

## Glebe Administration Board Annual Report to the Synod for 2010

*This Annual Report should be read in conjunction with the Annual Financial Report for 2010 for the Glebe Administration Board as trustee of the Diocesan Endowment.*

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### Constitution and Charter

1. Glebe Administration Board ("GAB") is constituted by the *Glebe Administration Ordinance 1930* and is incorporated under the *Anglican Church of Australia (Bodies Corporate) Act 1938*.
2. GAB is the trustee and manager of the following property –

- the property held on the trusts set out in the *Diocesan Endowment Ordinance 1984* (the "Diocesan Endowment"), and
- the property held on the trusts set out in the *St James' Sydney Phillip Street Property Ordinance 1962* ("St James' Hall").

3. GAB is also the trustee of St Andrew's House. But, under clause 1 of the *St Andrew's House Ordinance 1975*, responsibility for the management of St Andrew's House is vested in the Council of St Andrew's House Corporation.

4. Under clause 2 of the *Glebe Administration Ordinance 1930*, GAB must invest the property vested in it in a way which –

- preserves the real value of the property, and
- provides a reasonable income therefrom.

#### Access

5. The principal office of GAB is Level 2, St Andrew's House, Sydney Square (PO Box Q190, QVB Post Office, NSW 1230). Telephone (02) 9265 1555. The hours of access are between 8.30 am and 5.30 pm.

#### Membership and Meetings

6. The members of GAB are the persons who are, from time to time, the members of Sydney Diocesan Secretariat, a body also incorporated under the *Anglican Church of Australia (Bodies Corporate) Act 1938*. The members of Sydney Diocesan Secretariat are appointed by the Standing Committee.

7. The names of the persons who served as members of GAB during 2010 and their meeting attendance record follow –

Board Members	No of Meetings Eligible to Attend	No of Meetings Attended
Canon Bruce Ballantine-Jones OAM	11	9
Mr Mark Ballantyne	11	8
Bishop Robert Forsyth	11	9
Mr Ben Koo	11	10
Mr Andrew McLoughlin	11	11
Mr Ian Miller	11	6
Mr John Pascoe	11	10
Dr Laurie Scandrett	11	11
Mr Ross Smith*	1	1

\* Appointed 6 December 2010.

### **Structure**

8. GAB has no employees. Administration, secretarial and accountancy services are provided to GAB by Sydney Diocesan Secretariat on a fee for service basis. During 2010, the following executives of Sydney Diocesan Secretariat had the greatest authority for the strategic direction and management of GAB –

- Steve McKerihan Chief Executive Officer (until 28 April 2010)
- Mark Payne Acting Chief Executive Officer (from 17 February 2010)  
Chief Executive Officer (from 17 November 2010)
- Michael Blaxland Chief Financial Officer
- Andrew Frankling Head of Investments

9. As a result of the review of the investments of the Diocesan Endowment, during 2010 the provision of investment management and investment accounting services (formerly undertaken by staff of Sydney Diocesan Secretariat on behalf of GAB) was outsourced to third party service providers.

### **Committees of GAB**

10. During 2010 GAB reviewed its committee structure. The committee structure is as follows –

- (a) The Asset and Liability Committee – The overall purposes of this committee are –
  - to review and make recommendations to GAB in connection with the investment of the Diocesan Endowment, and
  - to oversee, by way of monitoring, the work of the staff and external service providers in implementing the decisions of GAB in relation to the investment of the Diocesan Endowment and to report thereon to GAB.
- (b) The Audit and Risk Committee – The overall purposes of this committee are to monitor, report and make recommendations to the GAB about –
  - the financial reporting processes of GAB to ensure the balance, transparency and integrity of published financial information, and
  - the internal control systems of GAB, and
  - the independent audit processes of GAB, and

- the risk management systems of GAB.

11. The members of these committees were mainly drawn from the membership of GAB. The Asset and Liability Committee included two external non-Board members.

