Annual Report for 2005

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.)

Contents

Abbreviations used in this Report

‘ACPT’	means Anglican Church Property Trust Diocese of Sydney
‘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
‘SACIT’	means Sydney Anglican Church Investment Trust

'SAHC'	means St Andrew's House Corporation
'SAPF'	means Sydney Anglican Property Fund
'SDS'	means Sydney Diocesan Secretariat
'SDSF'	means Sydney Diocesan Superannuation Fund

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 and transferred, where appropriate, funds to the Glebe Diversified Property Fund ("GDPF") which is managed by GAM.

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 2005 and their meeting attendance records in 2005 follow.

	Meetings Attended	*Last Appointed*
Canon B A Ballantine-Jones OAM	9 out of 11	2003
Mr P R Berkley	9 out of 11	2005
Mr P P Driscoll	10 out of 11	2005
Bishop R C Forsyth	6 out of 11	2004
Dr S E Judd	10 out of 11	2004
Mr R H Y Lambert	9 out of 11	2003
Mr N R Lewis	10 out of 11	2005
Mr D B McDonald AO	6 out of 11	2005

Mr I C Miller	8 out of 11	2004
Mr W H Olson AM	7out of 11	2004
Dr L A Scandrett	10 out of 11	2003
Mr P R Shirriff (Chairman)	11 out of 11	2003

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. The cultural and productivity gains experienced in 2004 continued through 2005 and, in development terms, 2005 was a very strong year for SDS. Synod 2005 had the effect of narrowing, but sharpening our focus and in several ways has established the shape of our services offered to the Diocese for some years to come.

10. Financially 2005 was also a strong year - one in which controlled but targeted expenditure was possible and one in which we continued to produce a small but healthy surplus. Likewise, the Balance Sheet is healthy. The move to hold SDS capital in a balanced fund rather than in Fixed Interest is the primary source of growth in Net Assets. Further information can be found in the audited accounts attached to this report.

Major Projects

11. The change from SDS being a responsive, minimalist organisation to an active participant in and contributor to the life of the Diocese was essentially completed in 2004. The 2005 manifestation of that change was hard work and included some setbacks, but was overwhelmingly positive. Many useful lessons were learned during 2005 and will help us

shape SDS into 2006 and beyond.

12. The following report on our Major Projects provides an insight into the shaping of SDS during 2005.

New Capital Project

13. We believe that history will show NCP to be the pivotal process through which the Diocese was able to address some key strategies in the Mission. Clearly, however, NCP was not the immediate answer to the Mission's need for capital.

14. The 2005 objective for the project was to test whether capital could be raised from the existing asset base with a view to its redeployment in areas of greater Mission need. The driver was the belief that capital was required for –

	$ millions
Growth areas in Sydney to buy land and build churches	100
Expand, rebuild and develop existing church properties	100
The expansion of Moore Theological College	100
Other areas such as SASC, GAB, AYW Camping, SACS	150
Total	***450***

15. The test was to see if capital could be raised from –

(a) The $2 billion or more in assets under the ownership of the ACPT.

(b) The $1 billion or so in assets controlled by Diocesan organisations.

16. Another objective was to construct a useable data base of Diocesan assets. This was seen as essential if any genuine attempt at asset realignment or ministry analysis was to be made.

17. The conclusions reported to Synod in 2005 were –

- A data base has been successfully developed and has been shown to be useful as the basis for adding an analytical dimension to the development of strategy in the Diocese, a region or a parish.
- We are satisfied that capital can be raised from the existing parish asset base.
- The volume of capital raised through asset realignment processes will be useful but small in comparison to that believed to be required.

- The asset realignment process, when used to produce even small volumes of capital, will take some years and cannot be regarded as the Diocese's only source of Mission capital.

18. Of possibly greater importance were the lessons learned and reported to Synod –

- Realisable values of our properties are going to be much lower than expectations based on "book" or insured value. Many of our building add little to, or may even detract from, the realisable value of our land.
- The capacity of our diocesan structure to manage the pain, caused by NCP initiated major asset decisions, was very low indeed. Parallel strategies aimed at dealing with the consequences of a major property proposal need to be developed and put in place.
- Perceived local needs in parishes would absorb much of the capital released. Local interests strongly prevailed over the wider diocesan interest.

19. By year end 2006 the New Capital Project will have wound down to –

- A few property projects slowly working their way through an increasingly complex external environment.
- A fully operational data base for which a training program has been designed. This will be offered to Episcopal staff with a view to them taking over responsibility for utilisation of the data base.

20. NCP expenses were –

	2005	***Since Inception***
Expenses	$457,114	$758,074

These were met by drawing on a Synod grant available under the relevant NCP ordinance.

