   - defensive/growth asset split (35%:65%),
   - measure of maintaining real value (70%),
   - liquid assets (except for modest holdings in unlisted infrastructure and direct property), and
   - compliance with the Diocesan Ethical Investment Policy.

3. Taking a diocesan-wide view, these shared characteristics present an opportunity to achieve a simplification of our investment structures and processes which in turn would drive a range of efficiencies at both a governance and operational level. For example, it is estimated that direct cost savings in the order of $50k pa are likely to be achieved through efficiencies in the transaction costs related to investment rebalancing trades and the accounting and investment work undertaken by SDS staff.

4. However not all efficiencies are capable of ready quantification. For example, no attempt has currently been made to quantify what are likely to be the significant direct and indirect cost savings achieved by minimising the time spent by volunteer board members in duplicate governance structures. In addition to the direct costs of maintaining duplicate governance structures themselves, the involvement of volunteers, all of whom are highly experienced specialists in their fields and competent board members, represents a significant opportunity cost for the Diocese insofar as it prevents the use of their time and expertise in other areas of service.

5. Despite the efficiencies that are expected through the amalgamation of the liquid assets of the DE and LTPF, there are a number of reasons not to support such an amalgamation.

6. Firstly, the amalgamation would reduce the capacity for the investment objectives and other characteristics of the DE and LTPF being differentiated in the future. While the investment objective and other characteristics of the DE and LTPF currently reflect the very similar requirements of their underlying beneficiaries (i.e. the Synod and parishes respectively), it is conceivable, although unlikely, that these requirements may diverge in the future. Such a divergence could be managed through the allocation process to this or other investments. Nonetheless, a reduction in the capacity to differentiate the characteristics of those funds in the future should be taken into account in assessing the net benefit of amalgamating those funds.

7. Secondly, the net benefit likely to be achieved from the amalgamation may be insufficient to justify the effort involved in implementing amalgamation. In considering this matter, regard should be had to both the readily quantifiable net cost savings likely to be achieved through the amalgamation as well as the less tangible, but no less real, efficiencies achieved by removing the duplication of volunteer board member effort in overseeing the investments of the DE and LTPF.

8. Thirdly, the benefits of amalgamation of the two funds may not outweigh the risk in having the 2 significant central pools of investment of the diocese governed by a single board. There is an argument, based in part on managing risk through separation and diversity in decision-making, to continue the current practice where members of both the GAB and the ACPT Insurance

Investment and Finance Committee ("IIFC"), and the senior executive team of SDS meet together for a quarterly update from the investment manager, Mercer, and continue to collaborate together in this quarterly review for the mutual benefit of each fund gained from the collective skills and experience delivered by the membership of the two boards.

9. However, if this is indeed an issue, consideration should properly be given as to whether there are similar, or even greater, concerns with both the GAB and the ACPT using the same asset consultant and investment manager (and as a result having very similar asset allocations, investment objectives and underlying investments) notwithstanding the current separate decision-making processes.

Question 2

Should a diocesan investment vehicle be formed using an expanded version of the LTPF or a new trust established for this purpose?

10. A diocesan investment vehicle could be established using an existing diocesan fund. Alternatively, a new fund could be created for this purpose.

11. In terms of an existing diocesan fund, it would be possible to use the LTPF as the basis for a diocesan investment vehicle since the LTPF is an investment product in which underlying investors, namely the ACPT Client Funds, acquire units. By comparison, the DE is capital held on trust by the GAB with no underlying investors. The capital of the DE cannot therefore be used as the basis of a unitised investment product. Rather, if the DE is to form part of a diocesan investment vehicle, the capital of the DE must be invested in a unitised investment product.

12. Accordingly, the decision as to the most appropriate trust fund structure for a diocesan investment vehicle becomes a choice between using the existing LTPF or establishing a new unitised trust fund for this purpose.

13. Diagrammatic representations of a diocesan investment vehicle based on the LTPF and a new trust fund are shown in Attachment D.

14. There is some attraction in starting with a new trust fund. The main drawback is that a new fund would involve an extra layer of administration which would involve additional cost, including the establishment and maintenance of a unitised trust fund structure (in addition to that of the LTPF). Current estimates suggest that the additional on-going costs associated with a new fund could be in the order of $100k pa. However, these additional costs would need to be offset against the expected cost savings associated with the amalgamation itself (see the response to question 1 above).

