

Annual Report for 2006

Sydney Diocesan Secretariat Glebe Administration Board Sydney Anglican Church Investment Trust

(Being bodies corporate under the Anglican Church of Australia (Bodies Corporate) Act 1938 and constituted to manage, govern and control church trust property for the Anglican Church Diocese of Sydney.)

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Abbreviations used in this Report

'ACPT'	means Anglican Church Property Trust Diocese of Sydney
'APRA'	means Australian Prudential Regulatory Authority
'ASIC'	means Australian Securities and Investments Commission
'DAWN'	means Diocesan Area Wide Network
'DE'	means Diocesan Endowment
'DDF'	means Diocesan Development Fund
'DR'	means Disaster Recovery

'EOS'	means Endowment of the See
'FLB'	means Finance and Loans Board
'GAB'	means Glebe Administration Board
'GAL'	means Glebe Australia Limited
'GAM'	means Glebe Asset Management Limited
'GIA'	means Glebe Income Accounts
'IFRS'	means International Financial Reporting Standards
'LTPF'	means Long Term Pooling Fund
'SACIT'	means Sydney Anglican Church Investment Trust
'SAH'	means St Andrew's House
'SAHC'	means St Andrew's House Corporation
'SAPF'	means Sydney Anglican Property Fund
'SDS'	means Sydney Diocesan Secretariat
'SDSF'	means Sydney Diocesan Superannuation Fund
'SJH'	means St James' Hall
'SMBC'	means Sydney Missionary and Bible College

Constitution and Mission

1. SDS is constituted by the Sydney Diocesan Secretariat Ordinance 1973 to care for the property of the Standing Committee and administer the affairs of the Anglican Church within the Diocese of Sydney. It provides services through its personnel to parishes and Anglican organisations.
2. The GAB is constituted by the Glebe Administration Ordinance 1930 to manage and control the Diocesan Endowment, being the capital from sales of certain glebes granted to the Church in the 19th century. Currently 5.4% of the average Net Assets of the Diocesan Endowment for the previous three years is appropriated each year by the Synod to fund diocesan Mission activities. The GAB is also trustee and manager of the SAPF and St James' Hall and also manages St Andrew's House for SAHC.
3. SACIT is constituted by the Sydney Anglican Church Investment Trust Ordinance 1965 to provide investment services to parishes, churches and organisations of the Diocese of Sydney. This entity is dormant at present, its role having been overtaken by GAM.
4. SAPF is constituted by the Investment Ordinance 1975 to provide a means for church funds to be invested in a property unit trust. The GAB has wound-up SAPF.

Membership

5. The members of SDS, who are also the members of the GAB and SACIT, are appointed by the Standing Committee. One-third retire each year, being the longest in office since their last appointment. The names

of the members in office on 31 December 2006 and their meeting attendance records in 2006 follow.

	<i>Meetings Attended</i>	<i>Last Appointed</i>
Canon B A Ballantine-Jones OAM	7 out of 9	2006
Mr P R Berkley	7 out of 9	2005
Mr P P Driscoll	9 out of 9	2005
Bishop R C Forsyth	7 out of 9	2004
Dr S E Judd	8 out of 9	2004
Mr R H Y Lambert	7 out of 9	2006
Mr N R Lewis	9 out of 9	2005
Mr D B McDonald AC	4 out of 9	2005
Mr I C Miller	8 out of 9	2004
Mr W H Olson AM	7 out of 9	2004
Dr L A Scandrett	8 out of 9	2006
Mr P R Shirriff (Chairman)	8 out of 9	2006

6. Meetings are held at St Andrew's House, Sydney Square (PO Box Q190, QVB Post Office NSW 1230): telephone (02) 9265 1555. Normal business hours are 8.30 am to 5.30 pm.

7. SDS and GAB have several board committees –

- (a) The Board Asset Liability Committee (“ALCO”) is responsible for monitoring and reviewing the investment and balance sheet management policies, strategies, transactions and performance of the GAB.
- (b) The Board Audit Committee oversees the audit and financial reporting functions of the SDS and GAB;
- (c) The Board Management Remuneration and Nomination Committee monitors remuneration of SDS staff and ensures that the SDS develops and implements competitive and effective remuneration and nomination processes, and
- (d) The Board Compliance and Risk Management Committee ensures that the SDS and GAB maintain effective and informed policies for operational risk management and compliance with relevant laws and policies.

8. The members of these board committees are drawn from the non-executive membership of the SDS and GAB.

Sydney Diocesan Secretariat

9. Financially 2006 was a strong year for the Secretariat. We had expected to consume a portion of our capital during the year, but as matters turned out, we ended the year with a small surplus of \$389,000.

10. Operationally, 2006 was dominated by changes to GAB's investment strategy, by the resultant retrenchment of several staff, by several major regulatory issues, by the SAH refurb project and by the need to consolidate and focus in our service divisions.

