

# Anglican Church Property Trust Diocese of Sydney as trustee for the Long Term Pooling Fund

## Investment Policy Statement

as at 1 January 2017

### Purpose of this Statement

1. The purpose of this statement is to –
  - (a) outline the context and background matters relevant to the investment of the property of the Long Term Pooling Fund ("LTPF") by Anglican Church Property Trust Diocese of Sydney ("ACPT"), and
  - (b) outline the responsibilities of different parties in relation to the investment of the LTPF, and
  - (c) articulate the fund objective and the investment objective for the LTPF, and
  - (d) articulate the risk management principles adopted by ACPT in relation to the investment of the LTPF, and
  - (e) articulate the permitted asset classes and the strategic asset allocation ("SAA") for the investments of the LTPF, and
  - (f) articulate the approved investment managers and pooled investment funds, and
  - (g) articulate the key policies adopted by the ACPT for the investment of the LTPF, and
  - (h) articulate the requirements for –
    - (i) the periodic review of the investments of the LTPF, and
    - (ii) the evaluation of the performance of the Asset Consultant engaged to assist in the investment of the ACPT.

### Context and Background

#### **Trusts and Powers**

2. The LTPF was originally established by resolution of the ACPT under paragraph 11(1)(a) of the *Anglican Church Property Trust Diocese of Sydney Ordinance 1965* (the "1965 Ordinance").
3. Under that paragraph the ACPT, with respect to all money held by it for investment, may –

"pool the same though subject to different trusts and in respect of such pooled moneys may average gains losses and interests and deal with all matters and do all things incidental to such pooling."
- 3A. By clause 4 of the *Long Term Pooling Fund Ordinance 2012* (the "LTPF Ordinance") the ACPT is to invest, manage and administer the LTPF and, in connection therewith, is to maintain the real value of the LTPF. Subject thereto, the ACPT is to provide for distributions from the LTPF in accordance with clause 7 of the LTPF Ordinance.
4. The powers of the ACPT in relation to the investment of the LTPF are set out in paragraph 11(1)(b) of the 1965 Ordinance. Under that paragraph, ACPT may exercise the following powers in respect to the property of the LTPF (in addition to investing in trustee securities authorised by law) –
  - (a) to invest in shares of any company listed on any Australian Stock Exchange (other than companies carrying on a business of which Synod or Standing Committee may by resolution disapprove) and exercise rights to take up shares if such rights become available to it,
  - (b) to invest in debentures issued by any such company,
  - (c) to invest in any secured or unsecured notes (whether or not convertible into shares or stock) issued or to be issued by any such company,
  - (d) to invest in units of any unit trust,

- (e) to purchase any land,
  - (f) to lend moneys (but not carry on the business of money-lending),
  - (g) without limiting the generality of paragraph, to place moneys on deposit, and
  - (h) to invest in any security authorised by an ordinance of Synod.
5. Under subclause 11(2) of the 1965 Ordinance, the ACPT may also –
    - (a) appoint any corporation to hold, on behalf of the ACPT, any church trust property being moneys referred to in subclause 11(1) or investments made pursuant to the powers conferred on the ACPT by that clause and of which the ACPT is the trustee, and
    - (b) appoint the same or any other corporation to manage and advise on the investment realisation and reinvestment of all or any of such property, and
    - (c) delegate to that corporation all or any one or more of the powers conferred upon the ACPT by subclause 11(1).
  6. Any appointment or appointments under subclause 11(2) may be made on such terms and conditions and at such remuneration as the ACPT considers appropriate provided always that every such appointment shall contain a covenant to the effect that the corporation appointed shall not invest any church trust property in or retain any investment of church trust property in any company carrying on a business of which the Synod or the Standing Committee may by resolution disapprove after notice of that resolution has been given by the ACPT to that corporation. No such resolution, specific to the 1965 Ordinance, is in force, to the knowledge of the ACPT.
  7. The *Investment of Church Trust Property Ordinance 1990* (the "1990 Ordinance") also contains general provisions for the investment of church trust property by trustees. Clause 5(k) of that Ordinance permits investments in units in a managed investment scheme on the terms specified therein. One of those terms is that an investment in a scheme is not permitted where the scheme conducts as its main business, or one of its main businesses, a business which the Synod or the Standing Committee of Synod (the Standing Committee) has by resolution declared to be a disapproved business, or the scheme invests mainly in the securities of a corporation or scheme which conducts such a business as its main business or one of its main businesses.
  8. By resolution dated 25 September 2006 made under clause 5(k) of the 1990 Ordinance the Standing Committee has disapproved the following businesses –
    - the manufacture, promotion, distribution or sale of armaments,
    - a business which is illegal or immoral,
    - the manufacture, promotion, distribution or sale of tobacco,
    - the business of gambling or betting or directly connected therewith,
    - the manufacture, promotion, distribution or sale of liquor, and
    - the production, sale or distribution of 'X' or 'R' rated video or digital images, videos or films.

