

ST JOHN'S COLLEGE TRUST BOARD

ANNUAL REPORT

For the year ended 31 December 2011



CONTENTS

Page

1. INTRODUCTION	3
2. EXECUTIVE SUMMARY.....	3
3. FINANCIAL PERFORMANCE	4
4. THE TRUST AND ITS BENEFICIARIES	5
5. THE TRUST'S PURPOSES	5
6. THE TRUST AND ITS TRUSTEES	6
7. THE ROLE OF THE TRUST AND TE KOTAHITANGA	7
8. DISTRIBUTIONS.....	8
9. TRUST CAPITAL.....	9
9.5 Capital returns	9
9.18 St John's College.....	10
10. INVESTMENTS	11
10.1 Investment Strategy Review.....	11
10.5 Income Equalisation Reserve	11
11. THE FUTURE OUTLOOK	12
12. RECENT CRITICISM OF THE TRUST.....	13
13. APPRECIATION AND THANKS	14



1. INTRODUCTION

- 1.1 On behalf of Trustees, it is my pleasure to present the 152nd Annual Report¹ of the St John's College Trust Board (the "Trust"). As requested this report covers the 2010 and 2011 years.

2. EXECUTIVE SUMMARY

- 2.1 The financial years ended 31 December 2010 and 2011 have proven to have been a challenging period for the Trust in terms of the volatility of investment markets and the depressed nature of returns earned by the Trust.
- 2.2 The Trust's income available for distribution in 2011 was \$10.8 million, an 11% reduction from the \$12.2 million available in 2010.
- 2.3 Trustees have continued to work closely with Te Kotahitanga which, under the Canons of this Church, is charged with the responsibility to consider the allocation of annual distributions from the Trust to eligible beneficiaries.
- 2.4 On the basis of the advice received from Te Kotahitanga the Trust distributed \$12.4 million during 2011 an increase of 3% on the \$12 million distributed during 2010. The difference between the Trust's income and the distribution made in 2011 was funded by utilising the Income Equalisation Reserve.
- 2.5 During 2010 and 2011 the Trust responded to the advice of Te Kotahitanga regarding the need for emergency funding to assist the Te Aute and Hukarere school hostels. Distributions in excess of \$1.0 million were made to the Te Aute Trust Board during 2010 and 2011, bringing total distributions made to Te Aute since 2008 to \$2.0 million.
- 2.6 As at 31 December 2011 the capital of the Trust was \$315 million including the Trust's \$58 million investment in the College of St John the Evangelist. Trustees have provided additional commentary in this report so that readers are better able to understand the growth in capital and the benefit now arising in the form of significantly increased annual distributions from the Trust.
- 2.7 This report details the concern that trustees and Te Kotahitanga share in regard to the continued increased cost of maintaining the College of St John the Evangelist and the impact this is having on the Trust's ability to assist other beneficiaries.
- 2.8 In terms for the future outlook the Trust anticipates a continued period of volatility and depressed investment returns. The Trust is forecasting that it will utilise a significant portion of its Income Equalisation Reserve in order to maintain the present level of distribution at least for the short to medium term.

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



3. FINANCIAL PERFORMANCE

- 3.1 The Trust has during 2010 and 2011 operated through a period of continued investment market volatility producing an operating surplus² in the 2011 year of \$10.8 million, down from \$12.2 million in 2010.
- 3.2 The financial performance of the Trust, for the years ended 31 December 2010 and 2011 can be summarised as follows:

	2011 \$'000	2010 \$'000
Financial Performance		
Operating Revenue	14,295	15,327
Operating Expenditure	3,517	3,158
Income surplus available for distribution	10,778	12,170
Distributions paid to Beneficiaries	12,394	11,954
Income surplus/(deficit) after distributions	(1,616)	216
Capital gains/(losses)	290	8,093
Net total surplus/(loss) after distributions	(1,325)	8,308
Trust Capital		
Value of investment portfolio	257,485	259,305
Value of St John's College, Meadowbank	57,715	57,362
Total Trust Capital	315,200	316,667

- 3.3 The reduction in income was driven primarily by the Trust's higher than normal level of investment in short term deposits and New Zealand bonds while the Trust worked to identify a suitable commercial property investment.
- 3.4 Due to the impact of the Global Financial Crisis ("GFC") the returns from bonds and cash type investments were significantly depressed during 2011.
- 3.5 The overweight position on low return liquid investments was not planned but rather arose from the Trust taking an opportunity, in late 2010, to sell a property in which several building defects had been identified, back to the original developer, to avoid the costly and negative exercise of seeking redress through court action.
- 3.6 In December 2011 trustees approved the purchase of a 50% interest in the Countdown Supermarket in Lynfield Auckland. The settlement of this transaction, in February 2012, rebalanced the Trust's actual investment allocation to near its strategic allocation.