\$000s	2006 Actual	2006 Budget	2005 Actual
Income:			
Investments	561	546	664
Fees	11,462	10,594	11,602
Synod Grants	245	421	457
Other Income	170	50	57
Total Income	12,438	11,611	12,780
Expenses:			
Staff & Related Costs	8,026	7,676	8,426
Professional Fees	1,753	1,810	1,172
Asset Service	182	423	320
Rent & Occupation	656	707	677
Depreciation & Amortisation	302	395	547
Other Expenses	1,130	1,331	1,223
Total Expenses	12,049	12,342	12,365
Net Surplus	389	(731)	415

11. The Balance Sheet remains healthy –

\$000s	2006	2005
Total Assets	5,839	5,606
Total Liabilities	3,237	3,392
Net Assets	2,602	2,214

SDS Financial Performance

12. The year unfolded in quite a different fashion to that contemplated when the budget was first framed –

- We had envisaged GAM being sold and related expenses to be removed very early in the year. Instead, we ran a year long program of closing GAM's investment trusts and distributing the funds released to unit holders. That change required staff to be retained and considerable external legal and investment advice to be sought.
- Similarly we anticipated considerably greater progress on our major technology projects. As they were effectively driven for timing by the SAH refurb, we have carried forward considerable capital and operational expense into 2007.

- The winding up of the old defined benefit superannuation scheme resulted in an unexpected superannuation holiday of \$412,000.
13. These matters together with improved investment income resulted in SDS producing a small surplus.

2006 Highlights

GAM Trust Closures

14. This program was as demanding as any previously undertaken in the Secretariat. Requiring extraordinary discipline from both regulatory and client management perspectives, our staff learned and applied the techniques required to move around \$400 million out to several thousand investors without any identifiable fault or mistake.

Parish Services

15. With the assistance of a Synod grant, we designed a Parish Risk Management guide. Through 21 regional presentations, around 600 parish officers warmly received the first of several modules in this initiative. Module 2 of this guide will be launched in June 2007.

Investment Operations

16. Progressively, responsibility for GAB investment management was absorbed into our new Investment Services division. A wide range of new skills had to be quickly learned and applied in an environment in which one eye was always on investment performance.

Business Systems

17. Early in the year we were advised that the supplier of our General Ledger had gone into liquidation and was therefore unable to offer any further support for what is the absolutely key system in SDS. A project was immediately launched to identify and purchase a replacement. Specialised resources were hired and by year end we were at the final stages of a short list.

Technology

18. During the year we completed installation and testing of our Disaster Recovery plan. Very shortly after final testing a major fault occurred and the system was tested in real time. It worked perfectly.

Human Resources

19. With the changes to investment operations and investment accounting, it was to be expected that staff numbers would move around a bit. We ended the year at –

	Year End 2006	Budget
(Full Time Equivalents)		
Executive	3.0	3.0
HR / Corporate Services	7.4	8.9

(Full Time Equivalents)	Year End 2006	Budget
Parish Services	12.6	12.4
Legal Services	6.0	8.0
Property Services	18.1	13.9
Finance	17.2	15.8
Technology	12.7	9.0
Investment	9.8	13.7
Total	86.8	84.7

20. Only 14 persons left the organisation during 2006, a turnover rate of 18.5%. Of those who left, 6 were retrenched as a result of the changes being made in investment operations, 3 left of their own accord for the same reasons and 5 were either terminated or resigned for other reasons. Under the circumstances we see this as quite a good outcome.

21. With the continuing shift in emphasis from operational activities to higher level strategic management, the average quality of SDS employees is rising reasonably rapidly. An extensive program is in place to enrich the roles of senior middle managers through their involvement in broad scope project teams and through specific interactive training.

22. Training programs continued through the year and while some found the regime excessively time consuming (in the context of everything else that was going on), the majority drew considerable encouragement from our preparedness to invest in our staff.

Departmental Reports

Executive

23. The CEO's office operated smoothly during 2006. This year was essentially devoted to steering the organisation through what is the most important change in investment operations since the early 90s when GAB moved from a property base to a balanced portfolio. That coupled with major expenditure in technology and in St Andrew's House kept the office reasonably busy.

24. The CEO travelled to London in June to introduce the General Manager, Parish Services to key contacts in the church in England. During that trip four UK Dioceses were visited, forming strong bonds with each. The General Manager, Parish Services also attended a Diocesan Synod. Later in the year the CEO attended the Willow Creek Leadership Summit in Chicago with the Chief Financial Officer. They went on to London for a few days so that the Chief Financial Officer could meet his counterparts in London. In 2007 the CEO visited London in late March taking the General Manager, Secretarial to meet the staff at the Archbishops' Council and Church Commissioners.

25. Involvement in strategy development at Mission Board level has diminished following the appointment of a Mission Executive. Similarly

involvement in the affairs of the EOS has diminished as the EOS Committee adopts a more active approach to its responsibilities. These were helpful developments as they removed areas of potential conflict for the CEO's office and so allowed focus on the charter responsibilities of SDS and GAB.

26. With the retirement of Rodney Dredge at the end of July 2007 attention was moved to finishing some matters (the investment restructure) and to start others (a discussion on the future of St Andrew's House and the beginnings of wholesale lending).

Investment Services

27. Achievements –

- Transitioned investment management from an internally resourced, boutique operation to being managed externally
- Outsourced the following asset classes - domestic equities, international equities, listed property and fixed interest.
- Provided an opportunity for other church bodies to join with GAB in its investment operations, resulting in access to better managers at lower fees. ACPT (LTPF & EOS) and Anglican Board of Mission have taken this opportunity. Others may join later.
- Established a performance benchmark of the ASX300, adjusted for stock exclusions and published by Standard and Poors. Our domestic equity manager has accepted this benchmark.
- Successfully marketed the GIA account to the parish network through a number of special promotional offers in Southern Cross.

