Standing Committee

Diocesan Investment Strategy

An interim joint discussion paper from the Glebe Administration Board and the Anglican Church Property Trust.

[Revised draft incorporating changes proposed by ACPT]

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. It then seemed to die a natural death.
- The ceasing of the banking function of the Glebe Administration Board ("GAB") and the interest that it held in St Andrew's House passing to the Synod has caused the GAB to revive the question.
- The GAB and the Anglican Church Property Trust ("ACPT") have agreed in principle that the (liquid) investments of the Diocesan Endowment ("DE") and the Long Term Pooling Fund ("LTPF") should be amalgamated into one investment fund, because the strategic asset allocation in respect of those investments will now be largely similar if not, in due course, identical.
- The GAB is of the opinion that there are potentially a number of other diocesan and Anglican investors who could benefit from such a fund. The ACPT doubts that this would occur and is not aware of any evidence to suggest this would be a realistic outcome. If it did happen, the addition of other investors would create scale, which could further benefit the broader diocesan interest. The ACPT favours the use of the LTPF as the amalgamated fund. The GAB favours the establishment of a new fund.
- If the ACPT solution were adopted, the DE would simply acquire units in the LTPF.
- If the GAB solution were adopted, the merits of creating such a diocesan investment vehicle, and the appropriate structure, trusteeship and membership of such a vehicle would need to be determined by Standing Committee.

Purpose

1. For Standing Committee to be made aware of the present position concerning the liquid investments of the DE and the LTPF and the consideration that has been given as to the holding of one investment fund by their amalgamation.

Recommendations

2. Standing Committee note this interim paper.

3. Standing Committee –
   (a) consider whether the DE and the LTPF should be amalgamated into one fund,
   and if so,
   (b) consider whether the ACPT or the GAB solution is the better solution,
   noting:
   (i) that if the ACPT solution is favoured, minimal restructuring would be required; and
   (ii) if the GAB solution is favoured, the LTPF includes a significant amount of funds which, by ordinance, are required to be invested in it on behalf of a number of parishes; and
   (iii) if the GAB solution is to be taken further, the topic should be referred to the Synod for its determination.

Background

Recommendations of the Archbishop's Strategic Commission

4. The final report of the Archbishop's Strategic Commission 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 are attached as background (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.

Reconsideration of Commission's recommendations

7. The GAB and the ACPT are the trustees of the only 2 significant central pools of invested funds in the Diocese, respectively the DE and the LTPF. Since late 2017, the GAB and ACPT have been discussing ways in which they might co-operate more closely in the management of these funds.

8. One of the outcomes of these discussions was agreement in principle that the liquid investments of the DE and the LTPF ('liquid investments' being non-cash assets, such as holdings in Australian or overseas share funds, which are capable of being redeemed on short notice) should be amalgamated into one investment fund, but that further consideration would need to be given to identifying a suitable structure and trustee for such a fund. For this purpose it was also agreed that the GAB and ACPT would prepare a joint paper for the Standing Committee –

   (a) with the purpose of revisiting the ASC's recommendation to establish a CIMB;

   (b) to outline the options and associated pros and cons of merging the liquid investments of the DE and the LTPF into one fund; and

   (c) to outline the structure and trusteeship for such a fund, and to seek the Standing Committee's views on these matters.

9. The Reasons why a CIMB was not pursued in 2012 are outlined in Attachment B.

A. Diocesan investment strategy – rationale and attributes

Primary rationale – upon which GAB and ACPT are in agreement

10. The GAB and ACPT 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.

11. 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.

12. 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. Not all efficiencies are capable of ready quantification. For example no attempt has been made to quantify what are likely to be the significant indirect cost savings achieved by minimising the time spent by volunteer board members in duplicate governance structures. The individual members of the GAB and the LTPF Committee members are all highly experienced specialists in their fields and competent board members.

13. While the inherent efficiencies created by the simplification of our investment structures has merit in and of itself, the following are estimates of the more readily quantifiable cost savings expected to arise from the merger of the DE and LTPF are –

Nature of Cost	Anticipated Cost Savings pa ($)
Transaction costs related to investment rebalancing trades.	$38,000
Accounting and investment work undertaken by SDS staff	$10,000
Total	**$48,000**

Secondary rationale – upon which GAB and ACPT are not in complete agreement

14. There is also a secondary rationale for such a diocesan investment strategy, which the GAB considers to be worthy of merit. 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. The ACPT, on the other hand, doubts that this would occur and there is no evidence at present to indicate that it is at all likely.