#### **Capital of the LTPF**

9. There are occasional material inflows and outflows of capital to and from the LTPF on behalf of individual unit holders.

#### **Fund Objective for the LTPF**

10. By clause 4 of the *LTPF Ordinance*, the ACPT is to invest, manage and administer the LTPF and in connection therewith is to maintain the real value of the LTPF.
11. For this purpose, the maintenance of the real value of a unit in the LTPF is to be measured having regard to the movement in the unit price and the corresponding movement in the CPI – all Groups Index published by the Australian Bureau of Statistics.
- 11A. The ACPT considers that maintenance of the real value of a unit in the LTPF is to measure over rolling 10 year periods, the first of which commenced on 1 July 2010.

**Distributions from the LTPF**

12. Consistent with the Fund Objective and the Investment Objective referred to in this Investment Policy Statement the ACPT has adopted a distribution formula commencing with the January 2013 distribution onwards being the sum of 2 components. The first component is 70% of the sum of the prior four quarters distribution indexed by CPI. The second component is 30% of 3.5% of the average ex distribution unit price over the prior twelve quarters.
13. Quarterly distributions for the next calendar year are calculated using the same data up to 30 September of the prior year, ie the cents per unit payments occurring in January, April, July and October of a particular year will be the same.
14. A resolution of the ACPT is required to effect the proposed level of distributions each year.
15. The purpose of the distribution formula is to provide a reasonable and relatively stable income from the fund consistent with the Fund Objective.

**Other matters**

16. Miscellaneous costs of managing the LTPF, such as asset consultant fixed costs, audit costs, and fees are deducted from the Fund. (The investment management fees associated with the LTPF's underlying investments are additional and vary in detail). These miscellaneous costs are approximately 0.5% per annum.
17. The LTPF is exempt from tax on Australian income and capital gains and derives economic benefit from imputation credits attached to dividends from investment in shares of Australian companies; but it cannot claim foreign tax credits.
18. Since October 1996 the LTPF has been unitised, so that interests in the fund held by the ACPT are divided into units. The price of a unit is calculated periodically having regard to the value of the underlying investments in the fund. Investments are made in the LTPF by purchasing units, and investments are withdrawn by redeeming units. The ACPT holds the units as trustee for a parish or diocesan organisation or they are held for an identified purpose.

**Appointment of Asset Consultant**

19. The ACPT has appointed Mercer Investments (Australia) Limited ("Mercer") as its asset consultant –
  - (a) to provide advice on high level strategic issues concerning the investment of the LTPF, including the investment objective, risk tolerance, strategic asset allocation, asset class investments and the distribution policy of the LTPF,
  - (b) to provide advice on and assist with the implementation of the investment arrangements approved by the ACPT, and
  - (c) to monitor and report on all aspects of investment performance.

**Responsibilities**

Party Responsible	Main Responsibilities
Synod / Standing Committee	<ul style="list-style-type: none"> <li>• Makes ordinances relating to the trusts of the LTPF, and the objects and powers of the ACPT in relation thereto.</li> </ul>
ACPT	<ul style="list-style-type: none"> <li>• Approves the Investment Policy of the LTPF, including the investment objective, strategic asset allocation and approved asset classes.</li> <li>• Appoints the Investment and Finance Sub-Committee of the ACPT ("IFCACPT") and determines its charter.</li> <li>• Approves the appointment of the Asset Consultant.</li> <li>• Approves investment managers and pooled investment funds.</li> </ul>