28. Objectives for 2007 –

- Bring investment strategy up to modern planning and operational standards (in particular strategic asset allocations and gearing strategy).
- Investigate and implement the introduction of additional asset classes in the context of a major risk/return review.
- Review the rate of distribution from the Endowment to Synod in order to ensure a sustainable process.
- Consider the implications of running an “embedded” Diocesan Development Fund within the Diocesan Endowment.
- Complete the transition of GAM by closing the remaining retail trusts and establishing a restricted access church oriented, wholesale fund.

- Improve the fiscal reporting on the Endowment, through the use of an outsourced service provider (BNP Paribas, as custodian / administrator).
- Develop the culture of SDS through the buy-in of the wider SDS staff group into issues of investment management.

Finance

29. Achievements –

- Wound up 11 Glebe Investment Trusts involving distributions of \$120M and redemptions of \$263M, a total of \$383M.
- Supported the outsourcing of management of investment portfolios for Fixed Interest, Property Securities, International equities & Australian equities portfolios.
- Contributed to planning the structures for GAB's investment operations post the closure of GAM's investment trusts.
- Significant input to developing an SLA & Master Custody agreement with BNP.
- Managed staff transitions of two direct reports of CFO. Successfully recruited & inducted new Senior Financial Accountant.
- Implemented divisional P & Ls by allocating SDS income to cost centres.
- Commenced work on GL & property management replacements. Recruited experienced project manager and reached shortlist selection stage.
- Contributed to IT Billing project, building a system to support IT fee for service and DAWN billing.
- Accounted for & reported on CAPEX of \$21M over many projects in several entities. Identified, reported on and followed up variances.
- Overheads review identified areas of improvement in overhead allocation and opportunities for further review.
- Prepared financial forecast for 2006 - 2010 for GAB business plan.

30. Objectives for 2007 –

- Completion of a business plan for the whole of SDS.
- Finance system implementation including replacement Property Management System.
- Monitoring and reporting on major expenditures, eg CAPEX & R&M.

- Develop & embed processes to support Cash Flow forecasting and reduced cash holdings.
- Complete wind up &/or transition of remaining GAM trusts.
- Complete transition of investment accounting & registry activities to BNP Paribas.
- Develop risk & performance reporting.
- Greatly expand the effectiveness of our management accounting disciplines.

Secretarial

31. Achievements –

- Administering the Synod, its business and elections processes.
- Administering the passing of 53 ordinances by the Synod and the Standing Committee.
- Administering the affiliation of 3 non-Anglican churches with the Diocese under the Affiliated Churches Ordinance 2005.
- Establishing ordinance and other governance framework for the new Anglican Education Commission.
- Supporting the creation and functioning of the new Mission Board.
- Facilitating the resolution of various parish employment and defamation disputes.
- Identifying and managing the impact of WorkChoices legislation on parishes and diocesan organisations.
- Identifying and managing the impact of workers compensation grouping requirements on parishes and diocesan organisations.
- Implementing a software based compliance system for GAB.

32. Objectives for 2007 –

- To be seen as the pre-eminent provider within the Diocese of secretarial, legal/policy and risk/compliance services which are valued in terms of their support for the Mission.
- Recruiting and inducting a new legal officer, compliance officer and paralegal.
- Assessing the sustainability of services provided by the Division with a view to reaching a cost neutral position in service delivery.
- Finalising legal, risk/compliance and other governance arrangements for Glebe's new investment structure.

- Publishing revised employment relations guidelines and ordinance guidelines for parishes (on-line and hard copy).
- Establishing a deductible gift recipient (DGR) fund for parish building and education funds.
- Establishing secure electronic storage of and access to agendas, minutes and contact details for key boards and committees serviced by the Division.
- Making arrangements for Sydney representatives before and during the General Synod session in Canberra - consideration of business, accommodation/travel arrangements etc.

Parish Services

33. Achievements –

- Employment of 2 key middle managers.
- Release of clergy remuneration orientation pack and clergy web help page.
- Introduction of superannuation choice for clergy.
- Launch of parish risk management program through 21 seminars throughout the Diocese.
- Visitation program involving more than 50 local churches undertaken.
- Initiated review and upgrade of fund administration and investment functions of the Property Trust.
- Substantial improvement in service standards in the work of the Property Trust.
- Obtained development approval for Hoxton Park and Rouse Hill ministry centres.
- Sales and purchases of significant sites at Cremorne Point (sale) and Riverstone (purchase).

34. Objectives for 2007 –

- Organising major Church Administration Conference in June 2007.
- Preparing modules 2 and 3 of the parish risk management program.
- Launching a diocese-wide program of inspecting parish buildings for asbestos contamination.
- Facilitate construction of the Hoxton Park and Rouse Hill developments.
- Move further along the process of managing the parish asset base in a way that produces benefits for both the legal and beneficial owners.

- Reviewing, documenting and promoting the policies practices and procedures of the Property Trust to enhance service to parishes.
- Completing the Bishops court upgrade works.

Property Services

35. Achievements –

- Increased the loan book by 27.7% to \$89.4M, including:
 - A \$5.5M loan to the SMBC to expand its teaching campus.
 - A \$17.75M facility to assist New College at UNSW to build further graduate accommodation.
- Completion of the new Office Foyer entrance for St Andrew's House.
- Opening by Sir Marcus Loane of the new St Andrew's Cathedral School entrances from Sydney Square and Kent Street.
- Successfully moved the Archbishop's team to temporary quarters on Ground South.
- Completed the "staging area" at Ground Floor North and commenced the relocation of SDS personnel.
- 100% occupation of the non-Parish occupied areas in St James Hall.
- Appointed to project manage the proposed refurbishment of Bishops court.
- Managed the sell-down of the underlying assets for terminated GAM trusts.