### **Progress of the implementation of recommendations concerning governance practices of GAB**

12. In June 2009, Cameron Ralph Pty Ltd completed a comprehensive, independent assessment of the governance practices of GAB. While this review was prompted by the investment losses incurred in the Diocesan Endowment in 2008 (and which were fully reported to Synod in GAB's Annual Report for 2008), the scope of the review was not intended to address or explain the causes of the losses, nor propose specific actions in the area of investment management.

13. Cameron Ralph made recommendations to GAB covering the following matters –

#### *Developing a plan for Board renewal*

The board was encouraged to develop a renewal strategy covering matters such as the rotation of membership of the board, establishing tenure limits, reducing the number of members, establishing an induction program for new members and implementing regular reviews of the performance of the board and individual members.

#### *Clarifying the respective roles of board and management*

The board was encouraged to rethink what it should be spending its time on, and how it can maximise its "value add" to the business.

#### *Addressing Board culture*

The board was encouraged to think about how its culture may impact on its effectiveness and the mechanisms and processes which might be adopted to improve capacity to deal with future challenges, and was asked to think of new ways of operating to develop a more robust culture.

#### *Reviewing the format and content of Board papers*

A systematic approach to progressive review of the nature and format of information provided to the board was recommended, with a particular focus on value added analysis and non-financial key performance indicators.

*Strengthening the Board's decision making by addressing meeting processes*

Processes to strengthen decisions by the board were recommended such as extending the length of meetings to allow for substantive debate, revising the agenda structure, agreeing clear criteria and key performance indicators for each decision, and undertaking a short critique after each meeting about how the meeting was conducted.

*Reviewing the committee structure*

The recommendations included reviewing the charter of each committee to put more responsibility back into the hands of the board as a whole, focussing the attention of each committee on policy, risk levels and triggers for actions and delegations and setting clear criteria for assessing the performance of each committee.

*Driving accountability*

Initiatives were recommended to create an environment of greater accountability including developing more comprehensive board policies, ensuring that all management proposals have clear criteria by which they can be assessed and monitored, and establishing a process for post implementation.

14. GAB adopted the recommendations of Cameron Ralph and provided an interim report to the Standing Committee in May 2010 about the progress of their implementation. A further report about the implementation of the recommendations was provided to the Standing Committee in August 2010.

**Review of Investment Management and Investment Accounting**

15. Under clause 2 of the *Glebe Administration Ordinance 1930* the principal objective of GAB in relation to the investment of the property of the Diocesan Endowment is to maintain the real value of that property, and provide a reasonable income therefrom. Having regard to this objective, in early 2010, GAB reviewed the investment objective for the Diocesan Endowment, the investment risk tolerance, the nature of the asset classes in which the Diocesan Endowment invests, and the strategic asset allocations for those asset classes. In undertaking this review GAB was assisted by its asset consultant, Mercer Australia Pty Limited.

16. The framework for the investment of the property of the Diocesan Endowment is set out in its Investment Policy Statement, a copy of which can be found at <http://www.sds.asn.au/Site/104303.asp?ph=cb>.

17. The investment objective for the Diocesan Endowment can be stated as follows –

“To achieve a real rate of return over rolling 5 year periods of 5% per annum net of external investment management fees and adjusted for tax effects, subject to –

- (a) preserving the real value of the Diocesan Endowment over rolling 10 year periods with a 70% probability, and
- (b) the sum of the distributions from the Diocesan Endowment plus administrative and other costs (not including external investment management expenses) not exceeding 5%, on average, over rolling 5 year periods.”

18. A fuller explanation about the investment objective is set out in the Investment Policy Statement.

19. As at 31 December 2010 the property of the Diocesan Endowment was invested in accordance with the following asset classes, strategic asset allocation (SAA) and asset class ranges –

Asset Class	Min %	SAA %	Max %
Australian Shares	15	25	35
Overseas Shares – Developed	0	18	28
Overseas Shares – Emerging	0	2	5
St Andrew's House <sup>1</sup>	20	25	30
Legacy Assets <sup>2</sup>	0	0	3
<b>Total Growth Assets</b>	<b>50</b>	<b>70</b>	<b>80</b>
Australian Sovereign Bonds	0	10	20
Overseas Sovereign Bonds	0	7	20
Banking Services (net capital) <sup>3</sup>	10	13	20
Other Cash (not included in Banking Operations)	0	0	30
<b>Total Defensive Assets</b>	<b>20</b>	<b>30</b>	<b>50</b>

Notes:

1. GAB, as trustee of the Diocesan Endowment, is a holder of a 50% interest in St Andrew's House (the other 50% stakeholder is Anglican Church Property Trust Diocese of Sydney as trustee of the Endowment of the See).