Party Responsible	Main Responsibilities
IFCACPT	<ul style="list-style-type: none"> <li>• Recommends the Investment Policy of the LTPF to the ACPT.</li> <li>• Recommends the terms of Appointment of the Asset Consultant to the ACPT.</li> <li>• Receives periodic reports from SDS and the Asset Consultant and, where required, reports and makes recommendations to the ACPT.</li> </ul>
Management of ACPT	<ul style="list-style-type: none"> <li>• Assists the other parties in this table fulfil their responsibilities</li> <li>• Responsible for assisting with the implementation of transitions</li> <li>• Directs rebalancing of investments, when required.</li> <li>• Instructs the Asset Consultant on specific reporting requirements.</li> </ul>
Asset Consultant	<ul style="list-style-type: none"> <li>• Provides services in accordance with the terms of appointment.</li> <li>• Provides proactive advice on continued suitability of investment managers and investment policy and distribution policy.</li> <li>• Manages investment managers and reports on performance.</li> <li>• Attends meetings, where required.</li> <li>• Advises on rebalancing of investments, when required.</li> </ul>

## Investment Objective

20. The investment objective for the LTPF is to achieve a real rate of return of 4% pa over rolling 5 year periods (after external investment management fees and tax effects), subject to preserving the real value of the LTPF units over a 10 year period with a 70% probability, and adopting a distribution policy that is consistent with this objective.
21. For this purpose, the “real rate of return” is to be measured as the excess of the nominal return above the corresponding movement in the CPI – All Groups Index published by the Australian Bureau of Statistics. “Real value” has a corresponding meaning.
22. External investment management fees include investment manager fees, custody fees and other similar expenses.
23. Returns are to be “tax-effected” by grossing-up for imputation credits that the LTPF can reclaim on dividends paid by Australian companies and deducting any withholding or similar taxes on overseas investments that the LTPF cannot reclaim.
24. The investment objective was originally adopted with effect from 1 July 2010. Accordingly, prior to 1 July 2015 and 1 July 2020, as applicable, the investment objective is to be measured.
25. The investment objective includes not only a return objective, but also a risk objective, while the return and the risk objectives are related, it is not necessarily appropriate to measure them over the same time periods.
26. The risk objective stated in the investment objective is that the real value of the LTPF be maintained over a rolling 10 year period with a 70% probability (as assessed by the Asset Consultant). Accordingly, this objective acknowledges that there is up to a 30% probability that the real value will not be achieved and recognises that it is necessary to take a sufficient level of risk to both maintain the real value of the LTPF and provide a reasonable income there from.
- 26A. In relation to short term losses, ACPT will manage the investments of the LTPF so that under adverse market conditions the expected loss (whether realised or unrealised) from investable assets over rolling one year periods is not more than 23% with a 95% probability. This will be monitored using an Expected Loss methodology.
27. In developing and adopting a SAA some key measures of risk which were considered were standard deviation (ie the level of volatility in return outcomes) and the probability of a negative return over any rolling one year period.

## Risk Management Principles

28. Long term investment returns in excess of those available on cash instruments are required to achieve the investment objective for the LTPF. The pursuit of these returns requires that the LTPF bear some risk. This may result in periods of negative returns.
29. The ACPT will determine appropriate investment policies to manage specific risks associated with the investment of the LTPF. The ACPT seeks to manage risk within acceptable limits.
30. The investments of the LTPF will be diversified by asset class and by active management processes, where applicable, to reduce the risk from failure of individual investments or investment managers. Implemented consulting arrangements will allow the ACPT to utilise a range of investment management organisations to benefit from different skills available to pursue the potential for added value from active investment management.
31. The ACPT will maintain ranges for allocation to different asset classes and through the implemented consulting arrangements, access multi-manager unit trusts, to optimise both long term return and diversification benefits.
32. The risk arising from each asset class and active management strategy will be assessed based on the LTPF's allocation to each class or strategy and its contribution to the total return and total risk of the LTPF.