15. The use of the LTPF as the basis of the diocesan vehicle would avoid the extra level of administration. It is expected that the marginal cost of maintaining the LTPF as the vehicle for broader diocesan investment would be negligible.

16. Mercer has indicated, informally at this stage, that its fees are not expected to increase significantly regardless of the chosen structure as these are largely a function of invested assets.

Question 3

Who should be the trustee of a diocesan investment vehicle?

17. There are a number of possibilities as to who the trustee of a diocesan investment vehicle should be. The 3 main possibilities are –
    - An external investment manager (e.g. Mercer).
    - A third party professional trustee (e.g. Perpetual).
    - A diocesan body (e.g. GAB or ACPT).

18. Using an external investment manager of diocesan investments (e.g. Mercer) as trustee of a diocesan investment vehicle has the advantage of avoiding the possible reputational issues that

may be associated with a diocesan body acting as trustee. This is notwithstanding that the investment management component of the vehicle is outsourced to the investment manager.

19. Mercer has indicated it could act as trustee of an Anglican-specific investment solution, open only to approved investors nominated by a diocesan body such as SDS or the Standing Committee (who could be paid a “finder’s fee”).

20. However, there are some significant impediments to an investment manager acting as trustee. For example, Mercer has indicated its involvement would require a minimum of $250 million of funds under management (the total funds under management across the DE and the LTPF is currently around $157 million). This would mean that the “Mercer as trustee” model is dependent on other investors, and also on the ongoing maintenance of minimum funds under management in perpetuity. From a governance perspective, to have Mercer as both trustee and investment manager would not be ideal.

21. For these reasons, it is suggested that this option not be pursued.

22. A third party such as Perpetual could construct an Anglican-specific investment solution and be the trustee. They would appoint the investment manager.

23. This option would help in the “outsourcing” of risk and cost associated with using a diocesan trustee; and also provide a clear separation between the trustee and the manager. However, the risk and cost associated with using a diocesan body as trustee may not be significant, particularly if it were to operate with the benefit of the ASIC relief referred to in Attachment B.

24. A third party professional trustee would be required to exercise its fiduciary responsibilities as trustee. Unless such responsibilities were expressly qualified in the trust deed, it is possible that over time diocesan interests in matters such as investment objective, investment allocation and ethical policy considerations would be diluted.

25. For these reasons, it is suggested that this option not be pursued.

26. Either the ACPT or (a reconstituted) GAB could be the trustee of the diocesan investment vehicle. A third possibility is that a new diocesan entity could be established to act as trustee, although there are no significant advantages in this option to (a reconstituted) GAB acting as trustee.

27. Most of the issues relating to a diocesan entity acting as trustee of a diocesan investment vehicle are canvassed in the response of the Standing Committee in 2012 to the recommendations of the ASC (see Attachment A).

28. There are some pros and cons relevant to assessing whether (a reconstituted) GAB or ACPT is better placed to be the trustee of a diocesan investment vehicle. These are summarised in the matrix in Attachment E which also summaries the pros and cons associated with the two main structural options (new trust or LTPF). However, in summary, the main issue in terms of the trusteeship of a diocesan investment vehicle is whether a specialist trustee for this role (a reconstituted GAB) is better placed for this rather than a generalist trustee (ACPT). It should be noted that if the ACPT were the trustee of a diocesan investment vehicle, it would continue to have a specialist subcommittee, currently the ACPT’s IIFC, to advise on the management of the diocesan investment vehicle, with its decisions being ratified, amended or overruled from time to time by the full board of the ACPT. This is how the LTPF is currently managed.

29. There are different opinions about whether a trustee of a diocesan investment vehicle should be a specialist trustee or a generalist trustee, and the resulting steps that would need to be taken if (a reconstituted) GAB or the ACPT were to become the trustee. These matters are outlined as follows.

ACPT as trustee of a diocesan investment vehicle

30. The view which prefers the ACPT as a generalist trustee of a diocesan investment vehicle would point to the fact that the current arrangements for trusteeship of the LTPF (held by the ACPT) and the DE (held by the GAB) have not given rise to any material difference in the investment performance of the LTPF and the DE. Further, whether the trustee is regarded as "specialist" or not does not focus on the trusteeship aspect, which is arguably more important. On this view the GAB experience as

trustee is seen as narrow, with one beneficiary only, in contrast to the ACPT which has extensive experience as trustee of a range of trusts with different beneficiaries, particularly parishes.