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2. The legacy assets comprise a range of assets currently held by GAB which are being realised when the opportunity permits. By April 2011, the value of the legacy assets is expected to be less than \$50,000.
3. The strategic asset allocation for the banking services reflects the amount of capital of the Diocesan Endowment allocated to the banking services (lending, deposit taking and treasury activities) undertaken by the Endowment.

20. Since June 2010, investments in the Australian shares, Overseas shares, Australian Sovereign bonds and Overseas Sovereign bonds asset classes have been made through funds operated by Mercer Investment Nominees Limited and approved by GAB. Each of these funds is a multi-manager fund, meaning that the property invested in a Mercer fund is, in turn, invested in underlying funds operated by fund managers who are specialists in the relevant asset class.

21. GAB considers that investing in multi-managed funds benefits the Diocesan Endowment by –

- (a) giving it exposure to a range of investment managers in each asset class, thus reducing the risks associated with over-exposure to any one manager, and
- (b) requiring that Mercer, rather than GAB, monitor and assess the performance of each investment manager, and
- (c) simplifying the investment processes of GAB and reducing the overall costs of administering the Endowment.

22. GAB also determined to outsource the investment accounting responsibilities for the Diocesan Endowment to a third party provider. Such outsourcing was completed by the end of 2010.

### ***Diocesan Endowment***

#### **Financial Results for 2010**

23. The financial results for the Diocesan Endowment for 2010 are set out in Annual Financial Statements. Those results can be restated in the following simplified manner (with the inclusion of budget information) –

\$000s	Actual 2010	Budget 2010	Variance	Actual 2009
<b>Income</b>				
Income from interest	11,650	11,007	643	9,876
Net income from St Andrew's House Fund	4,559	1,807	2,752	(4,664)

\$000s	Actual 2010	Budget 2010	Variance	Actual 2009
Income from indirect property	131	157	(26)	(216)
Income from Australian shares	(1,812)	4,904	(6,716)	19,326
Income from Overseas shares	793	0	793	(58)
Other income	182	90	92	980
<b>Total Income</b>	<b>15,503</b>	<b>17,965</b>	<b>(2,462)</b>	<b>25,244</b>
<b>Expenses</b>				
Interest	7,216	7,287	71	6,921
Professional Fees	731	584	(147)	860
Other Expenses	4,344	4,302	(42)	6,114
<b>Total Expenses</b>	<b>12,291</b>	<b>12,173</b>	<b>(118)</b>	<b>13,895</b>
<b>Net Surplus / (Deficit)</b>	<b>3,212</b>	<b>5,792</b>	<b>(2,580)</b>	<b>11,349</b>

24. The negative variance between the actual surplus for 2010 and the budgeted surplus for 2010 was due to a number of factors. The most significant adverse factor was the consequence of the under performance of the Australian shares asset class which is reflected in the line "Income from Australian Shares". Further comment about the performance of the Australian shares asset class is made later in this report.

25. However, the net income from the St Andrew's House Fund was significantly ahead of budget reflecting the change in the value of the Diocesan Endowment's interest in the fund. Only \$100,000 of the income was cash distributed by the fund and received by the Endowment. The principal factor impacting the increase in the value of the Endowment's interest was a significant revaluation of the St Andrew's House building, the major asset of the fund, as at 31 December 2010.

26. On the expense side, the unfavourable variance in relation to professional fees reflects, in part, additional unbudgeted fees incurred in undertaking the transition to the external investment management and investment accounting arrangements. The budget for 2011 envisages that professional fees will be significantly reduced. Significant reductions in other expenses are also expected.