Greenoaks Apartments

21. This project is proceeding smoothly and is expected to be completed early 2007. During 2005 –

- Early site work was completed.
- ACPT/EOS approved proceeding with construction under GAB management.
- Funding was approved.
- A fixed price contract for construction was entered into.

- A marketing suite was beginning to be set up in Town Hall Arcade.

Diocesan Development Fund

22. Spirited opposition to the absorption by GAB of the Finance and Loans Board persuaded the Synod to reject our initiative and to resolve to continue to provide parish loans in the traditional manner through FLB.

23. Accordingly, we abandoned the concept of a separate Diocesan Development Fund (DDF).

24. The idea however has not been shelved. As GAB considers its gearing strategy it is possible that gearing levels attached to the mortgages portfolio can be so structured to revive the bigger ideas driving our original concepts. We will come back to this matter in 2007.

Parish Services

25. This concept is now fully launched and all the early signs are positive and strong. Progressively as funding permits, the service base will be expanded to the full range of services possible under SDS and GAB ordinances.

26. Supporting Parish Services has been –

- The very positive change in culture in SDS. There are now many advocates for this new approach by SDS.
- A stronger Technology resource now makes the concepts of electronic data exchange between parishes, regional offices and St Andrew's House a genuine possibility and we have been able to plan accordingly.
- A highly co-operative approach to funding by the ACPT. A long and at times tedious process is being worked through to restructure the services provided by SDS to ACPT in such a way that ACPT can determine its own needs and pay the full cost of SDS services.
- Approval by Standing Committee of three key funding proposals –
  - (i) A revised billing structure for ACPT. This has the effect of allowing ACPT to relate its income to the assets it manages.
  - (ii) A revised Synod Fund structure under which the liability for specific funds (notably Sickness and Accident and Stipends Continuance) passed from SDS to Synod.
  - (iii) Appropriation of $1.3 million as part of the working capital base for the PCR fund.

The Key Shaping Lesson for SDS

27. One of the key lessons learned from NCP was that ministry change must originate from within the regional councils or the parishes themselves and not as an initiative of SDS. If change is thus originated at the front line, SDS can respond with a service offer that is both appealing and competitive. The change originator can then decide whether to involve SDS or not.

28. Even though NCP was supported by the Archbishop, the Standing Committee and the Synod, was funded from the Endowment and was very professionally run, it was still unable to gain acceptance at parish level.

29. Fortunately, this realisation came early enough for our Parish Services and Technology initiatives to be shaped in the most effective way. Essentially we are seeking to communicate what is possible (or necessary) and so influence demand for the services we can offer. What services we offer will be determined by the demand that we can generate. With regard to property, particularly, we will work closely with regional councils and Episcopal staff to help identify issues and to offer solutions or advice in response to their stated need. We will spend much of our time out talking to front line ministry staff.

30. In this way we can continue to use our unique position to identify opportunities, but the responsibility to make something happen will rest with the change originator.

Human Resources

31. After running for much of the year below budget, we ended 2005 at –

<table>
<tr><th></th><th>Year End 2005</th><th>Budget</th><th>Year End 2004</th></tr>
<tr><td>Executive</td><td>2.0</td><td>2.0</td><td>2.0</td></tr>
<tr><td>HR / Corporate Services</td><td>7.0</td><td>8.4</td><td>6.0</td></tr>
<tr><td>Parish Services</td><td>9.0</td><td>9.0</td><td rowspan="2">15.0</td></tr>
<tr><td>Legal Services</td><td>9.0</td><td>6.0</td></tr>
<tr><td>Administration</td><td>9.0</td><td>11.7</td><td rowspan="2">30.0</td></tr>
<tr><td>Finance</td><td>18.0</td><td>19.4</td></tr>
<tr><td>Technology</td><td>8.4</td><td>6.0</td><td>7.0</td></tr>
<tr><td>Investment</td><td>12.9</td><td>13.0</td><td rowspan="2">22.0</td></tr>
<tr><td>GAB</td><td>12.25</td><td>11.5</td></tr>
<tr><td>New Capital Project</td><td>1.0</td><td>1.0</td><td>2.0</td></tr>
<tr><td>Total</td><td>88.55</td><td>88.0</td><td>84.0</td></tr>
</table>

32. The most pleasing aspect of the year's HR outcomes is that only 12 persons left the organisation during 2005. As most readers will know we used to regularly suffer the loss of up to 35 persons per year. We managed that down to 22 in 2004 and now 12 in 2005. Only two of those leaving in 2005 were employees we would have preferred to keep.