31. If the ACPT were to become the trustee of the diocesan investment vehicle using the LTPF as the basis of such a vehicle, consideration would need to be given to the following –
    (a) GAB resigning as trustee of at least that part of the DE comprising its liquid assets and Standing Committee appointing the ACPT as trustee of such assets. The part of the DE held by the ACPT as trustee would become another ACPT client fund invested in the LTPF.
    (b) The resulting confinement of the role of the GAB as trustee of –
        (i) the DCIF (the short-term diocesan cash investment vehicle),
        (ii) any residual illiquid assets then held by the DE, and
        (iii) the Margaret Herron Trust.
    (c) Appointing the ACPT as trustee of each of the “residual” trusts referred to in (b) and winding up the GAB’s operations completely.
    (d) Including some members of the GAB as advisors on the ACPT’s IIFC, which at present is the Committee of the ACPT which more closely deals with the trusteeship of the LTPF (noting that joint quarterly meetings of members of the ACPT’s IIFC and members of the GAB with Mercer already exist).

GAB as trustee of a diocesan investment vehicle

32. The view which prefers (a reconstituted) GAB as a specialist trustee of a diocesan investment vehicle would point to the opportunity to make the greatest use of the best investment specific expertise available to oversee, and possibly even develop, the management of investments for the Diocese. This would in turn enable the ACPT as a generalist trustee to focus its attention and effort in the oversight of parish property (and insurance cover for diocesan entities and parishes) which is already an extensive and complex area in itself. The reasons for using a specialist trustee such as (a reconstituted) GAB for a diocesan investment vehicle are similar to those articulated by the ASC in 2011 when recommending the creation of a CIMB (see Attachment A). The reasons for not pursuing that recommendation at that time arguably no longer apply (see Attachment B).

33. If (a reconstituted) GAB were to become the trustee of the diocesan investment vehicle using the LTPF as the basis of such a vehicle, consideration would need to be given to the following –
    (a) ACPT resigning as trustee of the LTPF and Standing Committee appointing (a reconstituted) GAB as trustee of the LTPF.
    (b) Obtaining relief from ASIC to enable the ACPT to continue to invest its various client funds in the diocesan investment vehicle in its own name as trustee. This would be the same kind of relief which the GAB currently has as trustee of the short-term investment vehicle, the DCIF. Legal advice obtained by the GAB indicates that obtaining this relief in respect to a diocesan investment vehicle should not be a problem.
    (c) Authorising (a reconstituted) GAB as trustee of the DE and the ACPT as trustee of its various client funds to invest in the diocesan investment vehicle.
    (d) Continuing with (a reconstituted) GAB as the trustee of –
        (i) the new long-term diocesan investment vehicle (based on the LTPF),
        (ii) the DCIF (the short-term diocesan cash investment vehicle),
        (iii) the DE, and
        (iv) the Margaret Herron Trust.
    (e) Drawing from across the existing membership of the GAB and the ACPT’ persons who possess the most relevant skills and experience for a reconstituted GAB membership.

Question 4

Should a diocesan investment vehicle be open to other diocesan and Anglican investors?

34. There is a further possible attribute of a diocesan investment strategy which may be worthy of consideration. That is, the vehicle for combining the investments of the DE and the LTPF could be

set up in a way which gives other diocesan and Anglican entities the opportunity to invest in the vehicle if they choose to do so.

35. There are different views as to whether this attribute is worth pursuing.

36. Those that support opening the diocesan investment vehicle to other diocesan and Anglican investors would want to look beyond how diocesan investments are currently managed and at least be in a position to create further scale and efficiencies for diocesan investments in the future if other diocesan and Anglican entities wished to invest in a diocesan investment vehicle.

37. Those that do not support opening the diocesan investment vehicle to other diocesan and Anglican investors doubt that other diocesan Anglican entities would want to invest in a diocesan investment vehicle, particularly if those entities had different investment objectives or requirements to those of the DE and LTPF. They consider there is no evidence at present to indicate that it is at all likely.

38. The potential attraction of such an investment vehicle for other diocesan and Anglican entities would be access to a long-term diversified investment vehicle which –
    - complies with the Diocesan Ethical Investment Policy,
    - would be unattainable for those with smaller investment pools, and
    - offers fees lower than those available to such entities if they sought to invest on a stand-alone basis.