27. The net assets of the Diocesan Endowment were \$109.8 million as at 31 December 2010, compared to \$110.8 million as at 31 December 2009. The balance sheet is set out in the Annual Financial Statements and can be restated in the following simplified manner –



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<b>\$000s</b>	<b>Actual 31 December 2010</b>	<b>Actual 31 December 2009</b>
<b>Assets</b>		
Cash	52,741	51,405
Australian shares	26,752	47,104
Overseas shares	20,349	0
Australian bonds	10,953	18,343
Overseas bonds	4,297	0
Interest in the St Andrew's House Fund	31,629	28,475
Loans and mortgages	112,563	112,466
Other	1,084	3,087
<b>Total Assets</b>	<b>260,368</b>	<b>260,880</b>
<b>Liabilities</b>		
Provision for distribution	5,250	5,400
Glebe Income Account deposits	144,270	143,753
Other liabilities	1,030	886
<b>Total Liabilities</b>	<b>150,550</b>	<b>150,039</b>
<b>Net Assets</b>	<b>109,818</b>	<b>110,841</b>

28. The movement in the net assets of the Diocesan Endowment between 31 December 2009 and 31 December 2010 can be reconciled as follows –

	<b>\$000s</b>
Net Assets as at 31 December 2009	110,841
Plus capital returned from the Parish Cost Recoveries Fund in 2010	1,000
Plus additions to capital during 2010 from parish ordinances	15
Plus Surplus for 2010	3,212
Less Provision for Distribution	5,250
<b>Net Assets as at 31 December 2010</b>	<b>109,818</b>

29. As at 31 December 2010, GAB had no bank debt. An undrawn line of credit (originally \$50 million but reduced to \$15 million during 2010) remained in place to provide liquidity, if required. However, that line of credit was not drawn during 2010, and has not been drawn subsequently.

**Investment performance during 2010**

30. The following table sets out the strategic asset allocation (SAA) for the investments of the Diocesan Endowment adopted by GAB in

June 2010, together with the actual allocation and investment value by asset class as at 30 June 2010 and 31 December 2010 –

Assets	SAA	As at 30 June 2010		As at 31 December 2010	
	%	\$000s	% weight	\$000s	% weight
<b>Growth Assets</b>					
Australian Shares	25	25,499	24.6	26,752	24.4
Overseas Shares – Developed	18	16,109	15.6	17,530	16.0
Overseas Shares – Emerging	2	1,784	1.7	2,820	2.6
St Andrew's House	25	27,912	27.0	31,629	28.8
Legacy Assets	0	2,307	2.2	1,032	0.9
<b>Total Growth</b>	<b>70</b>	<b>73,611</b>	<b>71.1</b>	<b>79,763</b>	<b>72.6</b>
<b>Defensive Assets</b>					
Australian Sovereign Bonds	10	9,682	9.4	9,953	9.1
Overseas Sovereign Bonds	7	4,320	4.1	4,297	3.9
Banking Services	13	13,806	13.3	14,070	12.8
Investment Cash	0	2,125	2.1	1,736	1.6
<b>Total Defensive</b>	<b>30</b>	<b>29,933</b>	<b>28.9</b>	<b>30,056</b>	<b>27.4</b>
<b>Total (Net Assets)</b>	<b>100</b>	<b>103,544</b>	<b>100.0</b>	<b>109,819</b>	<b>100.0</b>

31. The performance of the investments of the Diocesan Endowment during the six months ended 31 December 2010 (being the period during which the management of the Australian Shares, Overseas Shares, Australian Sovereign Bonds and Overseas Sovereign Bonds was undertaken by Mercer) and for the year ended 31 December 2010 was as follows –

Assets	6 Months ended 31 December 2010 %			Year ended 31 December 2010 %		
	Return (after fees)	Index	Vari- ance	Return (after fees)	Index	Vari- ance
<b>Growth Assets</b>						
Australian Shares	10.4	13.3	(2.9)	(1.5)	2.1	(3.6)