36. Objectives for 2007 –

- Continuing the current growth momentum in the loans book, notwithstanding a number of Diocesan loans are due for repayment in 2007.
- Contribution to the potential growth of wholesale lending through uplift in current policies, understanding of credit and credit assessment.
- Completion of "Cowper Room", Level 1 and Level 2 refurbishments of SAH on time and within budget.
- Completed sale of Greenoaks apartments in line with budget projections.
- Complete refurbishment of Bishops court.
- Achieve an increase in the number of appointments by Diocesan organisations to project manage works projects, to buy and sell properties and to develop other asset

management services.

- Increase the profile of the Division so it can be given the opportunity to provide broad property services advisory activities to the Parish network, in a contestable environment.

Corporate Services

37. Achievements –

- Significant progress towards becoming a customer-centric organisation. Improved parish feedback, increased acceptance of new services and general sentiment.
- Continuation of significant training activity including; communications skills development for all staff (5 modules), Management Development (4 of 5 modules completed with 3 separate groups), New Horizons individual IT skills development.
- Improvement in Climate Study results over 2005 in customer contact, staff training, and management communications. These three topics - service excellence, employee learning, and communications - are the core drivers of the long-term culture-change program of SDS. Overall employee job satisfaction was up 5%.
- Recruited 11 quality professionals. Staff retention improved, with 'avoidable' turnover rate reduced to 4.0% (5.0% in 2005).
- Successful launch of new SDS web site and SDS Intranet. Supported AMC with development and launch of Anglican Portal.
- Publication of *SDS News* to staff and a wider audience; *In-Focus* Video for quarterly staff briefings; publishing of marketing collateral for Parish Services division, including Risk Management modules and Clergy Services information packs.
- Maintained high levels of hospitality service in a disruptive work environment. Hospitality team catered for 2,100 events in 2006, up 35% over 2005.
- Championed the 'fee-4-service' technology offering to parishes, including co-leading the DAWN broadband and VoIP project.
- Completed significant review of business continuity plans for each division of SDS. Testing and refining scheduled for early 2007.

38. Objectives for 2007 –

- Develop a new Leadership Program based on Willow

Creek material; develop and implement personalised training plans for top 20 staff; continue to drive culture change; develop a pilot program for corporate customer service training; develop a new induction program.

- Develop catering policies and procedures to best utilise the refurbished SAH venues; continue to provide services during major works; develop online bookings, staff uniforms and a departmental P&L.
- Test and review business continuity plans for each division of SDS; finalise and test Emergency Response plan.
- Expand functionality of SDS web site, including secure login for board and committee members; develop the concept of a complete 'knowledge management' system for the SDS Intranet, including specific business work-flow applications.
- Finalise DAWN Broadband and VoIP business model, obtain approval for roll out and then market to parishes. Assess and develop appropriate business applications to reside on DAWN.

Technology

39. Achievements –

- Developed facility to enable the extraction of data for mail merge purposes and provided technical support for major events/milestones during the GAM Closure.
- Launched Fee for Service, produced user requirements and specifications, developed definitions, pricing models, contracts and signed up initial customers.
- Developed a draft business plan (with Corporate Services) for DAWN.
- Completed proof of concept of Infrastructure Services for Parishes.
- Developed and implemented several significant improvements to PCR processes.
- Specified, developed and implemented the new fee procedures for the ACPT.
- Completed commercial arrangements for DR hosting and established network communication links and backup processes to replicate data. Tested and launched the SDS DR facility.
- Commenced Refurbishment and Server Refresh Projects.
- Completed server room design, build and fit-out.
- Implemented Storage Area Network technology and Virtual Machine architecture to improve redundancy and

improve response.

40. Objectives for 2007 –

- Completion of the new Financial and Property (F&P) Management System Projects.
- Redesign and rebuild system interfaces required as a consequence of the new financial and property systems.
- Complete transition to the new Data Centre.
- Complete refreshing technology that has reached “end of life”.
- Finalise the business model for DAWN and achieve approval to proceed;
- Evaluate technology products, business applications for development of fee for services and products in future years.
- Finalise BCP and DR procedures and management plans.
- Undertake scheduled DR tests in accordance with SDS/GAB Risk Management Guidelines.
- Finalise the Master Custodian Project.

Conclusion

41. In many ways our organisation was well prepared for the demands of 2006. We were well equipped and mentally prepared to handle the changes and challenges embodied in the really key issues - while continuing to move forward in a controlled manner in certain areas.

42. 2007 will have its own challenges. The expectation is that the year will be dominated by –

- The completion of the GAM closure project.
- Finalising and then shaping our investment management culture.

and then

- Preparation for the installation of our new financial and property management systems.

43. Investment of time and energy in these matters will be rewarded over and over again.

44. As readers will understand our staff deserve a big “thank you” for their efforts in 2006. It was a big year and we emerged in very good shape. 2007 will be more ordered but just as demanding.

Glebe Administration Board

45. For the year ending 31 December 2006, GAB has returned a surplus of \$56.5 million, a 25% return on opening net assets. Net assets of the Diocesan Endowment have accordingly increased to \$272 million.

In addition to this excellent trading result, during 2006 we moved most of the way to implementing the Board's investment strategy adopted in July 2005. By year end all listed securities had been moved to external investment management and all but two of GAM's investment trusts had been closed. These changes proved to be a major task and our staff are to be warmly congratulated on the total outcome.