39. The increase in scale achieved through the addition of other investors in a diocesan fund could be of further benefit to the DE and LTPF due to the fixed natures of some of the administration costs. The total portfolio for the DE and LTPF currently invested with Mercer is just below $157 million. In order to achieve a greater rate of fee rebate from fund managers an additional $143 million would need to be invested.

40. If other diocesan and Anglican entities decided to invest in the diocesan vehicle, it is expected that the key features of the vehicle would continue to be set and reviewed by reference to the investment requirements of the DE and LTPF as its core or founding members.

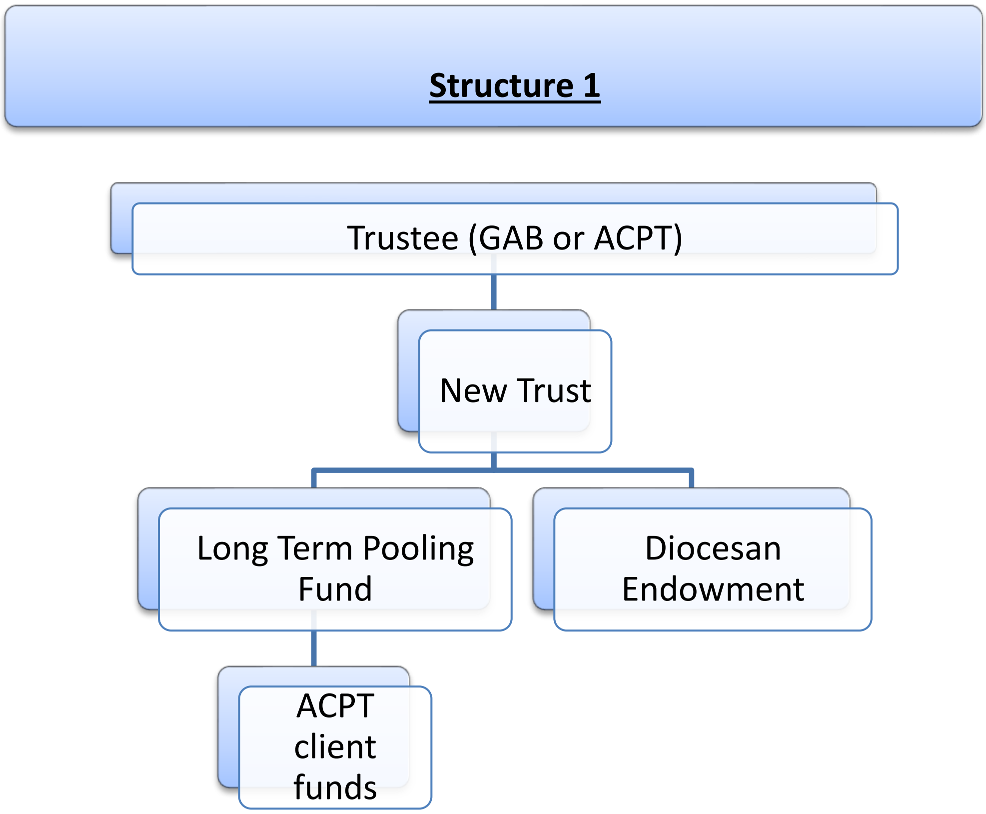
41. An ideal product for the investments of diocesan and Anglican entities is likely to have the following features –
    (a) compliance with the Diocesan Ethical Investment Policy (screens and carbon footprint targets),
    (b) suitable for longer term investment (greater than 5 years, ideally 10+),
    (c) diversified by asset class and fund manager to reduce market volatility,
    (d) suitable for tax-exempt investors,
    (e) suitable risk parameters and investment objective which are reviewed at least yearly,
    (f) regular distributions of income (which can be received in cash or via re-investment),
    (g) liquid,
    (h) managed by a reputable fund manager,
    (i) regular reporting with yearly strategic reviews,
    (j) sound governance structure, and
    (k) efficient way for clients with less than $10 million to participate in a global, well managed product.