33. An organisation chart for SDS at 1 July 2006 is attached to this report.

34. This increasing stability in the work force manifests in several places – the audit team is the same for the 2005 audit as it was for 2004, most administration staff have now two or three years of experience in the job. That leads in turn to an exciting event when departments face a major challenge and they rise to the occasion without a second thought. Cross departmental cooperation is now "normal" behaviour.

35. 2006 will be a challenge, as we will unfortunately face a series of retrenchments flowing from the change to investment structure. The basis for moving forward is however clearly well established.

Departmental Reports

Executive

36. The CEO's office operated smoothly during 2005. I traveled overseas once, to Chicago for the Willow Creek Leadership Summit and then on to London for meetings with the Church Commissioners. In 2006 I will visit London in June and Chicago in August.

37. For 2006 and onward, the role of Manager, Diocesan and Policy Services has been created. Working within the Diocesan Secretary's department, this role will be modeled on the same role in the Church Commissioners in London. The role will spend roughly half the available time supporting the financial elements of our service to the Synod and the Standing Committee and the other half researching and proposing change under a range of banners, Policy 4 of the Mission being one.

Investments

38. Structurally the year was dominated by the decision to move out of the funds management business and to outsource investment operations. As a consequence the majority of management time was invested in managing responses to the announcement.

39. Achievements –

- Settled the sale of the SAPF property at Herb Elliot Drive.
- The last SAPF property at 75 Miller Street, North Sydney was sold for $19.35 million.
- Completed major air conditioning upgrade in St James' Hall.
- Fully leased St James' Hall.
- SAPF was wound up and the cash distributed to investors.

- A major refurbishment of SAH was approved and initiated. Funding to be provided by GAB.
- Negotiated, drew down and fully invested an additional $40 million facility from ANZ.
- More closely defined GAB's relationship with ACPT and EOS with regard to investments.
- Major improvement in mortgage sales following the appointment of a full time Lending Manager.

40. Challenges for 2006 –
    - Managing the planned restructuring of investment operations following the planned sale of GAM.
    - Resolution of the future of St James' Hall as an asset and in respect of day to day building management.
    - Undertaking of a major review of the St Andrew's House Ordinance 1975.
    - Progression of the SAH refurbishment and upgrade project in a very tight timetable.

Finance and Administration

41. Achievements –
    - Major accounting system upgrade successfully completed - significant because we are now proven to be on a commercially upgradeable systems strategy.
    - Major Accounts Payable upgrade and decentralisation allowing greater control of cash and the beginning of cash flow forecasting.
    - Completed the windup of SAPF.
    - Launched the new PCR accounting package. Increased reconciliations to 1,800 per month.
    - Introduced automated distribution on behalf of ACPT. This is of major benefit to those parishes dependent upon income from ACPT investments.
    - Improved management accounting and reporting - identified unabsorbed overhead en masse.
    - Completion of the Anglican SuperFund transition to AMP.
    - Completed IFRS introduction including pilot accounts production and audit.
    - Completed detailed preparation for the GAM sale including major inputs to the Information Memorandum and Due Diligence.
    - Staff stability maintained.
    - Clean 2004 audit.

42. Challenges for 2006 –

- Achieving Disaster Recovery enabled status on all systems.
- Completing the sale of GAM including outsourcing of investment accounting, investment administration, revised custodial arrangements, upgraded reporting, upgraded analysis.
- Upskilling and cross skilling a smaller staff group.
- The analysis of unabsorbed overheads and the development of a control and reduction plan for overheads.
- Managing the ATO enquiry into charities and its effects on the Diocesan Endowment.
- Support for Parish Services, Corporate Services and Technology in the development of P&L accounts for those Divisions.

Legal Services

43. Achievements –

- Preparation and lodgement of submission to APRA on Religious Development Funds including GIA. This work was undertaken on behalf of all Australian dioceses.
- Successful outcome in AAT appeal in relation to GIA cheque facilities. This will prove to be a profoundly important achievement with regard to our Diocese's ability to deal with parishes without undue regulation.
- Obtaining a private ruling from the ATO in relation to GST on the supply of accommodation to clergy.
- Successfully running the 1st session of a new Synod (including elections) with the first day in the Sydney Town Hall.
- Administering the promotion and passing of 58 ordinances through the Synod and the Standing Committee.
- Smooth transition to a new Corporate Secretary.
- Unqualified compliance plan audit reports for GAM.
- Completion of the GAB risk register.
- Implementation of a new board committee structure (approved by GAB late 2004).

44. Challenges for 2006 –

- Resolving the tax status of Diocesan Endowment.
- Staff recruitment and restructure of the division.