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Assets	6 Months ended 31 December 2010 %			Year ended 31 December 2010 %		
	Return (after fees)	Index	Vari- ance	Return (after fees)	Index	Vari- ance
Overseas Shares – Developed (hedged)	20.4	20.3	0.1	see note		
Overseas Shares – Developed (unhedged)	1.3	1.8	(0.5)	see note		
Overseas Shares – Emerging (unhedged)	4.3	4.4	(0.1)	see note		
St Andrew's House	13.3	3.8	9.5	16.8	7.7	9.1
Legacy Assets	5.6	3.8	1.9	see note		
<b>Defensive Assets</b>						
Australian Sovereign Bonds	0.4	0.3	0.1	5.7	5.4	0.3
Overseas Sovereign Bonds (hedged)	2.0	2.0	0.0	see note		
Banking Services	8.7	7.2	1.5	14.6	15.0	(0.4)
Cash	3.0	2.3	0.8	5.7	4.4	1.3
<b>Total Return on Net Assets vs Weighted Index</b>	<b>8.7</b>	<b>7.2</b>	<b>1.5</b>	<b>3.8</b>	<b>6.2</b>	<b>(2.4)</b>

Note: Investments in these asset classes were first made in May and June 2010. Accordingly, 12 month performance data for those asset classes is not available.

32. The relevant index for measuring the performance of each of the asset classes in which the property of the Diocesan Endowment is invested are as follows –

Asset Class	Index
Australian Shares	S&P/ASX 300 Accumulation Index
Overseas Shares –Developed (hedged)	Morgan Stanley Capital International World Index (ex Aust) hedged into \$A with net dividends reinvested
Overseas Shares – Developed (unhedged)	Morgan Stanley Capital International World Index (ex Aust) in \$A with net dividends reinvested
Overseas Shares – Emerging (unhedged)	Morgan Stanley Capital International Emerging Markets Free Float Index
St Andrew's House	CPI plus 5% (being the Investment Objective)
Legacy Assets	CPI plus 5% (being the Investment Objective)
Australian Sovereign Bonds	UBSW Australian Treasury Bond Index (All Maturities)
Overseas Sovereign Bonds	JP Morgan Global Government Bond Index in \$A (Hedged)
Banking Services	Benchmark return of 15% pa
Cash	Reserve Bank of Australia cash rate

33. The following brief comments can be made about the performance of the relevant asset classes.

34. The underperformance of the Australian shares asset class compared to index is largely a stock selection issue. The investments in Australian shares are made through socially responsible funds. The underperformance of those funds compared to index has largely arisen because most socially responsible investment managers are underweight in resources stocks due to environmental concerns associated with mining. The resources sector was particularly strong during the latter months of 2010.

35. Over the 6 month period to 31 December 2010 the hedged portion of the Overseas shares – Developed asset class had returns in line with the index. The unhedged portion of the investment in this asset class was under index principally by reason of the impact of the appreciation of the Australian dollar.

36. The Emerging Markets, Australian Sovereign Bonds and Overseas Sovereign Bonds asset classes performed in line with benchmark over the 6 month period to 31 December 2010.

37. The value of the interest in the St Andrew's House fund increased significantly, principally by reason of the revaluation of St Andrew's House as at 31 December 2010. The revaluation reflects ongoing efforts to enhance income from the building and reduce the expenses of operating the building. In addition, during 2010, the debt of the St Andrew's fund was reduced which also contributed to an

increase in the net assets of the fund and the value of the Endowment's interest.