15. 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 –
    (a) complies with the Diocesan Ethical Investment Policy,
    (b) would be unattainable for those with smaller investment pools, and
    (c) offers fees lower than those available to such entities if they sought to invest on a stand-alone basis.

16. 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 $150 million. In order to achieve a greater rate of fee rebate from fund managers an additional $150 million would need to be invested.

17. The primary rationale is sufficient reason to amalgamate the DE and the LTPF. However, this secondary rationale could be pursued without compromising the primary rationale for the diocesan investment strategy. In particular, the strategy would not be dependent on or justified by any further diocesan or Anglican entities investing in the diocesan vehicle. Further, even 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.

Likely attributes of one investment fund

18. 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.

19. Initial research by SDS management suggests a product which has all these features is not available in the market place, other than the LTPF. However, only funds held in trust by the ACPT can be invested in the LTPF.

20. 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.

B. Trust fund structure, trusteeship and membership of a diocesan investment vehicle

21. Assuming the concept of merging the liquid assets of the DE and LTPF into a single diocesan investment vehicle is agreed in principle, there are three significant issues that need to be resolved to give effect to the merger –

- What is the most appropriate trust fund structure for the vehicle?
- What entity should be the trustee of the trust fund?
- Who should be the members of the trustee?

Trust fund structure

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

Comparison between the LTPF and the DE

23. In terms of an existing diocesan fund, it would be possible to use the LTPF as the basis for the diocesan investment vehicle since the LTPF is an investment product in which underlying investors, namely the ACPT Client Funds, acquire units (i.e., the ACPT solution). 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 the capital of the DE must be invested in a unitised investment product.

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

Comparison between LTPF and new trust fund

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

26. While there may be some attraction in starting with a new trust fund, the main drawback is that it 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).

27. Attachment D shows an indication of the additional on-going costs that are expected to be incurred if the diocesan investment vehicle was established using a new trust fund.

28. In addition to these on-going additional costs, there would also be one off set up costs for a new trust fund, including its unitisation. These are currently not able to be quantified.

29. These additional costs would be borne by investors, including the DE and ACPT client funds. Based on this analysis, a diocesan investment vehicle based on a new trust is likely to be marginally more expensive to operate than the current investment structure for the DE and LTPF.

30. By contrast, 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. Hence the readily quantifiable cost savings associated with establishing a diocesan vehicle on this basis compared with the existing investment structure would be those referred to in paragraph 13.

31. Mercer has indicated informally that its fees are not expected to increase significantly regardless of the chosen structure as these are largely a function of invested assets. Formal confirmation of this would be obtained if in principle agreement was reached to merge the LTPF and DE.

Trustee of the trust fund

Investor manager as trustee

32. Using an investment manager (e.g., Mercer), as trustee has the advantage of avoiding the possible reputational issues that may be associated with a diocesan body acting as trustee, notwithstanding the investment management component of the vehicle would in any event be outsourced to an investment manager.

33. 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").

34. 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 $150 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 into perpetuity. From a governance perspective, to have Mercer as both trustee and investment manager would not be ideal.

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

Third party professional trustee

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

37. 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 above.

38. 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.

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

ACPT or GAB as trustee

40. Either the ACPT or GAB could be the trustee of the diocesan investment vehicle.

41. 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 Archbishop's Strategic Commission (see Attachment A).

42. There are some pros and cons relevant to assessing whether 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 the Standing Committee considers a specialist trustee for this role (GAB) is better placed for this rather than a generalist trustee (ACPT). It should be noted that the ACPT would have a specialist subcommittee to manage the diocesan investment vehicle, with its decisions being ratified from time to time by the full board of the ACPT. This is how the LTPF is currently managed.

43. The ACPT notes that there is no difference in investment performance between ACPT and GAB. Further, whether the trustee is regarded as "specialist" or not does not focus on the trusteeship aspect, which is more important. The GAB experience as trustee is very narrow, with one beneficiary only. The ACPT has extensive experience as trustee of a range of trusts with different beneficiaries, particularly parishes.

