

ST JOHN'S COLLEGE TRUST BOARD

ANNUAL REPORT

For the year ended 31 December 2014



1. INTRODUCTION

1.1 On behalf of Trustees, it is our pleasure to present the 155th Annual Report¹ of the St John's College Trust Board (the "Trust").

1.2 It is an additional honour to present this report in the year that coincides with the celebration of 200 years since the Gospel was preached in Aotearoa.

2. A YEAR IN REVIEW

2.1 In December 2013 the Trustees were appointed individually as Trustees of the Te Aute Trust Board allowing the Trust to provide the much needed financial assistance and support to the Hukarere and Te Aute Colleges.

2.2 This assistance has somewhat dominated the activities of Trustees and financial performance of Trust since the appointment. During 2014 the Trust established a loan facility to provide Te Aute with the funding it very desperately needed. As at 31 December the Trust had advanced \$10.9 million.

2.3 The majority of these funds, some \$9.4 million, were used to extinguish the crippling debt of the Te Aute Trust Board with the balance being used to pay overdue creditors, provide for investment in the Trust's farming activities and to provide equipment for and undertake much needed refurbishment of the hostels.

2.4 The loan provided to Te Aute is interest free and repayable in 2024. As a consequence this loan, while recorded as an asset in the accounts of the Trust, generates no income and therefore has an ongoing opportunity cost of some \$750,000 per annum.

2.5 However, readers will note that this opportunity cost equates closely to the funding provided to the Te Aute Trust, in the six years preceding new trustees being appointed, which amounted to \$3.9 million or approximately \$650,000 per annum.

2.6 The Trust expects that the loan facility will peak at \$15 million once planned property works are undertaken. This leave the question as to how these funds can be repaid without stripping the assets of the Te Aute Trust, which are needed to fund its ongoing education activities.

2.7 Trustees therefore anticipate, subject the agreement of General Synod and Te Kotahitanga, that the Te Aute Trust will remain a beneficiary of the Trust beyond the 2024 time horizon.

2.8 While the assistance provided to Te Aute can be described as having an adverse impact on the performance of the Trust, the Trust has otherwise had a very successful year. The proceeds arising from the sale of the Trust's remaining leasehold residential assets of over \$30 million were received in early 2014 and invested in accordance with the Trust's investment strategy.

2.9 This transaction, and other strategies introduced by the Board saw the Trust's revenue grow some 5.9% to \$17 million and the distributable surplus increase 14% to \$13 million.

2.10 The Trust has continued to work towards achieving a number of its strategies as documented in the Trust's strategic plan which is available on the Trust's website (www.sictb.co.nz).

2.11 In this regard, and as reported in 2013, during 2014 the Trust resolved to sell a prepaid terminating ground lease interest² in the land adjacent to the College of St John's the Evangelist, commonly known as Parsons's Paddock, so that the capital tied up in this asset can also be released to generate additional revenue.

2.12 The Trust will receive proposals from interested parties by June of 2015 and hopes to make final decision in regard to this asset shortly thereafter. It should be stressed that the land remains in the Trust's ownership and at the expiry of the lease, expected to be in 127 years, the Trust and Church will reap a financial windfall in terms of funding.

¹ The Trust was formed by way of a deed signed by The Right Reverend George Augustus Selwyn dated 18 August 1859.

² In accordance with the approval granted by the General Synod in 2014 pursuant to section 3(2) of the Anglican Church Trusts Act 1981

- 2.13 In this way Trustees have had regard not only to current beneficiaries but also future generations.
- 2.14 As reported to Synod during 2014, the Trust also continues to progress its plan to realise some of the value tied up in residential properties held for the purposes of St John's College, in preference for developing new purpose built accommodation on the College site in line with the review undertaken by the Trust in 2013.
- 2.15 While the development of new housing awaits the receipt and agreement of a strategic plan for the College, the Trust has identified the sale of up to 20 houses the sale of which is estimated to release approximately \$16 million of funds. The first of these houses was sold in early 2015 realising \$1.2 million.
- 2.16 The Trust has also continued to propose to Te Kotahitanga to introduce a system to review and provide feedback to beneficiaries and to assess the outcome achieved for the Church in respect to the distributions made to them. Trustees are hopeful that a programme of reviews will be introduced in the near future.

