About Your Invested Funds

September 2010 Update

Your invested funds

The capital of each Client Fund held by the Anglican Church Property Trust Diocese of Sydney (ACPT) is generally invested in one or both of a Glebe Income Account (GIA) with the Glebe Administration Board, or the ACPT's Long Term Pooling Fund (LTPF).

As foreshadowed in recent Circulars, the ACPT Board has been working with its investment consultant, Mercer **(**Australia**)** Pty Ltd (Mercer), to review the investment policy of the LTPF to ensure that it remains relevant and appropriate in today's economic environment.

Following the Board approval of a new Strategic Asset Allocation (SAA) as outlined in the June 2010 Circular, the LTPF is authorised to invest in the following asset classes **-** Australian equities and direct (unlisted) property, international equities, emerging markets, listed infrastructure, global listed property, Australian fixed interest – sovereign, international fixed interest – sovereign, global credit and Australian cash. Details of the actual exposure to each asset class relative to the SAA are contained in Attachment 1.

As foreshadowed in the June 2010 Circular, following adoption of a new SAA, the Board, in consultation with Mercer, has completed a review of the LTPF Distribution Policy. The review identified the fact that, since the onset of the global financial crisis (GFC) and the resultant reduction in unit prices, the current distribution formula has produced an average distribution in excess of a level that is capable of preserving the real value of the fund over the longer term which would balance the interests of current and future generations of beneficiaries.

Please refer to page 3 under the heading "Distribution Rate" for further details.

Investment protocol

When new monies are received to be invested on trust by the ACPT, ACPT management will liaise with the Wardens/Authorised Officers of the relevant diocesan organisation to ascertain intentions regarding the timeframe within which the invested funds are expected to be required. With this information, the funds will be invested in either GIA or into the LTPF in accordance with the following protocol. A letter of confirmation will be sent to the parish/diocesan organisation confirming the investment so that all stakeholders are appropriately informed.

(a) funds expected to be required within a five year horizon are invested into GIA (see below), and

(b) funds that are not expected to be required within five years or longer, are invested into the LTPF

Investments in the Long Term Pooling Fund

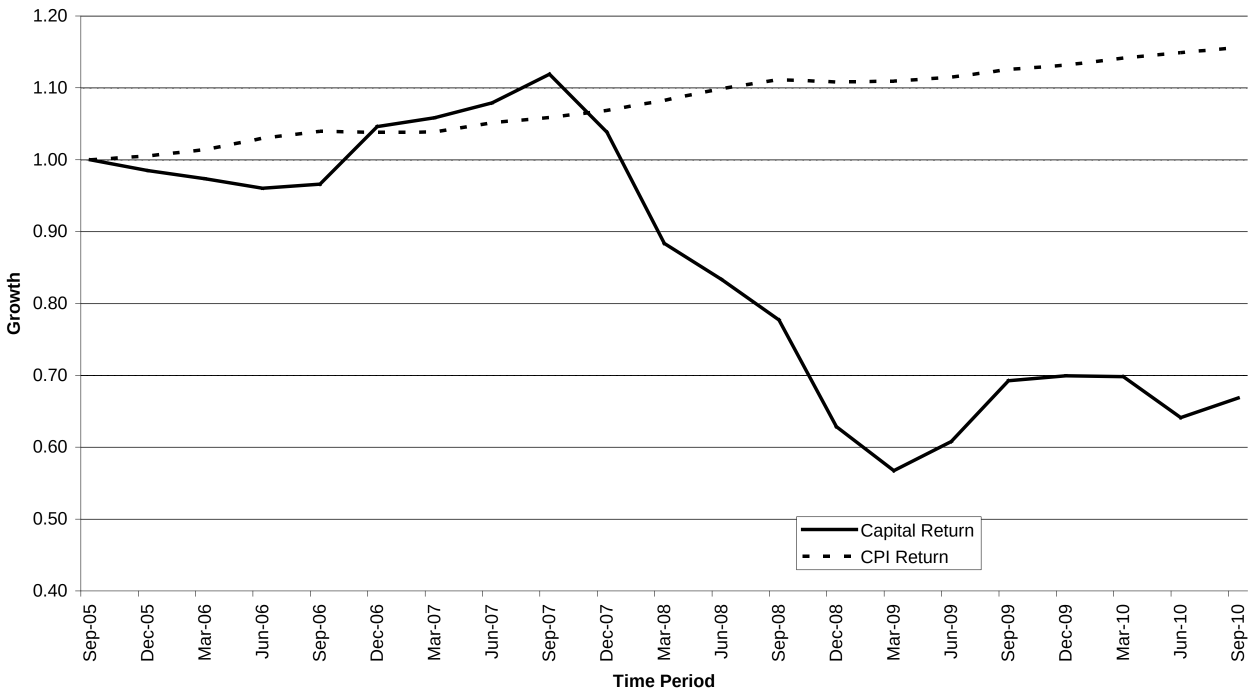
The aim of the LTPF over the longer term (being five years or more) is to –

- preserve the real value of the investments (after distributions), and
- provide a reasonable, stable and predictable income from investments, and
- maintain a balance between the current need the underlying fund is serving and the future needs to be served.