ACPT or GAB as trustee of the LTPF – Specific considerations

44. 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 to 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.

45. If the 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 GAB as trustee of the LTPF.
    (b) Obtaining the ASIC relief referred to above 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 also allow other diocesan and Anglican entities to invest in the vehicle in their own name if they chose to do so.
    (c) Legal advice is yet to be obtained on this matter, as at present the GAB cannot be a trustee of parish funds.
    (d) Continuing with the 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.

Members of the trustee responsible for diocesan investment

46. Regardless of the trust fund structure adopted for the diocesan investment vehicle or the trustee of the trust fund, the members of the trustee (or a suitable investment subcommittee) responsible for managing diocesan investments should be drawn from the persons possessing the most relevant skills and experience from across the existing membership of the GAB and ACPT.

The opinion of the ACPT

47. ACPT is the statutory trustee of church trust property under the *Anglican Church of Australia Trust Property Act 1917 (NSW)* and the LTPF under the *Long Term Pooling Fund Ordinance 2012* (noting also the Investments of *Church Trust Property Ordinance 1990*) and, as a consequence, without any legislation or any other step being required:
    (a) the DE (or some part of it) could be invested by the acquisition of units in the LTPF;
    (b) as that would be a decision that is not mandated by ordinance, the GAB would be at liberty to redeem units at any time; and
    (c) the inclusion of some members of the GAB as advisors on its Insurance Investment and Finance Committee, which at present is the Committee of the ACPT which more closely deals with the trusteeship of the LTPF, since joint quarterly meetings of members of the ACPT and members of the GAB with Mercer already exist.

48. To date, both the LTPF and the DE have had Mercer as the investment manager and, apart from what may follow from both a larger amalgamated fund, there has been no difference between the investment performance achieved by each fund.

The opinion of the GAB

49. GAB has experience in trusteeship of the DE, the DCIF and the Margaret Herron Trust, so that it is preferred that a new diocesan unitised trust fund come under the GAB. The rationale for and attributes of a diocesan investment strategy better reflects many of the elements of the original 2012 recommendation for a CIMB, by the Archbishop's Commission.

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18 March 2019

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Chair, Glebe Administration Board
18 March 2019

Attachment A

Extracts from the Standing Committee's report to the Synod in 2012 indicating its response to those of the Archbishop's Strategic Commission 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, the GAB considers that the reasons given in 2012 for not pursuing the creation of a CIMB no longer apply.