3. FINANCIAL PERFORMANCE

- 3.1 The Trust generated an operating surplus³ of \$13.0 million during 2014, a 14% increase, principally due to the capital base of the Trust increasing as a consequence of the sale of the residential ground lease portfolio. This increased revenue offset the continued reduction in income returns generated from the Trust's investments which remain depressed globally.
- 3.2 The financial performance of the Trust, for the years ended 31 December 2014 in comparison to 2013 can be summarised as follows:

	2014 \$'000	2013 \$'000
Financial Performance		
Operating Revenue	16,968	16,021
Operating Expenditure	3,933	4,590
Income surplus available for distribution	13,035	11,431
Net distributions paid to Beneficiaries	12,440	12,000
Income surplus/(deficit) after distributions	595	(569)
Capital gains/(losses)	14,434	21,967
Net total surplus/(loss) after distributions	15,029	21,398
Trust Capital		
Value of investment portfolio	308,133	292,719
Value of St John's College, Meadowbank	56,584	56,977
Total Trust Capital	364,717	349,696

- 3.3 While the income returns from the Trust's investments remain a challenge, the capital returns during 2014 were once again strong lead by returns from the Trust's investments in Australasian and International equities markets.
- 3.4 Overall the Trust's investment portfolio benefited from a 5.1% capital gain.

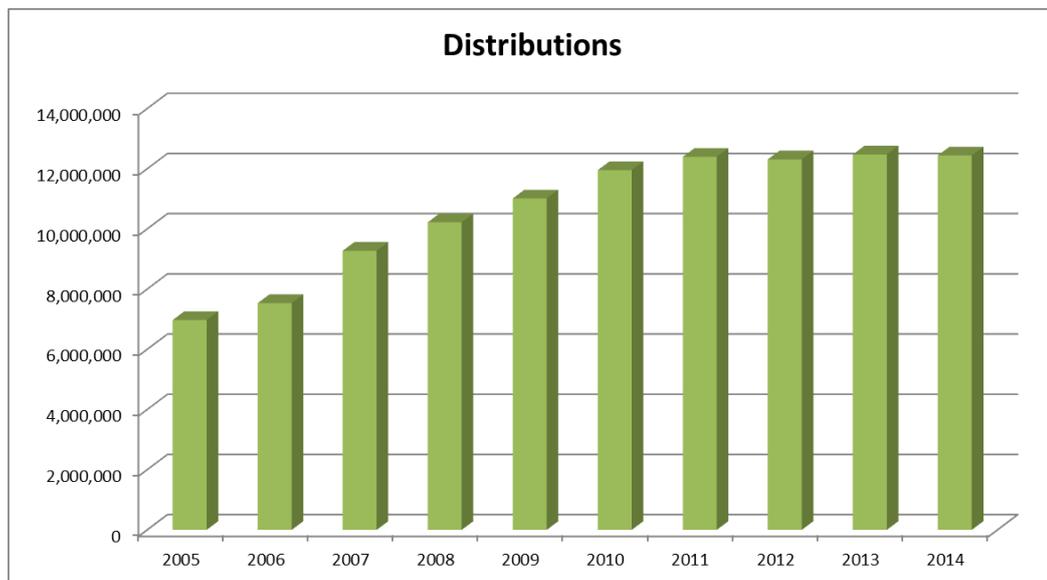
³ Excluding capital gains and losses on investments

3.5 The Trust has also continued its policy to maintain an Income Equalisation Reserve. As at 31 December this reserve stood at \$14 million which provides significant protection against the Trust needing to reduce the annual distribution should there be an unanticipated reduction of income in any one year.

4. DISTRIBUTIONS

4.1 On the basis of advice received from Te Kotahitanga in accordance with the Canons, the Trust approved distributions totaling \$12.4 million for the 2014 year. This value includes the unspent distributions returned to the Trust by beneficiaries but excludes the cost of maintaining the land and buildings at St John's College.