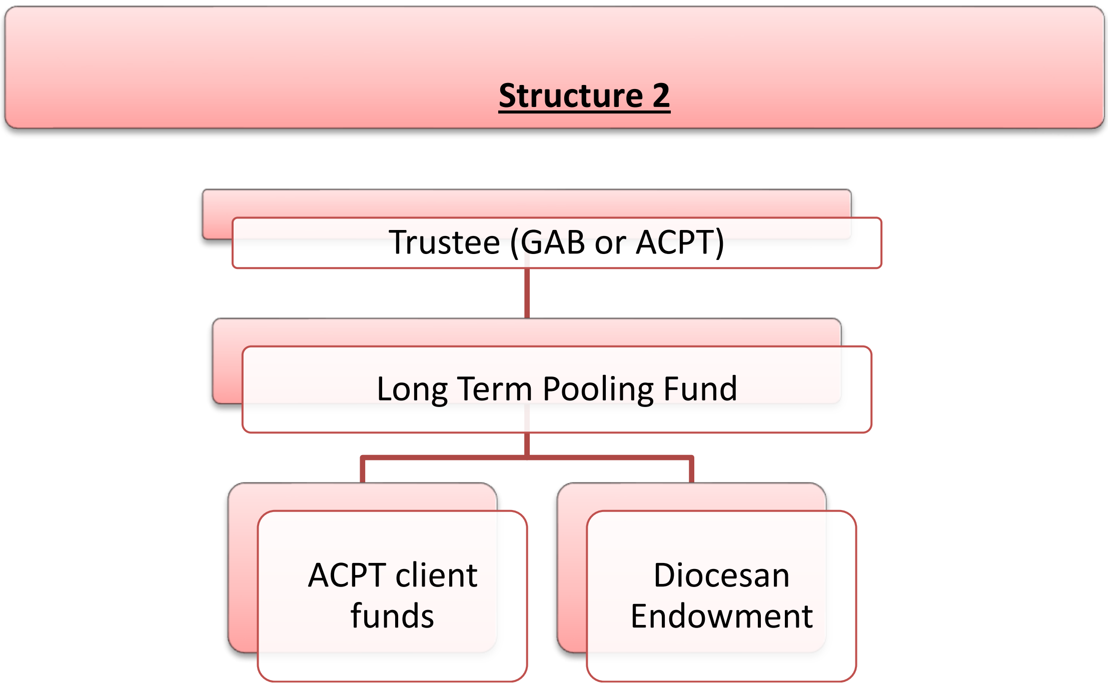
42. Initial research by SDS management suggests a product which has all these features is not available in the marketplace.

43. In view of the relief now available under the *ASIC Corporations (Charitable Investment Fundraising) Instrument 2016/*813, a separate diocesan entity could act as the trustee of an investment vehicle without an AFSL and the costs and complexities associated with such a licence. This is the same instrument under which the GAB currently obtains relief from licensing and other Corporations Act requirements as trustee of the short-term investment vehicle, the DCIF.

Attachment D

Structure of a diocesan investment vehicle
New trust or LTPF





Attachment E

Structure of a diocesan investment vehicle - Pros and Cons

<table>
<tr><th></th><th></th><th colspan="3">GAB or ACPT as TRUSTEE</th></tr>
<tr><th></th><th></th><th>GAB</th><th>Either GAB or ACPT</th><th>ACPT</th></tr>
<tr><td rowspan="4">New Trust or the LTPF as INVESTMENT VEHICLE</td><td rowspan="2">New Trust</td><td>Pros:
• –</td><td>Pros:
• Simpler investment administration for DE and LTPF (due to single investment holding in new trust).</td><td>Pros:
• –</td></tr>
<tr><td>Cons:
• –</td><td>Cons:
• Cost of establishing and maintaining new trust.
• Extra level of administration for ACPT client fund investors (DE has no clients).</td><td>Cons:
• –</td></tr>
<tr><td rowspan="2">Either New Trust or LTPF</td><td>Pros:
• GAB is a specialist trustee for investment management.
• GAB retains expertise as the trustee for both the long-term and short-term diocesan investment vehicles.
• Strong performance history since 2010.</td><td>Pros:
• Increased efficiencies with respect to managing one investment pool.
• Cost savings with respect to rebalancing, asset consulting fees and other administration costs.
• Potential to grow FUM to gain benefit of scale and reduced costs for all investors (with additional investors beyond the DE and LTPF).</td><td>Pros:
• IIFC retains responsibility for investment oversight on behalf of the ACPT.
• Strong performance history since 1996.</td></tr>
<tr><td>Cons:
• Additional costs associated with retaining specialist trustee for investment management.
• Cost of obtaining ASIC relief to permit pooling of associated wholesale</td><td>Cons:
• Reduced scope for differentiating between DE and LTPF objectives in the future.
• GAB would retain separate residual trusteeship of non-liquid assets of DE (GAB may consider realising these assets and invest the proceeds in the chosen</td><td>Cons:
• ACPT is not a specialist trustee for investment management.
• Different trustees for long-term and short-term diocesan investment vehicles.
• Residual trustee roles of GAB may need to be reassigned if GAB was to be wound up.</td></tr>
</table>