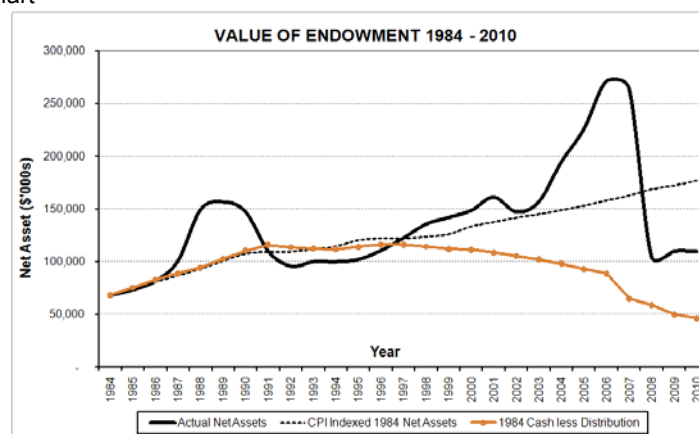
38. Banking services comprises the lending, deposit taking and treasury activities undertaken by the Diocesan Endowment. For prudential purposes, a portion of the capital of the Endowment is allocated to banking services – that portion is 12.5% of the total amount of the loans made by GAB from time to time. The return on capital for the 6 months ended 31 December 2010 was significantly ahead of the index by reason of income enhancement and cost control initiatives.

39. The investment portfolio was reviewed by the asset consultant in March 2011, as part of the “annual health check” of the investment of the property of the Diocesan Endowment. As a consequence, some changes to the SAA were made to reflect the illiquid nature of the St Andrew's House investment, and the need to hold a minimal amount of investment cash for operational purposes.

**Maintenance of the real value of the Diocesan Endowment**

40. Under clause 2 of the *Glebe Administration Ordinance 1930*, GAB is to invest the property of the Diocesan Endowment in a way which preserves its real value and provides a reasonable income there from. Clause 2 was inserted into the 1930 Ordinance in 1984. Prior to that time there was no requirement in the ordinance that GAB invest with the purpose of maintaining the real value of the property of the Endowment.

41. The movement in the value of the Diocesan Endowment from 1984 to 2010 compared to the real value is illustrated on the following chart –



42. The dark line in the chart shows the movement in the actual value of the net assets of the Diocesan Endowment. In 1984, the net

assets of the Endowment were about \$60 million, and, in 2010, about \$110 million. The dotted line is the value of the net assets of the Endowment in 1984, indexed each year by the changes in the Consumer Price Index. This represents the growth in the value of the Diocesan Endowment required to maintain the real value. In a year where the actual net assets exceed the value of the CPI Indexed 1984 Net Assets, the real value of the assets has increased. Conversely, if the actual net assets are less than the CPI Indexed 1984 Net Assets, the real value of the assets has declined.

43. The light line in the chart shows the value of the net assets in 1984 indexed annually according to the average cash rate each year over the period 1984 to 2010, less the distributions made from the Diocesan Endowment each year since 1984. Further comment about what this line shows is made later in this report.

44. Up until the end of the 1980s, the property of the Diocesan Endowment was mainly invested in commercial property assets. This led to a significant increase in the real value of that property during the favourable commercial property conditions of the late 1980s. This was followed by a major reduction in value in the early 1990s. Following that experience a more diversified investment portfolio was established.

45. The extent of the increase in the real value of the property of the Diocesan Endowment during 2002 to 2007 was attributable to very favourable investment markets accentuated by a gearing strategy by which borrowed money was used to boost the overall level of investments. While the Diocesan Endowment has taken deposits for many years, the level of gearing was boosted from 2002 onwards by borrowing money from banks.

46. The reduction in the net assets in 2008 was a result of the large falls in investment markets, accentuated by the gearing in the balance sheet. The value of net assets remains significantly less than the value of the CPI indexed 1984 Net Assets.

47. It will be seen that as at 31 December 2010, the actual value of the net assets of the Endowment was significantly less than the CPI indexed 1984 Net Assets. This indicates that over the period 1984 to 2010, the real value of the net assets has not been maintained. While this is an outcome of the significant declines in the investment markets, particularly since 2007, it also reflects that distributions from the fund which have been spent by the Synod, and the costs of administering the Diocesan Endowment, have been too high.