4.2 While the Trust has maintained the level of its annual distribution at a fairly static level in recent years, the Trust has been very successful in achieving its goal to increase the level of distribution over medium term. The chart below best evidences this success with net distributions increasing 78% over the last ten years from \$7.0 million to \$12.5 million.



4.3 As noted in paragraph 4.1, addition to the distributions paid to beneficiaries the Trust also expended \$1.6 million to fund the ongoing operating and maintenance costs of St John's College⁴ bringing the total 2014 distribution of the Trust to \$14.0 million.

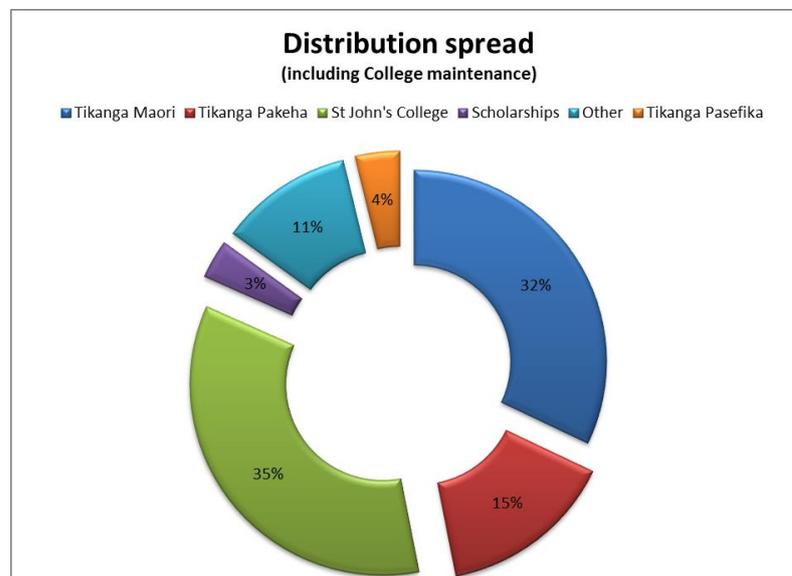
⁴ In accordance with section 3(a) of the St John's College Trusts Act 1972

4.4 The following table provides detail of the actual distributions made by the Trust in the 2011 to 2014 period:

Recipient	Act Section Reference	2014 \$'000	2013 \$'000	2012 \$'000	2011 \$'000
The College of St John the Evangelist	3(b)	3,321	3,045	3,019	3,160
The John Kinder Theological Library	3(b)	594	601	557	600
Tikanga Maori	3(c)	4,384	3,940	4,066	4,036
Tikanga Pakeha	3(c)	2,083	2,080	2,082	2,082
Tikanga Pasefika	3(c)	529	572	586	626
Te Kotahitanga	3(c)	215	339	530	151
Three Tikanga	3(c)	559	571	532	579
Consolidated Scholarships	7(2)	593	656	571	526
Other	3(c)	208	50	145	25
Te Aute and Hukarere Colleges	3(c)	-	620	289	759
Unspent distributions returned		12,486 (46)	12,474 (474)	12,377 (66)	12,544 (150)
Total		12,440	12,000	12,311	12,394
St John's College maintenance	3(a)	1,564	1,428	1,802	1,289
		14,004	13,428	14,113	13,683

4.5 To mark the occasion that 2014 was the celebration of 200 years since the Gospel was preached in Aotearoa, Trustees were pleased to make contributions towards the educational components of the Marsden Cross Project at Oihi Bay and for the production of educational materials prepared by the Anglican Schools Office to mark this celebration.