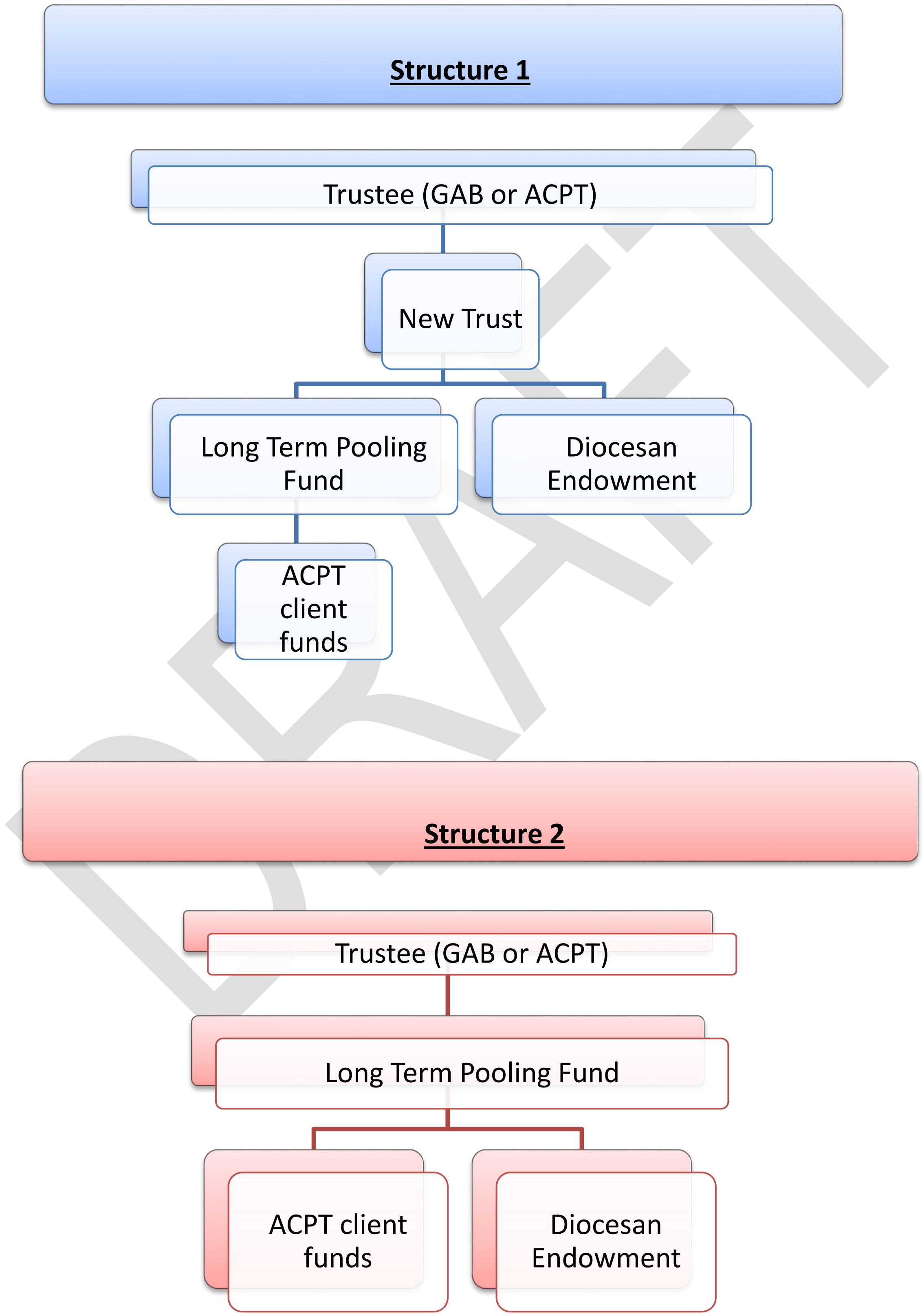
2. The following table sets out the reasons given in 2012 for not pursuing a CIMB, and comments on why these reasons no longer apply.

	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, and • the investments in the vehicle were limited to the liquid assets of the DE and the LTPF, 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, and this is the ACPT solution at paragraph 4 above.
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.
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

Structure of a diocesan investment vehicle
New trust or LTPF



Attachment D

Additional costs for a new trust compared to the LTPF

Nature of on-going cost	**Expected additional cost pa ($)**
Ongoing investment accounting/performance/unit pricing	$69,000
SDS management activity*	$30,000
Total	**$99,000**
less cost savings as shown on paragraph 16	($48,000)
Total net additional cost of a new trust compared to the current structure	**$51,000**

** Marginal increase in non-accounting, non-investments activity associated with extra layer in the investment structure.*

Attachment E

Structure of a diocesan investment vehicle - Pros and Cons

		GAB or ACPT as TRUSTEE		
		GAB	**Either GAB or ACPT**	**ACPT**
New Trust or the LTPF as INVESTMENT VEHICLE	**New Trust**	*Pros*: • –	*Pros:* • Simpler investment administration for DE and LTPF (due to single investment holding in new trust).	*Pros:* • –
		Cons: • –	*Cons:* • Cost of establishing and maintaining new trust. • Extra level of administration for ACPT client fund investors (DE has no clients).	*Cons:* • –
	Either New Trust or LTPF	*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.	*Pros:* • Potential to grow FUM to gain benefit of scale and reduced costs for all investors (with additional investors beyond the DE and LTPF). • Increased efficiencies with respect to managing one investment pool. • Cost savings with respect to rebalancing, asset consulting fees and other administration costs.	*Pros:* • IIFC retains responsibility for investment oversight on behalf of the ACPT. • Strong performance history since 1996.
		Cons: • Additional costs associated with retaining specialist trustee for investment management. • Cost of obtaining ASIC relief to permit pooling of associated wholesale investments (being ACPT client fund investments in the vehicle held on trust by GAB).	*Cons:* • Cost of obtaining ASIC relief to permit pooling of associated wholesale investments (for additional investors beyond the DE and LTPF). • 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 investment vehicle).	*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.
	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 (ie. the vehicle will be made up of liquid assets).