In practice since the current distribution policy was implemented, these goals translate to a target return over a rolling five year basis of CPI + 5% p.a. net of all charges bar ACPT management fees.

The following graph demonstrates the change in the value of the LTPF, after distributions, compared to the growth in CPI in the last five years –

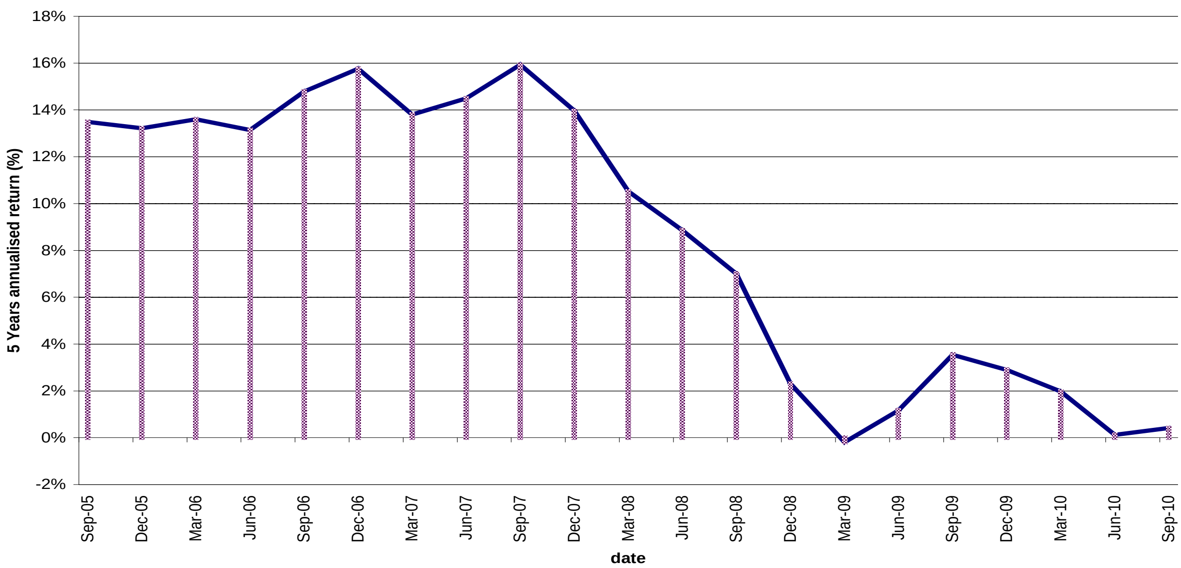
LTPF Return (Exluding Income) Vs CPI return: 5 Year Graph



The LTPF has made investment returns over the last 5 years of 0.4% p.a. The graph indicates that the impact of the sharp drawback that occurred from Q4 2007, when the GFC commenced, was softened throughout 2009 with the general improving trend of markets that was evident over much of calendar 2009. While markets stayed fairly stable during much of Q1 2010, there has been increased volatility during Q2 and Q3 of 2010.

As foreshadowed in the June 2010 Circular, since a rolling 5 year view is more consistent with the maturity profile of investments to the LTPF, the following graph that plots a rolling five year total return, inclusive of distributions, of the LTPF in recent years will be included in future circulars.

ACPT Rolling 5 Year returns



Distribution Rate

As noted in previous quarterly updates, the aggregate annual distribution for the 12 months ended 31 December 2009 was 9.4399 cents per unit, in line with forecasts. Inclusive of the September 2010 quarter distribution, the prior 12 month quarterly distributions have been as follows

DISTRIBUTION	CPU
December 2009	2.0026
March 2010	1.9303
June 2010	1.8424
September 2010	1.7520
Total	**7.5273**

As noted earlier, during the September 2010 quarter, the ACPT Board has concluded a review of the LTPF Distribution Policy. By way of background, the forecast contained in the September 2008 "About Your Investment Funds" Circular was that, all other things being equal, ongoing LTPF distributions are expected to be in the order of 2.15 cents per unit per quarter, approximately.

The distribution formula, as recommended by the investment consultants to the ACPT board, is based on a variation of the "Yale Formula", a recognised distribution formula for many endowments globally that are not unlike the LTPF. The annual distribution formula places significant store on the immediately prior four quarters distribution and the average unit price over the immediately prior 12 quarters. Historical empirical data reveals that in "normal" investment markets, the Yale Formula acts to smooth out peaks and troughs in investment returns relatively well. However, abnormal investment returns take time to be fully reflected in the distributions produced by the formula and can potentially lead to undesirable intergenerational outcomes. The impact of the global financial crisis on the LTPF unit price since late 2007 is an example of abnormal investment returns impacting the formula. The ramification is that in a post GFC economic environment, the distribution formula has tended to artificially sustain distributions at levels that cannot be sustained over the longer term, without an adverse impact on the real value of the investment and distributions for future generations of LTPF beneficiaries.