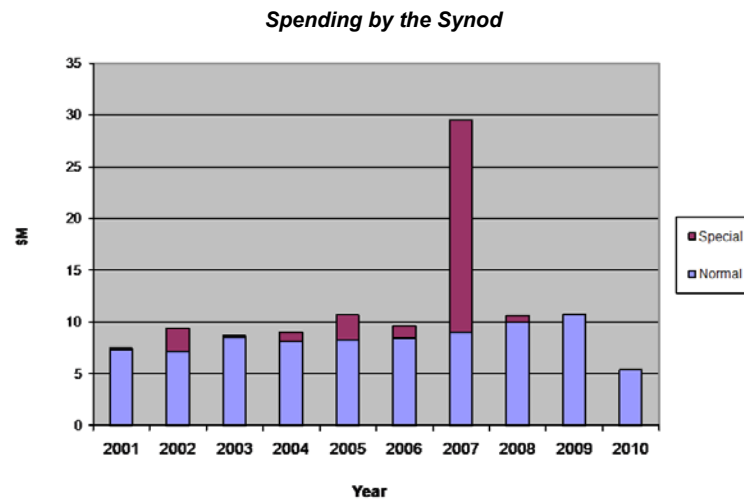
48. The light line showing the value of the 1984 assets indexed annually by the average cash rate each year, less actual distributions paid in that year, indicates that had the assets of the Diocesan Endowment been invested in cash investments only, the net assets of the Endowment would have been less than \$50 million in 2010, given

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the actual distributions made between 1984 and 2009. This indicates that if the real value of the Diocesan Endowment is to be maintained, and a reasonable income earned, reasonable investment risk needs to be incurred – investing in cash investments only will not enable the real value of the Endowment to be maintained and a reasonable income earned. But the line also suggests that, historically, distributions from the fund for spending by the Synod have been too high to enable the real value of the Endowment to be maintained.

### Distributions from the Diocesan Endowment

49. The following chart sets out the level of spending by the Synod from distributions paid from the Diocesan Endowment from 2001 through to 2010 –



50. In each year, the first component is the normal distribution determined by the Standing Committee. The second component are the special additional distributions approved by the Standing Committee.

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

52. Under the *Diocesan Endowment (Special Distribution) Ordinance 2009* the amount of the distribution to be provided for 2009 and spent by the Synod in 2010 was \$5.4 million. This is the amount reflected in the abovementioned chart for 2010. Under the same ordinance, the amount of the distribution to be provided for in 2010 for spending in 2011 is \$5.25 million. Accordingly, a provision for

distribution of \$5.25 million has been created in the financial accounts of the Endowment as at 31 December 2010.

53. In August 2010 GAB reported to the Standing Committee that by reason of the performance of the investment markets during the first 6 months of 2010, the real value of the Diocesan Endowment was unlikely to be maintained during 2010. In response, the Standing Committee declined to reduce the amount of the distribution of \$5.25 million to be provided for in 2010 for spending in 2011.

54. In December 2010, GAB provided a further report to the Standing Committee about the level of distributions paid from the Diocesan Endowment and the methodology for calculating the amount of the distributions. GAB reported that it considered that the current level of distributions was too high to enable the real value of the property of the Diocesan Endowment to be maintained.

55. GAB has recommended a new methodology for calculating the amount of the distribution. Under this new methodology, the amount of the distribution to be provided for in 2011 for spending by the Synod in 2012 will be reduced to about \$3.64 million.

#### **Expenses of administering the Diocesan Endowment**

56. The outsourcing of the investment management and investment accounting functions has enabled GAB to substantially reduce the costs of administering the Diocesan Endowment. GAB aims to limit the total costs of administering the Endowment to an amount of not more than 1.1% of the net assets of the Endowment. In 2011, the costs of administering the Endowment are estimated to be \$1.15 million (being 1.05% of the net assets of the Endowment as at 31 December 2010) compared to the total cost of administering the Endowment of \$3.813 million in 2010 (being 3.75% of the net asset of the Endowment as at 31 December 2010). For these purposes, the costs of providing the banking services are not considered to be part of the costs of administering the Endowment, since the cost of banking services are taken into account when determining the return from banking services.