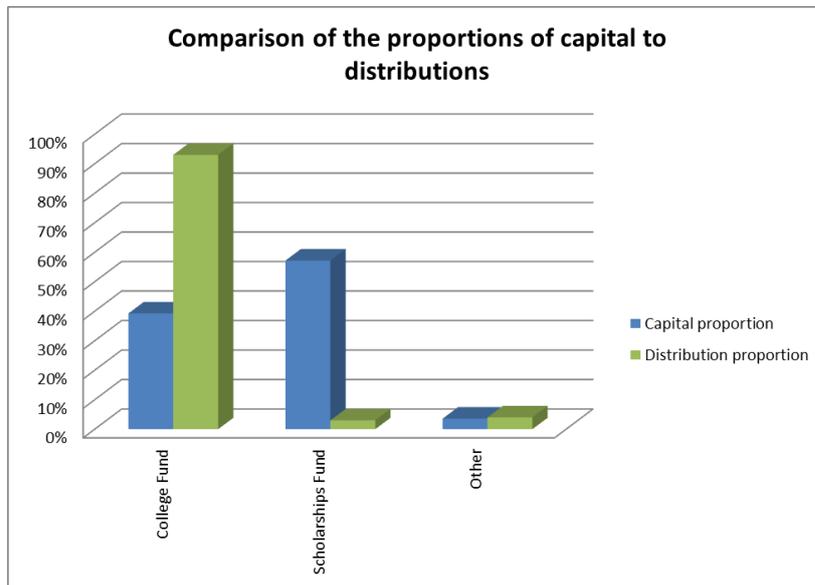
4.6 However, Trustees remain concerned with the level of distributions related to St John's College which represent 35% of total distributions or \$4.9 million in 2014 (2013: \$4,473 or 33%)



4.7 Trustees also note the very small allocation of funding for the purposes of awarding scholarships from the Consolidated Scholarships Trust⁵.

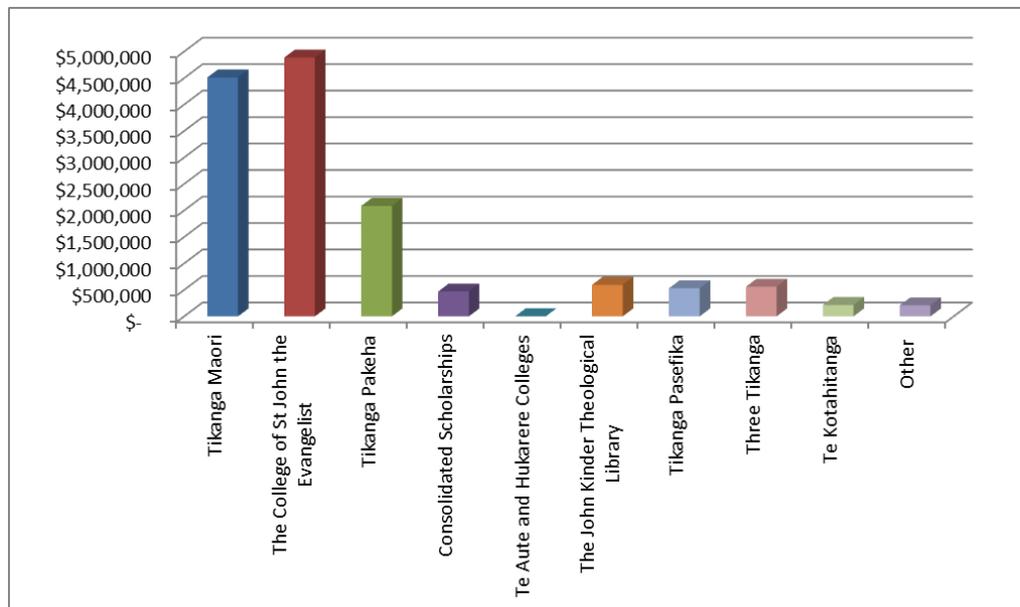
⁵ Pursuant to section 7 of the St John's College Trusts Act 1972

4.8 The value of Consolidated Scholarships Trust represents approximately 57% of the total value of the Trust and therefore, while surplus funds can be allocated to other trust purposes, 57% or \$7.1 million of the annual distribution from the Trust could theoretically be used for the payment of scholarships.