- Managing grouping requirement of related employers for workers compensation purposes.
- Supporting increasing committee work for the Synod and the Standing Committee (eg affiliated churches, governance reviews, NCLS, women bishops, draft discipline ordinance).
- Expansion of risk/compliance program to include more SDS activities.
- Implementation of risk/compliance software system.

Parish Services

45. The departmental structure for Parish Services is now established. PCR administration is the backbone of the new department. Discretionary services will be added as funding permits.

46. Achievements –

(a) Clergy Services

- Launch of new Parish Cost Recoveries (PCR) system.
- Enhanced reporting to parishes on PCR matters.
- Monthly reconciliation of all PCR activities.
- Creation and funding of a new PCR fund under the Synod structure.
- Creation of separate funds for clergy benefits.
- Amendment of ordinances to define responsibility for administration of PCR residing with Standing Committee in lieu of SDS.
- Preparation of an information pack relating to clergy remuneration and benefits.
- Commencement of regular quarterly meetings with the Regional Archdeacons.

(b) Church Support Services

- Partial completion of the New Capital Project as reported earlier.
- Development of methodology and processes to work out how best to manage property development into the future.

(c) Property Trust

- Review and revision of ACPT's fee structure.
- Achieving wider availability for heritage funding after a proactive approach to government.

- Highly successful new lease administration procedures.
- Reconciliation of major outstanding GST issues.
- Enhanced monthly reporting to ACPT.

47. Challenges for 2006 –

- Identifying and attracting key staff to Clergy Services and Property Services.
- Development of a Business Plan for Parish Services with the objective of identifying the sources and applications of funding for this Division of SDS.
- Understanding and implementing processes through which property initiatives may be progressed to the benefit of ministry, but without SDS carrying the risks.

Administration

48. This department is the nucleus for our proposed Investment Services Division which will follow the restructure of investment operations.

49. Achievements –

- Successful separation of functions between Parish Services and what will become Investment Services.
- Major and successful support for the AAT challenge to ASIC.
- Maintaining sound client relationship during the disclosure of GAB intentions regarding GAM.
- Successful transitioning of funds through GIA following the wind up of SAPF.

50. Challenges for 2006 –

- Development of the new Investment Services Division.
- Development of the intellectual property required for GAB to internally control those aspects of investment strategy and investment operations that genuinely affect investment performance.
- Culture and skills management as GAB moves to having all listed investments managed externally.
- Development of custodial and administrative arrangements capable of providing the flexibility required under a new investment operations strategy.
- Development of greatly upgraded reporting and analysis disciplines with the focus on those matters which affect investment performance.

Corporate Services and Human Resources

51. Achievements –

- Tangible evidence of the success of the culture change program.
- Major reduction in staff turnover, particularly in personnel where retention was preferred.
- Successful production of *SDS News* as the key internal communication device.
- Successful continuation of quarterly staff briefings and of the quarterly awards program.
- Managed approximately 1,700 meetings held by a wide range of diocesan entities in SAH. Of those 1,200 were catered by SDS staff.
- Major progress on the rebuilding of the Secretariat web site.
- Successful shift from project team (PCG) methodology to Extended Management meetings.

52. Challenges for 2006 –

- Providing room and catering services, while continuing to honour volunteers attending meetings, will be a major challenge during the refurbishment of St Andrew's House.
- Development of a web based room and catering booking system.
- Gaining acceptance of a satisfying, but sensible range of menus for catered meetings.
- Maintaining momentum in the culture change and training programs in the light of increasingly heavy work loads from restructuring projects.

Technology

53. Achievements –

- Launch of major program in Disaster Recovery (DR) and Business Continuity (BC).
- Reassessment of network life expectancy and development of a response plan.
- Launch of DAWN pilot study - an attempt to build a wide area network servicing all parishes and organisations in the Diocese.
- For the second year in a row, protected the network from attack by hackers and viruses. Real time successful test of inbuilt safety processes.

- Launched a new Help Desk protocol in response to an increasing number of users on the network.
- Completed design of the new server room in preparation for the SAH refurbishment project.

54. Challenges for 2006 –

- Completion of the DR and BC projects.
- Probable move from Northbridge to a commercial DR site.
- Evaluation of the DAWN pilot program.
- Building, fitting out and commissioning of a new server facility in SAH.
- Roll out of Helpstar, the Help Desk system designed to identify and highlight recurring support demands.
- Building of a Business Plan for Technology to assess the source and application of funds of this department.

Conclusion

55. 2005 was a good year in all respects for the Secretariat. Our control of costs and income produced another sound financial result and we strongly advanced our overall efficiency and capacity to contribute.