## Investment Policies

### ***Gearing Policy***

33. The LTPF will not borrow for investment purposes. The prohibition on borrowing is not intended to prevent borrowing by way of overdraft or similar to meet short term cash flow needs, subject to IFCACPT approval.
34. The LTPF will not invest in pooled products that use gearing to increase the gross value of the assets of the pool, other than pooled products consisting of real property and/or infrastructure assets that are partly funded by debt.
35. The LTPF will not invest in any security or pooled product where, through gearing or otherwise, the potential liability to the LTPF is greater than the current value of the investment.

### ***Derivatives Policy***

36. The investment in a pooled product or an underlying pooled product, where the investment manager uses derivative instruments, such as forwards, futures, options, warrants, swaps, share ratios or other derivative instruments, is only permitted where such instruments are not used to gear the portfolio or create net short positions.

### ***Hedging Policy***

37. The following principles apply in relation to hedging foreign currency exposure back to Australian dollars –
  - (a) exposure to the overseas shares markets asset class (including overseas shares emerging markets) is to have a strategic long term allocation of 50% hedged, and
  - (b) all other exposure to overseas asset classes is to be 100% hedged, wherever practicable.
38. Notwithstanding the principles in paragraph 37, the ACPT recognises that it is impracticable to hedge the currency exposure associated with its allocation to the overseas shares emerging markets asset class. Accordingly, the allocation to the overseas shares emerging markets asset class may be unhedged.
39. Where the Australian dollar is viewed by the Asset Consultant as being at extremely high or low relative to foreign currencies underlying the LTPF's investments, the ACPT may agree from time to time to adjust the hedge ratio accordingly.

### **Ethical Policy**

40. A trust in which the property of the LTPF is invested, or an underlying pooled product, must comply with the Ethical Investment Policy approved by ACPT on 6 May 2016 and endorsed by the Standing Committee of the Synod on 30 May 2016, as may be amended from time to time.
41. [This paragraph is not used.]
42. [This paragraph is not used.]

### **Policy re Skill and Expertise of Managers**

43. The Asset Consultant is to ensure that at all times the managers of the underlying pooled products display the skill and expertise of professional investment managers and have adequate resources to apply their particular strategy.

### **Confirmation re Compliance with Investment Policies**

44. The Asset Consultant will provide a confirmation each year that the investment managed by the Asset Consultant comply with the ACPT's gearing, derivatives, hedging and ethical policies and policy re skill and expertise of managers. If the Asset Consultant becomes aware that an investment managed by it does not comply with ACPT's investment policies, the Asset Consultant is to advise management as soon as possible thereafter and provide recommendations about the action to be taken to rectify the non-compliance.

### **Strategic Asset Allocation**

#### **General**

45. The following SAA has been determined for the investments of the LTPF –

<b>Asset Class</b>	<b>Minimum %</b>	<b>SAA (%)</b>	<b>Maximum %</b>
Australian Shares	26	33	45
Overseas Shares – Developed	0	16	24
Overseas Shares – Emerging	0	4	8
Direct Property	0	4	8
Global – REIT	0	4	8
Listed Infrastructure	0	4	8
<b>Growth</b>	<b>45</b>	<b>65</b>	<b>75</b>
Australian Sovereign Bonds	0	9	15
Global Sovereign Bonds	0	7	12
Global Credit	0	11	16
Cash / Term Deposits	0**	8	30
<b>Defensive</b>	<b>25</b>	<b>35</b>	<b>55</b>

\*\* Subject to retention of sufficient cash / term deposits to meet at least 4 quarters forecast distributions at any one time.

46. The actual asset allocation of the LTPF will be monitored at least monthly.
47. Any breach of the minimum or maximum allocation specified in an asset class range is to be reported by management to the ACPT within 5 working days. Rectifying breaches will be undertaken within 10 working days, subject to available liquidity.
48. Where an asset class is viewed by the Investment Manager as being overvalued or undervalued, SDS staff, under delegation from ACPT, may agree from time to time to medium term tilts in the SAA for an asset class provided that the implementation of such tilts does not result in the value of an asset class falling outside the relevant rebalancing range stated in the table in paragraph 45.