#### **Conclusion**

57. 2010 was an important year in reshaping the way in which the investments of the Diocesan Endowment are managed. Following a comprehensive review with the assistance of its asset consultant, GAB adopted an investment policy statement which outlined the investment objective of the Endowment, the investment risk tolerance, the nature of the asset classes in which the Endowment invests and the strategic asset allocations for those asset classes. Subsequently, the management of many of the asset classes has been outsourced, together with the investment accounting function. GAB has reviewed the distribution policy and made recommendations to the Standing Committee. The costs of administering the Diocesan Endowment have also been reviewed and are expected to be substantially reduced in



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2011. GAB believes that each of these steps will better enable it to fulfil its principal objective to maintain the real value of the Endowment and provide a reasonable income therefrom.

### **St James' Hall**

#### **Introduction**

58. GAB is also the trustee of the St James' Hall fund. The principal asset of that fund is the St James' Hall building which is a 14 storey office tower in Phillip Street, Sydney. That building is held on the trusts specified in the *St James' Phillip Street Sydney Property Ordinance 1962*.

59. The building is managed on behalf of GAB by Jones Lang LaSalle. The parish of St James' King Street is consulted in relation to major issues concerning the building, and receives regular reports about the management of the building.

60. The income of the fund is applied in accordance with the *St James' Phillip Street Sydney Property Ordinance 1962* although, as at 31 December 2010, a significant portion of the income earned from the fund in 2010 remained to be distributed pending the completion of a review of the 1962 Ordinance.

#### **Financial Results**

61. The financial results of the St James' Hall fund for 2010 were as follows –

\$000s	Actual 2010	Budget 2010	Variance	Actual 2009
<b>Income</b>				
Net Property Income	1,838	1,765	73	1,855*
Other income	15	3	12	4
Property Revaluation	4,656	-	4,656	(2,754)
<b>Total Income</b>	<b>6,509</b>	<b>1,768</b>	<b>4,741</b>	<b>(895)</b>
<b>Expenses</b>				
Fund Expenses	424	442	18	259
<b>Net Surplus</b>	<b>6,085</b>	<b>1,326</b>	<b>4,759</b>	<b>(1,154)</b>

\* The actual result for 2009 included the recovery of sums which had previously been provided for as bad debts.

62. The income from the property revaluation is the recognition of the revaluation of the St James' Hall building as at 31 December 2010.

63. The net assets of the St James' Hall fund were \$23.413 million as at 31 December 2010, compared to \$17.512 million as at 31 December 2009. The assets and liabilities of the fund were –

\$000s	Actual 31 December 2010	Actual 31 December 2009
<b>Assets</b>		
Cash	837	157
Receivables	145	47
Property	26,300	21,250
Other	9	22
<b>Total Assets</b>	<b>27,291</b>	<b>21,476</b>
<b>Liabilities</b>		
Payables	78	40
Loans	3,800	3,924
<b>Total Liabilities</b>	<b>3,878</b>	<b>3,964</b>
<b>Net Assets</b>	<b>23,413</b>	<b>17,512</b>

64. The increase in cash reflects in large part cash which has been retained from income earned in 2010, and which remained to be distributed as at 31 December 2010 because the necessary distribution ordinance had not been passed.

**Distributions from the Fund**

65. Distributions from the Fund are paid in accordance with the *St James' Sydney Phillip Street Property Ordinance 1962*. An ordinance to provide for the distribution of income earned in 2010 and in subsequent years was passed by the Standing Committee in February 2011. The intention of the ordinance was to ensure that distributions from the income of the building were set at sustainable levels, having regard to the need to meet expenses, service and repay the debt of the Fund, and provide for future capital expenditure needs.

**Major Capital Expenditure**

66. In March 2010 a major project to refurbish all the toilets in the building was completed.

**Renegotiation of Lease Terms**

67. A number of the leases of premises in the building expire during the period 2011-2013. GAB commenced the negotiation of new leases with the existing tenants during 2010.

MARK PAYNE  
*Chief Executive Officer*

11 April 2011