56. The standout for 2005, however, has to be our people. There were more "second mile" events by individuals and departments in 2005 than I have ever experienced in any business. The preparedness of all staff members to accept responsibility for their own jobs and to then to co-operatively run with whatever was appropriate to achieve the required outcome, was immensely encouraging. We have virtually eliminated any "blame" based culture.

57. The NCP and DDF initiatives did not produce the outcomes for which we had hoped. While initially disappointing, in their own way, both projects opened new opportunities and provided solid learning for the future and, as stated earlier, actually shaped the way we will progress into 2006 and beyond.

58. As we go forward the big challenges will be –

- To establish and then settle the organisation and culture required to successfully operate an Investment Services Division in the light of moving listed investments to external managers. Critical to the long term success of that structure will be the development, internally, of the intellectual property necessary in the control of what will be a modern investment business.
- To continue to build an effective range of services that will make a meaningful contribution to front line ministry. This requires progressive building of our new Parish Services Division through careful management of funding and

through ensuring that everything we do answers and responds to Mission needs.

- To build our Technology resources such that they provide levels of service to SDS that are appropriate to the nature of our future shape. To extend those services to the wider Diocese such that we complement all other support we offer to parishes and beyond. That has to be done in the context of an achievable funding plan.
- The refurbishment of SAH and the progressive relocation of departments will place a great strain on our people, our services and our aspirations.

Glebe Administration Board

59. A volatile but favourable market combined with sound Board strategies to produce a 2005 net surplus of $40.4 million for GAB. After providing for distributions to Synod, net assets have risen from $197 million to $227 million. In addition to this excellent result, the year was marked by the decision to restructure GAB investment operations. During 2006 GAB will move out of the funds management business operated through GAM, and will take advantage of favourable market dynamics by outsourcing investment operations.

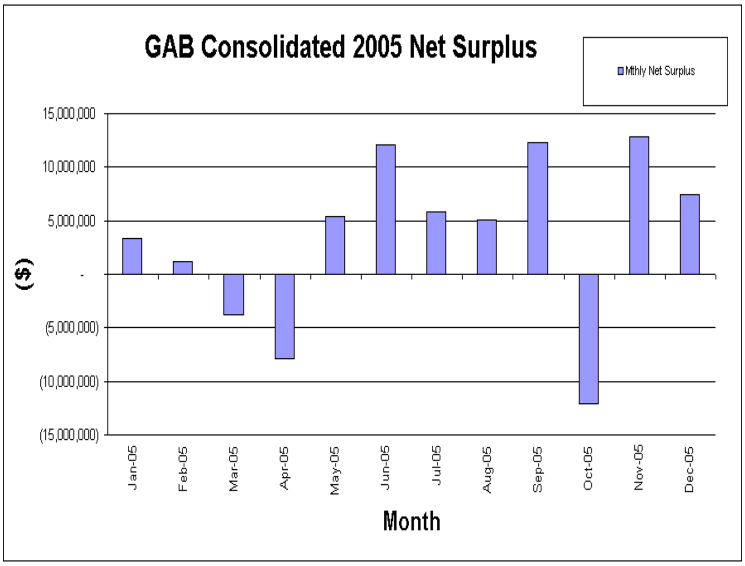
60. GAB's 2005 consolidated performance can be summarised –

	12 Months to December	
$000s	***2005***	***2004***
Income:		
Cash, Fixed Interest, Mortgages	8,686	10,746
Property	4,313	10,013
Equities	66,680	65,710
Fees & Other Income	3,375	2,909
Total Income	**83,054**	**89,378**
Interest Expenses	14,823	11,343
Management Expenses	11,514	10,879
Minority interests	16,278	17,468
Total Expenses	**42,615**	**39,690**
Net Surplus*	**40,439**	**49,688**
Total Assets*	646,204	549,629
Total Liabilities*	418,914	352,279
Net Assets	**227,290**	**197,350**

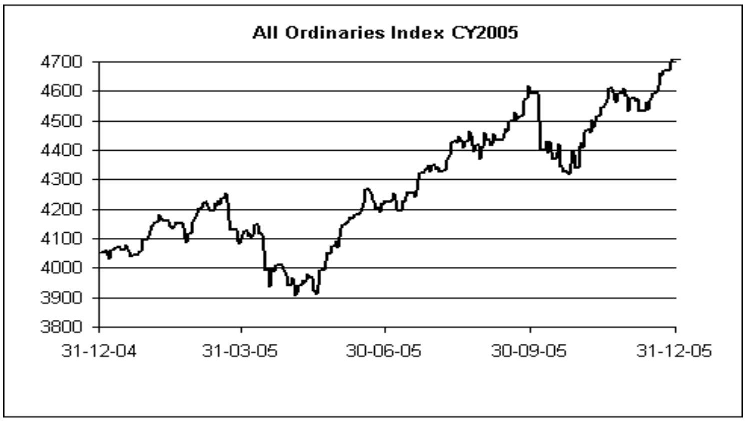
* Results for 2004 and 2005 reflect changes required under IFRS.