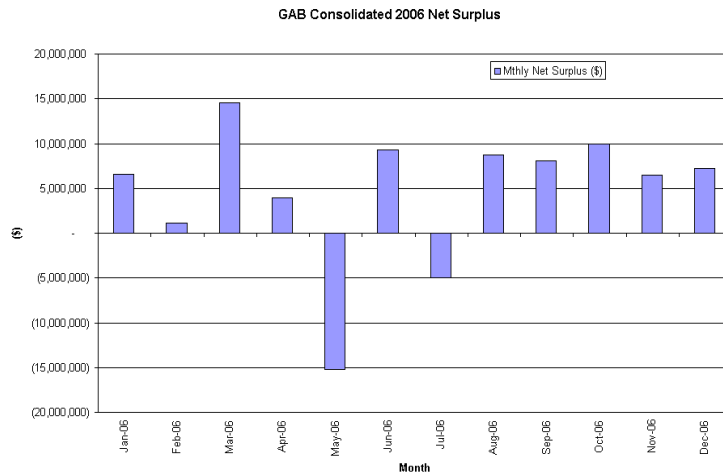
46. GAB's 2006 performance can be summarized –

\$000s	12 Months to December	
	2006	2005
Income:		
Cash, Fixed Interest, Mortgages	7,504	5,371
Direct Property	2,723	1,229
Indirect Property	17,831	7,477
Equities	52,172	46,716
Fees & Other Income	5,070	5,742
Total Income	85,300	66,535
Interest Expenses	16,547	14,744
Management Expenses	12,255	11,299
Total Expenses	28,802	26,043
Net Surplus	56,498	40,492
Total Assets	569,380	526,408
Total Liabilities	297,684	300,118
Net Assets	271,696	226,290

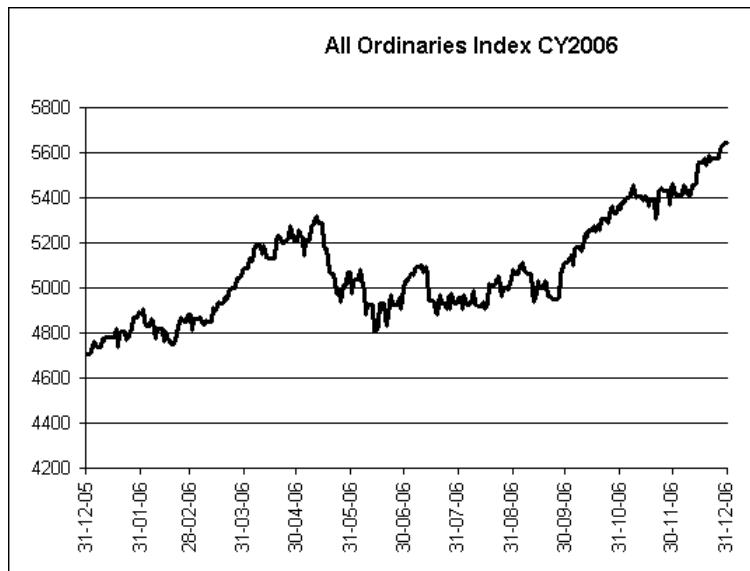
(these accounts do not reflect consolidation of GAM's investment trusts)

47. While the world and Australian markets remained volatile, 2006 was a much smoother ride than that experienced in 2005. A major downturn in May left us unsettled for some months, however the inherent strength of the Australian market eventually shone through with a run of five months of growth ending the year.

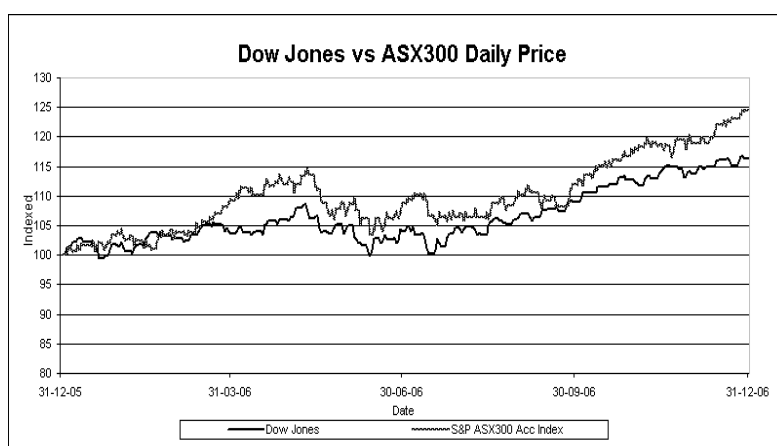
48. This chart, of GAB's month-by-month results, shows the instability of the first half of 2006 compared to the steady results of the second half –



49. Movements in the All Ordinaries clearly show the mid year period of uncertainty –



50. The Australian economy continues to outpace the USA, but not to the extent experienced in 2005. Note that we have changed to an ASX300 benchmark for Australian equities, hence this graph is a little different to those published in previous years.



51. GAB's investment responsibilities are experiencing a major change as GAM's investment trusts are closed and the funds previously managed through those vehicles are returned to unit holders. By early 2007, GAB will be offering its investment services only to close church clients. That service will be provided through a new licensed entity, one attracting the minimum of regulatory attention –

\$000s	Total Funds Managed by GAB	
	2006	2005
Australian Shares	284,962	350,849
Overseas Shares	60,080	74,280
Fixed Interest	41,673	66,526
Loans & Mortgages	89,854	70,024
Direct Property	114,540	125,749
Indirect Property	8,157	13,075
Listed Property	103,828	89,703
Cash & Short Term Deposits	41,752	53,325
Total	744,846	843,531

Attribution Analysis

52. As in past years, we made substantial gains from our gearing strategy, but suffered from a fairly ordinary performance at investment management level. That result strongly reinforces the correctness of the

Board's decision to outsource management of listed securities to the wider funds management market (as distinct from managing our funds through a single, in-house, boutique manager). In many ways we could be very thankful for what we did achieve.