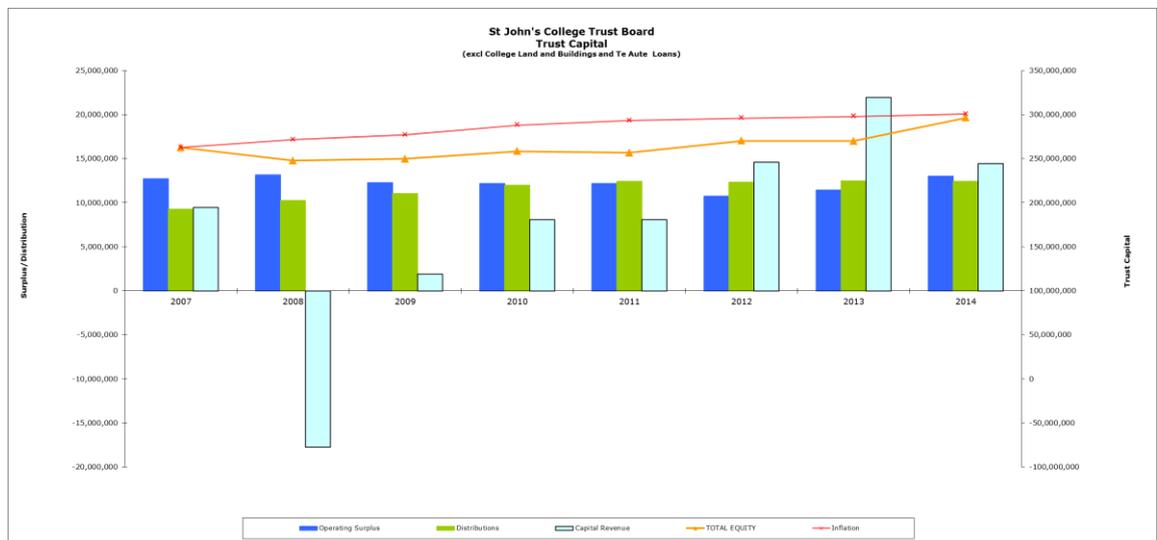
4.9 As detailed in the above chart, at present only 3% of distributions are used for purpose of providing scholarships in comparison to 57% of the value of the annual distribution. As a consequence, distribution to the College and other beneficiaries are being funded from the endowment funds set aside for scholarships. Trustees believe this anomaly needs to be reviewed and addressed.

4.10 All distributions made to all beneficiaries during 2014 can be summarised as follows:

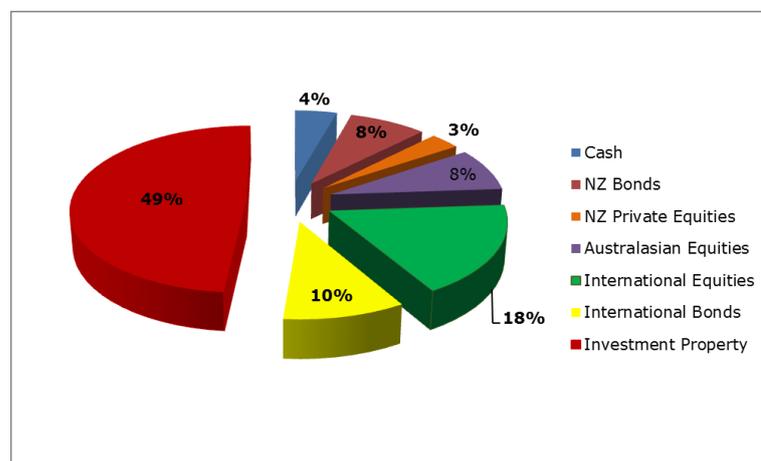


5. TRUST CAPITAL

- 5.1 As at 31 December 2014 the Trust's capital was \$365 million.
- 5.2 The value of the Trust's capital includes the value of the land and buildings occupied by the College of St John the Evangelist ("the College") and John Kinder Theological Library at Meadowbank, Auckland.
- 5.3 As at 31 December 2014 these properties had a book value of \$57 million, although as they were last valued in 2007 they are likely to have a market value greatly exceeding this figure. As these lands and buildings are occupied by beneficiaries of the Trust and generate no return, they are not classified as being part of the Trust's "investment capital".
- 5.4 Similarly, the loan facility provided to the Te Aute Trust Board during 2014 is not considered part of the Trust's investment capital. This loan is interest free and repayable in 2024.
- 5.5 Excluding these 'non-investment assets, the Trust's Investment Capital was valued at \$309 million as at 31 December 2014 reflecting the 5% capital gain recorded during 2014.
- 5.6 The graph below shows the Trust's performance over this period. While the Trust's capital has grown the recent years since the Global Financial Crisis, it still slightly lags behind the adjusted value of inflation over this same period.