61. As most observers know, 2005 saw several major fluctuations in the domestic equities market, although the trend line was clearly rising strongly. The USA meanwhile went sideways, with Japan, China and parts of Europe moving ahead. The following charts illustrate the volatility experienced in 2005.

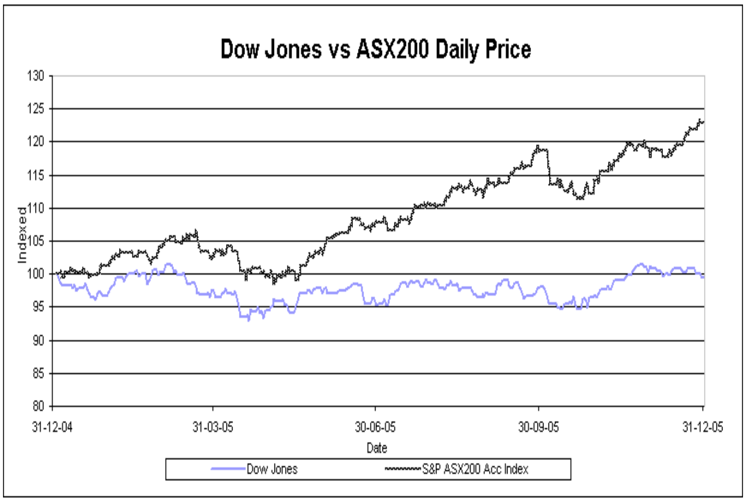
62. Month by month surpluses in GAB varied by amounts larger than those to which we are accustomed. This led to several nervous moments, particularly in April and October.



63. Movements in the All Ordinaries essentially drove our Net Surplus on a month by month basis as this chart shows –



64. The Australian economy is essentially sound and, in 2005, well and truly outpaced the USA in market strength.



65. The GAB's investment responsibilities continue to grow –

$000s	***Total Funds Managed by GAB***		***Funds Managed through GAM***
	2005	***2004***	***2005***
Australian Shares	350,849	299,560	349,149
Overseas Shares	74,280	56,830	74,280
Fixed Interest	66,526	61,785	66,035
Loans & Mortgages	70,024	50,221	-
Direct Property	125,749	112,866	-
Indirect Property	13,075	14,298	7,756
Listed Property	89,703	61,390	89,534
Cash & Short Term Deposits	53,325	45,161	23,740
Total	**843,531**	**702,111**	**610,494**

66. All asset classes produced positive results in the year and generally performed around benchmark.

	12 Months to December			
	2005 Return		***2005 Benchmark***	***2004 Return***
	$000s	***%***	***%***	***%***
Australian Shares*	38,317	20.4	22.8	27.9
Overseas Shares	6,279	13.5	16.7	5.9
Australian Fixed Interest	2,404	5.6	5.8	6.6
Loans & Mortgages	4,666	8.1	6.4	8.2
Direct Property	2,030	5.9	13.4	4.0
Indirect Property	4,156	6.6	12.9	27.9
Cash & Short Term Deposits	1,379	5.5	5.7	5.4

* Excludes imputation credits of $2,121,000 (2004 $1,675,000) which adds 1.05% (2004 0.82%) to the returns.

67. Australian Equities – The individual equity portfolios show that Large Caps marginally exceeded benchmark, whereas Small Caps performance maintained the slide begun in early 2004 until mid year when a modest rally began (Small Caps six months to December 2005 return 17.3%, cf benchmark 13.6%).

	12 Months		***36 Months***	
	Return %	***Benchmark %***	***Return %***	***Benchmark %***
Large Cap	22.9	22.8	22.1	21.3
Small Cap	16.0	19.6	32.0	26.0

68. Overseas Shares - As the Dow Jones graph in paragraph 64 above shows, the USA market (around 50% of our portfolio) was essentially static. The very useful result in this portfolio flowed primarily from our Japan and Asia-ex-Japan positions, supported by selected European holdings. Had the USA moved upwards, the result would clearly have been significantly better. We were assisted considerably by the A$ moving from $US0.78 to $US0.73 across the year. That alone produced a 7% return on our USA investments.

69. Fixed Interest - This result is particularly strong given that our investment policy does not allow investment in BBB paper whereas that grade is included in the index.