	Equity	Borrowings from:		Total
		GIA	External	
\$000s				
Market Return	39,165	21,689	21,838	82,693
Asset Allocation Effect	1,241	682	675	2,598
Investment Management	(3,300)	(1,710)	(1,748)	(6,758)
Interest & Related Expenses	-	(7,628)	(8,297)	(15,925)
Management Expenses	(1,500)	(3,067)	(847)	(5,414)
Total Return	35,606	9,966	11,623	57,194
Return on ave funds employed	15.7%	7.3%	8.3%	
GAB Property Management				(926)
GAM Net Cost				(647)
Other Variances				15
GAB Consolidated Net Surplus (pre SAHC valuation)				55,636

53. This table will be worth watching in future years. Progressively, it will demonstrate the effect on investment returns that we can produce through strong internal management of the key elements in investment strategy.

54. During the year we closed the Board's small cap Australian equities portfolio and absorbed the funds into what had been previously an ASX100 large cap portfolio. The scope of the expanded portfolio was extended to the whole of the ASX300 and is managed through an ethically screened mandate.

55. Current projections suggest that a saving of around \$2 million pa will be realised at the management expenses line through our new arrangements. That saving together with an anticipated major reduction in the Investment Management effect is expected to provide the Board with an improvement in performance of up to 2% on NTA. This short analysis is a major pointer to one of the key monitoring challenges facing the Board and staff from, say, 2008.

56. The Property Management line remains elusive and lack of time precluded any detailed analysis. We believe that it is the hidden cost of running SAH and SJH, but that is yet to be proven. The matter may be

best resolved by changing the status of SAH, removing it from the assets of the DE and managing it as a stand alone entity.

Asset Class Returns

57. All asset classes produced positive results in the year and, with the exception of Australian Equities, performed at or around benchmark.

	12 Months to December			
	2006 Return		2006	2005
	\$000s	%	Benchmark	Return
			%	%
Australian Shares	44,966	21.0	23.4	20.4
Overseas Shares	7,206	13.5	11.5	13.5
Australian Fixed Interest	2,199	7.0	3.2	5.6
Loans & Mortgages	6,107	8.1	6.8	8.1
Direct Property	2,723	5.0	15.6	5.9
Indirect Property	20,545	32.0	32.5	6.6
Cash & Short Term Deposits	2,098	6.4	6.0	5.5

58. Australian Equities – Returns from this portfolio were disappointing throughout the year. Given that the result clearly demonstrates our vulnerability to a single boutique manager, we can be well pleased, not only that the result was still very useful, but also with the progress made on restructuring our investment operations. By year-end all GAB's Australian equities funds were managed by BGI through a discreet, ethical ASX300 mandate.

59. Overseas Shares - The very useful result in this portfolio flowed primarily from the resurgence in the US market, offset somewhat by a 7% rise in the value of the \$A.

60. Fixed Interest - This portfolio benefited from the inclusion of interest income from our Bridgewater/Vitality Care notes (the rate of return is higher than the bond market). Excluding that income shows a creditable result right on index. At year-end we deemed it prudent to write down the remaining value held against the Bridgewater/Vitality Care convertible notes at a cost of \$2.9 million (not included above).

61. Loans & Mortgages - The loans book continued to grow during the year and as the data shows, it makes a steady and valuable contribution to the GAB result. Good quality industrial loans are hard to find. Loans to para-church organisations however are a healthy area of growth. There is increasing interest being shown in wholesale level borrowing. The time to revisit the idea of a revised form of DDF may be near.

62. Property - St Andrew's House is the only asset in this asset class. Relative to other investment opportunities, SAH, with its 5% cash return and with its capital gains not accessible, is not a particularly attractive investment for GAB. Options for this asset are being reviewed during 2007.

63. Indirect Property - This asset class produced an excellent result for the year, primarily as a result of continuing M&A activity and the very positive performance of international property portfolios. At year-end we wrote down the value (\$2.7 million) of our Harvest Living shares (not included above).

64. Cash and Short Term Deposits - This portfolio continues to provide a useful service to a wide range of clients. The number of clients serviced and the level of transaction activity is reducing fairly rapidly (the GAM closure is one significant effect) and shortly we will need to assess whether in-house management continues to be justified.

Gearing Strategies

65. Our gearing strategy worked well again in 2006, returning a little under \$21 million at the net surplus line. Actual level of borrowing remained virtually unchanged other than for fluctuations in the level of GIA deposits.

\$000s	31 Dec 2006	31 Dec 2005
Glebe Income Accounts	135,530	139,018
External Borrowings	140,000	140,000
Total Gearing	275,530	279,018
NTA	270,834	226,382
Gearing Ratio	1.02	1.23

66. In order to focus management resources on closing GAM and outsourcing investment management, the Board adopted a risk minimisation policy for the 2006 year. Consistent with that policy, external borrowing was held to the same level as year-end 2005.

67. Whether we could have been more aggressive in our gearing strategies is debatable. On the one hand the 2006 markets would have strongly rewarded additional gearing. On the other hand it is a fact that management resources were stretched very thin over the year and complications of any sort would have introduced considerable risk. On balance, the CEO's view is that we were correct in adopting a "no change to gearing" strategy.