- 5.7 As such Trustees remain committed to realising 'surplus' assets of the Trust, encouraging efficiencies and growing the capital of the Trust so that the level of distributions can be increased over time for the benefit of the current and future generations of beneficiaries.
- 5.8 These competing objectives are reflected in the Trust's investment strategy and asset allocation. The actual asset allocation of the Trust as at 31 December 2014 was as follows:



- 5.9 The Trust's investment strategies and asset allocation remains sensitive to the need to invest in an ethical and sustainable manner. The Trust does not invest in gambling, tobacco, alcohol, armaments or pornography related entities and is investigating the ability to similarly eliminate fossil fuel related investments.
- 5.10 In this regard, the Trust adopts a pragmatic process of enquiry and investigation into the characteristics of all of the Trust's investments and, amongst other considerations, makes investment decisions based on the cost and assessment of the risk that arises in the implementation and maintenance of its ethical and sustainable investment philosophy.

6. THE FUTURE OUTLOOK

- 6.1 As noted in this report, the Trust finalised a strategic plan during 2014. This plan sets out the goals of the Trust which can be summarised as follows:
- Maintaining the careful stewardship of the Trust's assets,
 - Ensuring value for money from Trust distributions,
 - Building a closer working relationship with Te Kotahitanga,
 - Becoming more involved in the life of St John's College,
 - Raising the profile of the Trust, and
 - Ensuring the highest standards in Trust operations.
- 6.2 Trustees continue to work with members of Te Kotahitanga and the General Synod in regard to the achievement of these goals with an ultimate objective to continue to grow the funding available to fund the current beneficiaries and hopefully new education initiatives.
- 6.3 In the meantime Trustees are mindful that the returns enjoyed by the Trust in recent years are unlikely to be repeated and the 'low return environment' is the new norm requiring Trustees to continually review the asset allocation and opportunities to realise capital gains.

7. THE TRUST AND ITS TRUSTEES

- 7.1 Trustees of the Trust are appointed by General Synod on the nomination of the various Tikanga ministry groups, under the provisions of Title E, Canon II.
- 7.2 As at 31 December 2014 the Trustees of the Board were:

Trustee	Nominated by	Seat number
Mr Maui Tangohau	Tikanga Maori	1
The Most Reverend William Brown Turei	Tikanga Maori	2
The Right Reverend John Gray	Tikanga Maori	3
The Right Reverend Philip Richardson	Tikanga Pakeha	4
Ms Moka Ritchie (appointed August 2014)	Tikanga Pakeha	5
Mr Stephen Jacobi	Tikanga Pakeha	6
Ms Mele Tuilotolava	Tikanga Pasefika	7
Mr Joseph Halapua	Tikanga Pasefika	8
Mr Kevin Wearne	Tikanga Pasefika	9

- 7.3 During 2014 Ms Moka Ritchie was appointed a Trustee and brings to the Trust her valuable legal and commercial experience .

8. APPRECIATION AND THANKS

- 8.1 The Church is blessed by the size and of the St John's College Trust Board as an endowment which provides significant funding to its beneficiaries. However, the Trust represents a significant entity that requires careful, dedicated and prudent management and governance.
- 8.2 Tribute needs to be paid to the Trustees who have continued to work hard on a voluntary basis governing the Trust's affairs requiring a significant commitment of time and effort.
- 8.3 The continued strong performance of the Trust and achievement of an ambitious distribution target especially during these difficult times is testament to a strong, committed and skilled Board of Trustees.
- 8.4 Trustees undertake this work on behalf of our three tikanga Church and seek the prayerful support of General Synod/Te Hinota Whanui.
- 8.5 Similarly Trustees wish to record their gratitude to members of the Board's Secretariat and staff of Trust Investments Management Limited who continue to advise Trustees in a professional and efficient manner in often difficult circumstances. Their commitment to the success of the Trust is very much appreciated.



Stephen Jacobi
Chairman



Grant Hope
Secretary

April 2015