70. Loans and Mortgages - As the table in paragraph 65 shows, considerable growth has occurred in this portfolio. In September 2004 a full time Lending Manager joined the team and that resource, combined with a more intentional approach to loan selection and a more disciplined approach to pricing, has resulted in a significant improvement in returns. The effect has been to shift the structure of the loans book to a small number of large loans and a larger number of generally smaller, but higher priced, mortgages.

71. Property - This portfolio also underwent considerable change as, with the successful sale of 75 Miller Street, SAPF could finally be wound up and the funds invested elsewhere. The GAB direct property asset class now only includes SAH.

72. The Board took the decision to reduce the book value of our investment in a Victorian retirement village and its related entities by $4.4 million. Without that devaluation the indirect property class would have returned 13.6%, or a little above benchmark of 12.9%. As it now turns out, as a result of changes in ownership, the majority of that write down will probably be recovered during 2006.

73. Cash and Short Term Deposits - This portfolio continues to provide a valuable service to around 40 individual client accounts plus it produces a very useful return. Given the extreme volatility of the larger accounts and the consequent need to err on the shorter end of duration, this result is very pleasing.

Gearing Strategies

74. Our gearing strategy worked well for us again in 2005, returning a little over $15 million at the net surplus line.

75. Changes to gearing over the year were as follows –

$000s	***1 Jan 2005***	***31 Dec 2005***
Glebe Income Accounts	129,695	139,018
External Borrowings	95,000	140,000
Total Gearing	**224,695**	**279,018**
NTA	197,350	227,290
Gearing Ratio	1.14	1.23

76. Considerable movement occurred in gearing across the year. This was mainly a result of the major cash movements involved in the closure of SAPF. The intention for 2006 is to maintain constant external borrowing and manage cash requirements through the cash portfolio, unless, of course, market conditions suggest otherwise.

77. We can conclude that in a year with favourable market dynamics, our gearing strategies produced a very useful margin and contributed handsomely to the overall result. Noteable is that the net margin

attributed to borrowings from GIA is 1% less than that calculated for borrowings made externally from banks. The reason is that GIA's operations attract considerable internal cost allocations and, of course, that flows through to attribution and earned margin.

Asset Allocation

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

	2005		***2004***
	Actual	***Target***	***Actual***
	%	***%***	***%***
Australian Shares	43.0	42.5	44.3
Overseas Shares	10.3	9.0	9.2
Australian Fixed Interest	8.6	9.0	8.7
Loans & Mortgages	13.6	14.5	11.5
Direct Property	7.1	11.0	9.9
Indirect Property	14.0	10.0	11.3
Cash & Short Term Deposits	3.4	4.0	5.1

79. We should ask whether we could have been more aggressive in this part of GAB's business management. On balance our sense is that we are very close to an optimum asset mix for the objectives we have set in a reasonably balanced portfolio.

80. During 2006 we will be working closely with an external adviser to place a technical framework around the question of asset allocation and expected risk/return relationships. The objective will be to develop a more professional view of the extent to which we can impact risk and return through closer management of investment strategy, and through a focus on those variables that genuinely impact investment performance.

Managed Entities

St Andrew's House

$000s	***2005***	***2004***
Total Income	10,141	13,183
Total Expenses	7,683	6,074
Net Surplus	2,458	7,109

* Results for 2004 and 2005 reflect changes required under IFRS.

81. 2005 result includes the property valuation decrement of $672k.

82. St Andrew's House (SAH) is undergoing its first major office refurbishment since construction. Just under half the expenditure is

being met through the Sinking Fund with the balance funded through borrowings.

83. The future for the SAH entity looks bright as the new ABS lease comes out of its incentive period at the end of 2006. That, together with more effective use of space generally, will produce stronger returns for 2007 and beyond.

84. The tenant mix in the Arcade has settled down under the management of the current Property team. Rental arrears are at their lowest ever. Revenue will however continue to be disrupted until all refurbishment work is completed and all retail sites then let commercially. That position will not be reached until mid 2008.

85. The Car Park continues to make a very useful contribution to earnings.

86. In due course it will be necessary to overhaul the St Andrew's House Ordinance 1975. This ordinance sees SAH managed in such a way as to drain cash through guaranteed distributions. A more effective approach to the management of the asset is clearly required.

St James' Hall

$000s	***2005***	***2004***
Total Income	4,836	2,301
Total Expenses	2,226	1,506
Net Surplus	2,610	795

* Results for 2004 and 2005 reflect changes required under IFRS.

87. 2005 result includes the property valuation increment of $2.6 million.

88. Refurbishment and maintenance of St James' Hall (SJH) will continue into 2006. When the refurbishment provision ran out at the end of 2004, all 2005 expenses had to be charged against income - hence the relatively poor result. 2006 will follow much the same pattern.