68. Gearing, and the probability of asset class attribution of gearing, is one of the more important elements of GAB's new approach to managing performance through key investment variables. Accordingly, cash management and gearing strategies have been separated for management purposes. Cash will be managed through a regular cash forecasting process, not through changes in gearing. Gearing will be

strictly an investment strategy matter.

69. Returns attributed to gearing were listed earlier in this report –

\$000s	Funds Employed	Net Return	Net Return
NTA (at 1 Jan 06)	226,290	35,606	15.7%
GIA (average)	136,754	9,966	7.3%
External (average)	140,000	11,623	8.3%

70. Once again we note that the net margin attributed to GIA is less than that calculated for external borrowings. Intuitively this would be correct as we carry a considerable cost in managing GIA as a service function, plus we do not attribute any management costs to external gearing. Once or twice a year we debate whether the cost of running GIA is justified. We have always concluded that the benefit in providing a service through which nearly 185 parishes can identify, at least in part, with GAB, and thus with the mission of the Diocese, is considerable.

Asset Allocation

71. The attribution model measures the extent to which we stray from our target asset allocation. It is not attempting to assess an optimum allocation for the period. That point will be one focus of the major risk/return review planned for later in 2007.

72. As can be seen, the model attributes a moderate positive return to asset allocation – that means we essentially held funds around target allocations but with an erring towards the more active asset classes of domestic equities and property securities.

73. Asset allocations at the beginning and end of the year were –

	2006		2005
	Actual	Target	Actual
	%	%	%
Australian Shares	42.5	40.0	43.0
Overseas Shares	10.7	10.0	10.3
Australian Fixed Interest	6.0	8.0	8.6
Loans & Mortgages	16.0	18.0	13.6
Direct Property	6.6	7.0	7.1
Indirect Property	1.5	1.0	1.4
Listed Property	12.8	12.0	12.6
Cash & Short Term Deposits*	3.9	4.0	3.4

* Excludes distributions receivable.

74. Again we could ask whether a more aggressive asset allocation position could have been taken. There are two issues here –

75. Firstly, to have intentionally made significant changes to asset allocations would have required us to divert substantial management attention to that task and its implications. As stated earlier, that would not have been a good idea.

76. Secondly, the portfolio is balanced to the classic 70/30 mix favoured by many investment houses. Late in 2005 this overall mix was assessed by an investment adviser as appropriate, pending introduction of new asset classes later in 2007.

77. On balance, it can be seen that we held to a reasonable asset allocation position in the light of all circumstances.

78. The performance of St Andrew's House as GAB's only remaining direct property investment needs to be carefully considered. A cash return of 5% on an asset in our books at \$37 million is not good enough and highlights the tension between GAB as a genuine investment manager and GAB as the custodian of our Diocese's home. Options for this asset are being reviewed during 2007.

Managed Entities

St Andrew's House

\$000s	2006	2005
Rent and related income	10,350	9,616
Other income	520	147
Property expenses	(4,687)	(6,473)
Total Income	6,183	2,996
Total Expenses	1,014	538
Net Surplus	5,169	2,458

79. The refurbishment of St Andrew's House is proceeding smoothly and will largely be complete by end 2007. Some inconvenience is being experienced as each stage occurs, but, given that this is the building's first refurb ever, the results will be worth the wait. Separation of the School and office foyers has already had a positive impact on both sets of occupants.

80. The ABS lease has emerged from its incentive period it will be interesting to see what effect that has on value of the building. There will be several major valuation effects as we are using some arcade shops as temporary quarters during the refurb and we are anticipating a nil income effect for the "public" meeting rooms.

81. The major elements of SAH contributed roughly in this order –

Car Park	\$989,000
Arcade	\$1,135,000
Office Tower	\$2,446,000

with the balance of the net surplus coming from investment of the sinking fund and other minor effects.

St James Hall

\$000s	2006	2005
Total Income	1,129	333
Total Expenses	398	323
Net Surplus	731	10

82. St James Hall underwent a year of consolidation after a number of years of major refurbishment works, including a new air-conditioning system. Additional refurbishment works related to OH&S requirements, especially in relation to the lifts.

83. Excluding the Parish occupied tenancy, the building enjoyed full occupancy during 2006. In addition, a number of key tenancies executed their option to extend the term of their occupancy of the building.

84. During the year, GAB assisted the Parish convert part of its occupied space into area suitable for external tenancy. Also during the year, discussions with the Parish and a number of real estate management companies centred on the cost/benefits of outsourcing the on-site management of the building. Those discussions are nearing resolution and will be considered in context by GAB early in 2007.

Greenoaks Apartments

85. Development of the back block of Bishops court on behalf of the Endowment of the See should move into the selling phase in mid 2007 when construction should be completed. A marketing suite has been set up in Town Hall Arcade and is already in use showing the product to prospective buyers.

ACPT and EOS Investments

86. While GAB has no formal responsibility for investments of ACPT or EOS, we do offer informal advice and we do monitor (and report) performance on a regular basis.

87. During 2006, with our assistance, ACPT selected an investment adviser to assist in determining their overall investment strategy and in establishing revised asset allocations. The impact of that work was very positive in a performance sense.

88. One of the major future savings available to both ACPT and EOS will flow from access to the same prices as paid by GAB for investment management services. To that end, early 2007, GAB will have completed the setting up of a new entity through which Australian equity investments will be available (via an ethical mandate) to the ACPT and

EOS and other close Diocesan entities with an interest in these matters.