		investments (being ACPT client fund investments in the vehicle held on trust by GAB).	investment vehicle). • Cost of obtaining ASIC relief to permit pooling of associated wholesale investments (for additional investors beyond the DE and LTPF).	
	LTPF	*Pros:* • –	*Pros:* • Simpler investment administration for DE with single investment holding in LTPF. • No extra level of administration (costs) for ACPT client fund investors.	*Pros:* • –
		Cons: • –	*Cons:* • –	*Cons:* • –

Assumptions –

1. The ACPT retains its role as trustee of the underlying client funds.

2. The asset allocation of the diocesan investment vehicle (whether a new trust or the LTPF) is similar to the current asset allocation of the LTPF (i.e. the vehicle will be made up of liquid assets).

Attachment 2

Standing Committee of Synod
Diocesan Investment Strategy

(An outline by the Anglican Church Property Trust)

Key Points

- The GAB as trustee for the Diocesan Endowment ("DE") and the ACPT as trustee for the Long Term Pooling Fund ("LTPF") are the only significant central pools of investment in the Diocese.
- The ACPT considers that the status quo trustee structures of two distinct separate legal trustees of each fund continues to be the optimal, efficient and sensible structure for holding and managing these two funds.
- While the GAB proposes the amalgamation of the DE and the LTPF into one investment fund, the ACPT's view is that the benefits of amalgamation do not outweigh the risk in having the two significant central pools of investment of the diocese governed by a single board.
- As the funds held in the LTPF are Church Trust Property any decision to amalgamate the DE and the LTPF and to change the trustee should be made by the Synod.

Purpose

1. To brief the Standing Committee about ACPT's position in respect to a potential amalgamation of the Diocesan Endowment (DE) and Long Term Pooling Fund (LTPF) as a single diocesan investment vehicle.

2. To enable the Standing Committee to consider the choices that may be made for the trusteeship of those invested funds.

Recommendations

3. The Standing Committee notes this outline.

4. If any change in the present trusteeship of the LTPF is to occur, the ACPT's position is that the matter must be referred to the Synod as this involves the trusteeship of parish funds. If there is to be a change of trusteeship so that the LTPF and the DE has one trustee, then, again, the ACPT's position is that that matter needs to be referred to the Synod.

Background

5. GAB as trustee of the Diocesan Endowment (DE) and the ACPT as the trustee for the LTPF hold the two significant central pools of investment for the diocese which are invested for the long term. The LTPF provides a means for ACPT to pool funds held by it in separate trusts for parishes and other diocesan organisations.

6. In 2011, the Archbishop's Strategic Commission recommended that a central diocesan investment management board be created for the Diocese. Consideration of this was deferred by the Standing Committee until after the end of 2013; a reporting requirement from the ACPT and the GAB was dispensed with. This proposal appears to have died a natural death.

7. In more recent times, the role of the GAB has changed with the removal of its banking function and its ownership of one half of St Andrew's House Corporation being transferred to the Synod. As a consequence, the investment profiles of the DE and the LTPF are basically similar.

8. In late 2017 the GAB commenced a re-examination of these recommendations in the context of looking at a diocesan investment strategy. In early 2018, the GAB initiated discussions with ACPT in respect to evaluating whether there might be merit in amalgamating the LTPF and DE into a single fund under the management of a single trustee.

9. The ACPT and GAB consider that the primary rationale for a diocesan investment strategy must depend on achieving operational and financial efficiencies through the investment of the liquid assets of the DE and LTPF into a single long-term, diversified investment vehicle, while not compromising the clear governance benefit of the current two trustee structure.

10. Currently there is one investment manager, Mercer, for both the DE ($85 million under management) and the LTPF ($64 million under management). This means there are already economies achieved in terms of discounted fees as both funds are notionally aggregated by Mercer and joint meetings of GAB and ACPT's investment sub-committee are held quarterly with Mercer.