89. Discussion on the future of the building continues. There is a general belief that an arms length approach to the asset management of SJH will allow the building's potential to be more truly reflected.

Sydney Anglican Property Fund

90. This entity entered 2005 with only one major asset, 75 Miller Street, North Sydney. That building was sold in June.

91. The fund was liquidated and closed on 19 October 2005. Funds freed up by the wind up were moved to GAM trusts or to cash investments as required by individual investors.

Indirectly Managed Entities

92. Development of the back block of Bishopscourt on behalf of the Endowment of the See progresses well. Construction is expected to be complete at the end of 2006 or very early 2007. A marketing suite is being constructed in the Town Hall Arcade with a view to commencing sales promotion in late 2006.

93. During late 2005 the ACPT and EOS received reasonably large volumes of cash as a result of the SAPF closure. As a short term measure, both entities invested those funds in either the Large Cap shares or Listed Property Trusts operated by GAM.

The "Glebe" Strategy

94. In late July 2005, the Glebe Board decided to move out of the funds management business.

95. The outcome of that decision meant that GAB would –

- Sell or otherwise close GAM as an operating entity.
- Cease managing money from any source other than very close diocesan entities such as EOS and ACPT.
- Outsource investment management of listed portfolios.
- Outsource investment accounting and administration.

96. Under the guidance of PricewaterhouseCoopers, a comprehensive Information Memorandum was prepared and sent to 21 prospective purchasers. Six indicative offers were received by the due date in December and three proceeded to a due diligence phase.

97. Ultimately the Board determined that no single prospective purchaser could adequately answer all of GAB's investment needs. Accordingly, the Board decided to not sell GAM but to progressively close all investment trusts and then dispose of the entity.

98. The drivers behind this major change in operations are –

- The regulatory environment governing the funds management industry has created a position where small operators like GAM can no longer cope with the compliance burden, the risk of litigation and the consequential risk to reputation. As non-core business for GAB, the returns simply do not justify the risks.
- Structural change through consolidation in the funds management industry has left small institutional managers such as GAM very exposed. The larger funds managers offer more complete services and the emerging boutiques offer more specialised services. There is no place left in the market for a GAM style of manager.
- The emergence of specialised investment managers has created an opportunity through which GAB could improve

performance by diversifying its funds management style. Whereas GAB's single style approach has been adequate in the past, it is considered essential that GAB take advantage of new opportunities in the market.

99. The great opportunity now available to GAB is to build foundational skills and experience in some of the more technical aspects of investment strategy, such as –

- Risk/return management, particularly in relation to gearing, asset allocation and the economic climate.
- Gearing strategies including sources of funds, duration profiles and matching of asset classes to gearing. Response plans for major economic changes will also be considered.
- Asset Allocation strategies and the management of them based on different levels of economic and market input. This includes the assessment of manager styles required in the context of the economic climate.
- Manager identification, contract negotiation, performance management and contract termination.
- Proper use of asset consulting services, external administrators and custodians. Resultant development of Management and Board confidence in reporting disciplines, accounting reports and compliance demands.
- Investment performance reporting and analysis disciplines and routines. To include substantially deeper analysis than that undertaken previously.
- Investment accounting disciplines in the context of capturing data from external suppliers and integrating that with results from internally managed portfolios.

Conclusion

100. 2005 was a big year for GAB. The major fluctuations in the markets, the decision to sell GAM and the decision to outsource operations combined to create an environment in which we were potentially vulnerable to a rapid slide in investment performance.

101. It is a great credit to the staff and their commitment that the year ended up as well as it did. Overall performance could possibly have been a little better, but under the circumstances, we can be very satisfied with the outcome.

102. 2006 will be another challenging year as we complete the closure of GAM and begin the long task of building the culture and the informal organisation around a range of new opportunities. The mood is opportunistic and the staff are looking forward to the challenge.

103. My compliments to all SDS staff. 2005 was a great year and they have come through very well. I look forward to 2006 with genuine confidence.

104. My compliments to the Board. Parts of 2005 were difficult and it is not easy to be a volunteer member of a major Diocesan Board on which so much depends. Our Board is a strong Board, the restructure of our committees and subsidiary company Boards was a very good move and will serve to make the role of each Board member more and more meaningful. I thank you all for your tolerance of, and patience with, me. I thank you all for your contribution to this excellent organisation.

105. We pray that God will continue to bless this organisation, our people and our continuing support of and contribution to the Mission of our Diocese.

RODNEY DREDGE
Chief Executive Officer

19 July 2006

Annexure

Sydney Diocesan Secretariat – Organisation Chart – 1 July 2006