89. The EOS Committee is adopting a more active position in managing the interests of that endowment. At year-end no major changes in strategy or structure had occurred.

The “Glebe” Strategy

90. In late July 2005, and as reported in the 2005 year-end report, the Glebe Board decided to restructure its investment activities by –

- Moving out of the funds management business.
- Outsourcing investment management of listed securities.
- Outsourcing the bulk of the investment administration function.
- Concentrating on managing those elements of the investment process that genuinely affect performance.

91. The objectives and drivers behind this strategy were well canvassed in the 2005 report, but in short were to –

- Distance GAB from the increasing reputation risk associated with funds management.
- Take advantage of attractive investment options available in the wider markets.
- Focus more on the relationship between risk and return and so manage those variables which genuinely make a difference to long-term performance.

92. The project has developed well. Following is a summary of activity during 2006 –

- During January 2006, it became clear that no single entity, offering to purchase GAM, could satisfy all of GAB’s investment needs. Given therefore that protection of GAB’s investment performance was paramount, the decision was taken to close, rather than sell, GAM. This decision was taken knowing that such a project would dominate our investment and administrative operations for at least 18 months.
- During April and June 2006, eight of GAM’s investment trusts were closed and approximately \$105 million returned to unit holders. This extremely complex process went without a hitch and our staff are to be warmly congratulated for their work. Further closures followed in September. At year-end, GAM only had two Australian shares trusts still operative. Those two will be closed before mid 2007.
- A process was developed through which, in conjunction with an external investment adviser, potential external

managers are assessed and recommended to the Board's ALCO for approval. Using this process, GAB funds have been successfully placed with external managers of international shares, fixed interest, property securities and Australian shares.

93. In order to minimise risks to performance, the Board adopted a "risk minimisation" strategy for 2006 and part of 2007. This policy manifests itself in the use of index or enhanced index managers, in a freeze on borrowing levels and in the retention of existing asset allocation targets.

94. By year end 2006 the key activities remaining in the restructuring project were –

- To close the remaining two GAM Australian Equities trusts.
- The completion of structures (GIS) through which GAB can offer mandate based investment options, for Australian shares, to close church clients.
- Finalisation of a service level agreement with our custodian BNP Paribas.

95. By end 2007, our expectation is that –

- The new GIS structure will be well settled and close church entities will be taking advantage of the benefits available.
- One or more external managers will have been reviewed and probably changed as we relax the risk minimisation policy and seek a somewhat stronger return at potentially higher risk.

and probably most importantly –

- A full risk/return review of the Diocesan Endowment will have been completed taking into account the options now available in the open market for additional or changed asset classes.

A Diocesan Development Fund

96. Towards the end of 2006, signs were emerging that GAB ought to seriously consider the creation of a wholesale lending service. One of the main drivers is Anglicare, an organisation which needs to borrow around \$50 million for its Aged Care project.

97. While of substantially more modest proportions than that proposed in 2005, these trends need to be recognised as the early stages of a DDF.

98. Late in 2006, the Board discussed the concept of wholesale lending as potentially the forerunner of a DDF and agreed that further

discussion and analysis ought to take place.

Investment Management Structure

99. The outworking of GAB's revised investment strategy required some major changes to the skills base and structure of investment operations.

100. The key changes are –

- (a) A new division of the Secretariat, Investment Services, has been established to focus on –
 - Investment Strategy - the management of all those factors that affect performance.
 - External relationship with managers and advisors.
 - Cash - achievement of agreed cash forecasts through appropriate investment decision making.
 - Management of GAB's obligations (express, implied or adopted) to other church entities, and the provision of advisor services, investment vehicles and reporting disciplines.
- (b) The old Investment Division has been renamed Property Services to reflect its future role in the Secretariat and the Diocese as the provider of strategy, facility management and operational services relating to property to SAH, SJH and the wider Diocese.
- (c) The simple rationale for a Property Services division is that our Diocese holds property assets of around \$3 billion and we do so without any serious attempt to apply asset management disciplines. There is evidence available that the asset base is running down in value and amenity because it is not managed. It is our belief that, without impinging on the rights of the legal or beneficial owners, we can add real value to this element of Diocesan life.

Conclusion

101. Another very big year for GAB. A result of \$55.6 million before SAH revaluation is truly remarkable and in the light of what else was achieved is even more remarkable.

102. GAB has now moved from being an inhouse boutique funds manager, to a genuine investor, managing its future through professional control of strategy. The change in culture that flows from that is being seen already in our people and processes. The management challenge now is to continue to develop the necessary IP in our staff and to ensure that we measure and report on exactly those elements of investment management that truly matter.

103. We have great expectations for the future as GAB focuses on incrementally improving performance through highly focused

management and through well managed resources. The possibility of wholesale lending becoming a reality is an exciting expansion of GAB's activities.

104. Thank you to all staff. History will show that 2006 was a pivotal year in the operations of GAB and the contribution of staff and Board members to the total process was critical and highly valued.

Retirement of Chief Executive Officer

105. Mr Rodney Dredge will retire at the end of July 2007, after nearly 8 years as Chief Executive Officer. The Board acknowledges his leadership and the tremendous contribution he has made to the work of the Board and Secretariat.

For and on behalf of the Board

JOHN B CHAPMAN
Secretary

26 July 2007

Appendix

Sydney Diocesan Secretariat – Organisation Chart – 1 July 2007