Based on advice from the ACPT Board's investment consultants, in order to realign the interests of present and future generations of beneficiary, a modification to the distribution formula was needed. Mercer's modelling for the Board suggested that all other things being equal, a median outcome (ie half of the results being better / half worse) of using this modified formula would mean the real value of the LTPF unit price, including distributions, would again match 2007 levels in just over 10 years.

In addition to ensuring equity in the interests of current and future generations of beneficiaries, the adoption of a modified formula will assist parishes and diocesan organisations with LTPF investments to be able to frame future financial budgets with more certainty. This is because, in conjunction with implementing a modified distribution formula, the Board will set the quarterly distributions for the following four quarterly distributions in the final quarter of each calendar year. In that regard, the quarterly distributions commencing for the quarter ending 31 December 2010 to the quarter ending 30 September 2011, has been set at 1.5820 cents per unit.

Income distributions

Each quarter, income is received by your Client Fund from a short-term deposit GIA and/or the LTPF, as applicable. Your Client Fund Distribution Statement for the March 2010 quarter is posted during April 2010 and sets out information about the income received by your Client Fund for the year to date. The ACPT accounts for that income, after payment of its management fee, in accordance with the trusts on which your Fund is held. In this regard, income is either distributed, retained or capitalised. Cash distributions from the LTPF are credited to the related GIA, rather than being reinvested by way of acquisition of additional units in the LTPF, unless a specific request is received from the parish/diocesan organisation to the contrary. Periodically, ACPT management undertake a review of the sums accrued in GIAs and, when balances exceed $100,000, management contacts the parish/diocesan organisation to discuss the prospect of investing a portion of the GIA funds into the LTPF. The next review is expected to occur prior to 31 December 2010.

Investments in Glebe Income Accounts

The portion of the a Client Fund invested in a GIA is similar to an investment in a bank account in that the equivalent of an interest rate is paid and the value of the capital does not fluctuate with market movements.

Recent historical GIA interest rate movements are shown below –

Quarter Ending	Applicable variable interest rate
31/03/2009	4.20% pa
30/06/2009	3.20% pa
30/09/2009	3.15% pa
31/12/2009	3.15% pa
31/03/2010	3.70% pa
30/06/2010	3.95% pa
30/09/2010	4.45% pa

The GIA interest rate applicable to ACPT investments has been based on the RBA cash rate less 0.05% with rates adjusted during the first week of each new calendar quarter if any change of RBA cash rate has occurred during the previous quarter. Historically, this methodology has generally led to the interest rate paid to ACPT GIA investments being higher than the interest rate paid on other GIAs. The rate applicable for the quarter ending 31 December 2010 will be 4.45% pa.

Any comments?

If you have any comments or questions about the investment of your Client Fund please telephone me on 9265 1546 or contact me by email at gxe@sydney.anglican.asn.au.

GREG ELLEM
Head of Parish Property
Anglican Church of Australia, Diocese of Sydney

October 2010

Long Term Pooling Fund Strategic Asset Allocation (SAA)

Asset Class	Approved SAA Target	Actual exposure 30th June 2010 * #	Actual exposure as at 30/9/2010**
Australian Equities	40.0%	38.6%	39.6%
Global Equities	20.0%	22.2%	19.5%
Australian REITs		4.6%	
Australian Direct Property	5.0%	0.0%	4.9%
Global REITs	5.0%	7.8%	5.0%
Global Listed Infrastructure	5.0%	0.0%	5.0%
Australian Fixed Interest	7.0%	0.0%	6.8%
Global Fixed Interest	7.0%	0.0%	5.0%
Global Credit	9.0%	0.0%	9.0%
Australian Cash #	2.0%	26.8%	5.2%
TOTAL	100.0%	100.0%	100.0%

* The ACPT Board has implemented minimum and maximum ranges around the approved SAA targets to allow for market fluctuations.

\# The materially different actual cash balance to the SAA as at 30 June 2010 is due to the ACPT Board-approved transitioning to a new SAA and new investments, which necessitated the sale of fixed interest securities, conversion to cash and subsequent progressive reinvestment into the now approved SAA.

Monitoring and Supervision

With the exception of Australian cash, individual investment funds within the LTPF are managed by third party specialist fund managers under the ultimate oversight of the ACPT Board. The Board receives investment advice from Mercer (an investment consultant which provides institutional consulting advice to some 2,700 clients in Australia and overseas), as well as general assistance from Sydney Diocesan Secretariat staff.

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