11. The ACPT considers that when looking back at the hard financial and governance lessons learned from the diocesan experience in negotiating the global financial crisis, and of course noting that none of the current GAB members were present when the decisions of the then GAB were taken that led to a material diminution in the value of the DE, it is considered that there is a compelling argument to continue the current practice. At present both boards and the senior executive team of SDS meet together for a quarterly update from Mercer and continue to collaborate together in this quarterly review for the mutual benefit of each fund gained from the collective skills and experience delivered by the membership of the two boards.

12. If a conservative approach is taken in relation to investments, there is much to be said for maintaining the present position, so that the major liquid investments funds of the Diocese have two boards considering them rather than having the opinion of one board only prevail.

13. An amalgamation would prevent the investment objectives and other characteristics of the LTPF and DE being differentiated in the future. While the investment objective and other characteristics of the DE and LTPF currently reflect the very similar requirements of their underlying beneficiaries (i.e., the parishes and synod respectively), it is conceivable, that these requirements may significantly diverge in the future. Accordingly, the inability to differentiate the characteristics of each fund in the future should be taken into account in assessing the net benefit of amalgamating those funds.

14. The net financial benefit estimated to be achieved from the amalgamation is relatively nominal to justify the effort involved in implementing amalgamation. Mercer have indicated that there would not be a reduction in their fees as they are based on funds under management, which will not change as a result of the amalgamation. Mercer already notionally aggregate the funds.

15. If there was to be a change, there does not seem to be any sound basis for determining trusteeship by reference to the particular asset that is held rather than having the appropriate trustee hold the funds. In other words, there is no logical basis for the ACPT holding assets which, for example, happen to be real estate but if the real estate was sold and invested, for the proceeds then to be held and invested by a different trustee.

16. If there was a change from the present position so that there was only one trustee of a combined LTPF and DE, then the ACPT is of the view that the matter should be referred to the Synod because of the history noted above and the implications of having one board only responsible for oversight of all of the Diocesan invested funds. As the funds in the LTPF are largely Parish funds the Synod needs to make the decision in regard to the funds of the parishes.

17. If the LTPF and the DE were amalgamated into one fund with one trustee, legislation would be required and the legal position would need to be clarified.

18. It follows from the above that the ACPT is particularly of the view that if the notion of having a separate supposedly specialist trustee for the holding of invested funds was to be taken further, that step is of such significance that the ACPT believes that it must be referred to the Synod.

RICHARD NEAL
Chairman
Anglican Church Property Trust Diocese of Sydney
Sydney

MELINDA WEST
Deputy Chair
Anglican Church Property Trust Diocese of

8 July 2019

Attachment 3

Analysis of GAB and ACPT arguments for and against amalgamating the Long Term Pooling Fund (LTPF) and the Diocesan Endowment (DE)

Cost and efficiency

ACPT view

1. There are already economies achieved in terms of discounted fees as both funds are notionally aggregated by Mercer and joint meetings of GAB and ACPT investment sub-committee are held quarterly with Mercer.

2. The net additional financial benefit from amalgamation of the two funds would be relatively small, after allowing for the cost of implementation. Mercer have indicated there would be no reduction in their fees since they are already based on the aggregate value of funds under management.

GAB view

3. The impediments to a single diocesan investment vehicle identified in 2012 no longer exist.

4. Estimated direct cost savings of $50,000 pa through efficiencies in transactions costs.

5. An amalgamation would enable the non-financial efficiencies identified by the Archbishop's Strategic Commission to be realised –
   (a) Most efficient use of scarce resource (committed Christians with genuine depth of investment and financial acumen willing to serve of Boards),
   (b) Removes need for other Boards to have investment expertise,
   (c) The separation of investments is not justifiable from overall Diocesan financial interests.

Finance Committee conclusion

6. Even if the financial savings from an amalgamation are modest the other efficiencies are significant and make the amalgamation worthwhile.

Board expertise

ACPT view

7. Having input from members of three Boards or Committees (ACPT, GAB and EOS Corporation) with direct accountability for the performance of its underlying investments is likely to be more effective governance than having a [single] trustee holding funds for the benefit of others.

GAB view

8. A single Board comprising members with the best skills and experience in investment management oversight would provide focus and the value-add of a specialist group. This structure would also avoid duplication of effort and opportunity cost in the membership of other volunteer Boards.