49. The following asset classes are approved –

<b>Asset Class</b>	<b>Investment Product</b>
Australian Shares	Mercer SR Australian Shares Fund
Overseas Shares – Developed (unhedged)	Mercer Passive International Shares Fund
Overseas Shares – Developed (hedged)	Mercer Passive Hedged International Shares Fund
Overseas Shares – Emerging	Mercer Emerging Markets Shares Fund
Global Listed Infrastructure (hedged)	Mercer Global Listed Infrastructure Fund
Australian Listed Property (hedged)	Mercer Global Listed Property Fund
Australian Fixed Interest – Sovereign	Mercer Australian Sovereign Bonds Fund
Overseas Fixed Interest – Sovereign (hedged)	Mercer Global Sovereign Bonds Fund
Global Credit (hedged)	Mercer Global Credit Fund
Cash	Glebe Income Accounts and the Diocesan Cash Investment fund

### Investment Performance and Monitoring

50. The principal goals of performance monitoring are –

- (a) to assess the extent to which the LTPF's investment objective is being achieved,
- (b) to monitor asset allocation exposures against asset allocation benchmarks and approved ranges,
- (c) to compare the performance of the funds managed by the Asset Consultant against the performance of approved indices, and
- (d) to allow the ACPT to assess the ability of the Asset Consultant and the portfolio structure to successfully meet the investment objectives for the LTPF.

51. The total return of the LTPF, adjusted for tax effects and after Asset Consultant and investment management fees, will be monitored over a range of time periods against the following benchmarks –

- (a) over rolling 1 year periods: A composite benchmark calculated by the sum product of the LTPF's strategic asset allocation and the relative benchmark returns, and
- (b) over rolling 5 and 10 year periods: Consumer Price Index + 4.0% pa.

52. Performance of the investments in the asset classes managed by the Asset Consultant will be measured against the indices chosen by the Asset Consultant. The indices in use as at the time of this Investment Policy Statement are listed below. They may be supplemented by the ACPT with other indices from time to time-

<b>Asset Class</b>	<b>Index</b>
Australian Shares	S & P / ASX 300 Accumulation Index
Overseas Shares – Developed (unhedged)	MSCI World Ex Australia Index (unhedged in A\$ with net dividends reinvested)
Overseas Shares – Developed (hedged)	MSCI World Ex Australia Index (hedged in A\$ with net dividends reinvested)
Overseas Shares – Emerging	MSCI Emerging Markets Free Float Index
Global Listed Infrastructure (hedged)	FTSE Global Core Infrastructure 50-50 Index in (A\$ hedged)
Australian Direct Property	Consumer Price Index + 4%

Global Listed Property (hedged)	FTSE EPRA/NAREIT Developed Index in (A\$ hedged)
Australian Fixed Interest – Sovereign	Bloomberg AusBond Treasury Index (All Maturities).
Overseas Fixed Interest – Sovereign (hedged)	JP Morgan Global Government Bond Index in (A\$ hedged)
Global Credit (hedged)	40% – Barclays Capital Global Aggregate ex Govt ex Treasuries Index in (A\$ hedged) 60% – Barclays Global Aggregate – Corporate Index (A\$ hedged)

52A. The following key metric is to be monitored by management at least on a quarterly basis –

Expected Loss

Formal Limit	Maximum of 23%
Escalation Level	20%

52B. The Ethical Investment Policy specifies the notifications required to be given to the ACPT in connection with the metrics referred to in the policy.

### Ongoing Review and Reporting

53. The appropriateness of the SAA and these ranges will be formally reviewed by the ACPT with the advice of the Asset Consultant at least annually.
54. Advice will be sought from the Asset Consultant at least annually in respect of the LTPF's investment structure, the performance and continued suitability of investment managers, the adequacy of the returns achieved and the continuing suitability of this Investment Policy.
55. The Asset Consultant will report on the performance of the investments undertaken at least quarterly in accordance with a format agreed with the ACPT.
56. The performance of the Asset Consultant will be reviewed by the IFCACPT at least annually.
57. This Investment Policy Statement will be formally reviewed no less frequently than every 3 years.

### History of formally approved revisions to this Statement

58. Approved by the ACPT on 17 December 2010 and revised on 27 April 2012, 27 July 2012, 22 February 2013, 26 March 2013, 15 November 2013, 31 October 2014, 12 December 2014, 2 March 2016, 18 March 2016, 17 June 2016 and 16 December 2016.