9. This approach is consistent with the rationale used in other aspects of the Diocesan structure, such as the 2016 merger of the Sydney Anglican Home Mission Society Council and Anglican Retirement Villages to consolidate the provision of residential aged care home and services and retirement accommodation.

Finance Committee conclusion

10. A single specialist Board focussed on investment management oversight is the preferred governance structure.

Ordinance amendments required and legal process

ACPT view

11. Legislation would be required and ACPT's legal position must be clarified. ACPT is unsure if steps have been taken to seek such advice.

12. The ACPT considers the notion of having a separate specialist trustee for invested funds to be of such significance that the matter would need to be referred to Synod.

GAB view

13. The GAB has not expressed a view on any ordinance amendments that may be required.

Finance Committee conclusion

14. Discussions with SDS Legal indicate there is no reason why funds under the trusteeship of the ACPT cannot be invested in a vehicle not under its control. This is already the case with funds invested in the Diocesan Cash Investment Fund (**DCIF**).

15. Legal advice will be sought as to the specific ordinance amendments required and the appropriate approval process once a preferred structure has been agreed.

Governance – multiple trustees v one trustee

ACPT view

16. The ACPT considers a conservative approach to investments is better served by having the opinion of two Boards to consider the issues, rather than having only one Board.

17. The DE suffered a material diminution in value during the Global Financial Crisis (**GFC**), therefore the ACPT should retain responsibility for the LTPF.

GAB view

18. The GAB supports the recommendations of the Archbishop's Strategic Commission and agrees for the reasons noted above (most efficient use of scarce specialist investment skills and experience, as well as allowing other Boards to focus on their core activities) that a single Diocesan investment vehicle is the preferred structure.

19. Standing Committee's report to Synod in 2012 in response the recommendations of the Archbishop's Strategic Commission noted that since early 2010 GAB had undertaken a series of major reforms to enhance its investment processes for the Diocesan Endowment.

Finance Committee conclusion

20. Having two separate trustees for investments with essentially the same key characteristics is inefficient.

21. The lessons learned from the GFC have resulted in a number of changes to the GAB so that the cause of the magnitude of the loss of value during the GFC has been removed. In addition, governance and accountability of the GAB has been enhanced.

22. The LTPF also suffered a material, although somewhat less, diminution in value during the GFC.

23. There is currently limited accountability of the ACPT to Synod for its governance or investment management of the LTPF and a centralised investment vehicle would overcome this shortcoming.

24. A centralised investment vehicle would also overcome any governance questions about the appropriateness of an entity that is trustee of assets also being trustee of their investment.

Amalgamation would prevent differentiation of investment objectives/characteristics in the future

ACPT view

25. The ACPT assert that an amalgamation of the funds would prevent the application of different investment objectives and characteristics in the future, should that ever be needed.

GAB view

26. The GAB believe, should a differentiation ever be necessary, it could be managed through the allocation process. However, if a lack of diversity at the level of Board oversight was considered an issue, then consideration could also be given to having different asset consultant and investment managers.

Finance Committee conclusion

27. There is no reason why a single investment vehicle can't manage multiple portfolios with different investment objectives. Currently the GAB is trustee for the Diocesan Endowment and the Diocesan Cash Investment Fund – two portfolios with distinctly different objectives.

The risks outweigh the benefits

ACPT view

28. The net financial benefit to be achieved from the amalgamation is relatively nominal and may not justify the effort to implement.

GAB view

29. There are modest direct cost savings of $50,000 pa and an amalgamation would enable the non-financial efficiencies identified by the Archbishop's Strategic Commission. \

Finance Committee conclusion

30. Appropriately managed there are no substantive new or additional risks from amalgamation, but there are significant efficiencies.

Assets should not be held by another trustee for investment purposes

ACPT view

31. The asset, whatever its form at the time (eg land or cash) should be held by the one trustee and not moved to another trustee just because the form in which the investment is held has changed.

GAB view

32. The GAB supports recommendation 4 of the Archbishop's Strategic Commission for a single central investment management Board.

Finance Committee conclusion

33. Investments are best managed by a specialist trustee with skills and expertise in that area.

34. Creating a single investment vehicle doesn't derogate from the position of the ACPT as trustee of the funds being invested. It potentially creates greater governance clarity.

35. For a number of years now the ACPT has chosen to invest client funds in the DCIF (the trustee of which is the GAB).