² Excluding capital gains and losses on investments



4. THE TRUST AND ITS BENEFICIARIES

- 4.1 The Trust's purposes, originally set by the 1859 Trust Deed signed by The Right Reverend George Augustus Selwyn, have since its enactment been subject to the provisions of the St John's College Trusts Act 1972, notably sections 3 and 7. This Act, and the prior trust deed, state the purposes for which the Trust's funds are to be applied and do not name a beneficiary or class of beneficiary.
- 4.2 In legal terms the Trust is therefore deemed to be a "purpose trust" and while it is possible to identify individuals who might be eligible to benefit from the trust or a class from which beneficiaries might be eligible to be selected, no individual or class of individuals can regard themselves, or have the right to regard themselves, as beneficiaries of the Trust.
- 4.3 It is for this reason that all eligible beneficiaries apply for funding on an annual basis via the Te Kotahitanga process. The Trust has no obligation to make funds available to any party that claims to be a beneficiary.

5. THE TRUST'S PURPOSES

- 5.1 The purposes for which the Trust's funds can be disbursed are set out in sections 3 and 7 of the St John's College Trust Board Act 1972 ("the Act") as follows:

Section 3: St John's College trusts

- (a) For or towards the maintenance and support of the College,
- (b) For the education in the College of candidates for ordination,
- (c) For the costs of the education of students of all races in such manner and in such places as the General Synod shall from time to time direct so long as such education includes instruction in the principles of the Christian faith.

Section 7: Trust of scholarship funds

- (1) ... hold the scholarship funds...
- (2) ... with the prior authority of the General Synod, from time to time to apply the whole or such portion or portions of the income of the scholarship funds as they think fit in or towards the maintenance and support of candidates for ordination or persons who have been ordained (and their dependents respectively) while taking a course of study for a degree or diploma at any University or University College or any other course of study within New Zealand or elsewhere.
- (3) ... with the prior authority of the General Synod, out of the income ... of the scholarship funds finance in whole or in part the teaching of theology at any University or University College or other institution within New Zealand.

- 5.2 Legal opinions received by the trustees have clearly stated that there is no priority between the purposes of the Trust as detailed the Act. That is the funding of the maintenance and support of the College (section 3(a)) does not rank ahead of the funding of education in the College of candidates for ordination (section 3(b)) or for the costs of the education of students of all races in such manner and in such places as the General Synod shall from time to time direct (section 3(c)).



6. THE TRUST AND ITS TRUSTEES

6.1 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.

6.2 As at 31 December 2011 the Trustees of the Board were:

Trustee	Nominated by	Seat number
Mrs Pare Aratema – now vacant	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
Mrs Kathy Boardman	Tikanga Pakeha	5
Mr Stephen Jacobi	Tikanga Pakeha	6
Ms Mele Tuilotolava	Tikanga Pasefika	7
Mrs Anne Hinton, QC	Tikanga Pasefika	8
Mr Kevin Wearne	Tikanga Pasefika	9

6.3 The Trust is governed solely by its trustees.

6.4 In respect to the governance of trustees; the duties of trustees are imposed by a combination of the provisions of the St John's College Trust Board Act, the Canons of this Church, the Trustee Act 1956 and other relevant legislation.

6.5 It is a core principle of trust law that trustees must act independently and free from influence in the best interests of all beneficiaries. To do otherwise would be a breach of a Trustee's duties.

6.6 This is most certainly the case in terms of the governance and management of the St John's College Trust Board. Neither the Trust, nor the assets of the Trust, are controlled by a particular Tikanga or Tikanga Group. The composition of the Trust is designed to secure against that.

6.7 During 2010, Reverend Katene Eruera resigned as a trustee. Katene, in wishing to serve his country further, became a Chaplain to the Armed Forces during 2010, a position that unfortunately required he forgo his membership of the Board and a number of other Church appointments. Katene's contribution, astute legal mind and deep understanding of the beneficiary is missed by his fellow trustees.

6.8 Also during 2010 trustees celebrated the consecration of Archbishop Winston Halapua as the Archbishop of the Diocese of Polynesia. However, unfortunately for the Trust, the Archbishop elected to resign from the Board given his relocation to Suva and his desire to focus on his new role. The Archbishop's ability to see complex matters in simple terms and ensuring the discussion of the Board remained focused on the ultimate purpose of the Trust will be remembered by Trustees.

6.9 During 2010, Bishop Philip Richardson was appointed to the Board and brought with him a wealth of knowledge having served on many commissions and committees of General Synod including his previous role as the founding Chair of Te Kotahitanga.



- 6.10 In March 2011 Trustees welcomed Ms Mele Tuilotolava to her first meeting of the Board in the seat vacated by Archbishop Halapua and in August 2011 welcomed Bishop John Gray who joined the Board to fill the seat vacated by Rev. Eruera.
- 6.11 In December 2011 the Board regretfully accepted the resignation of Mrs. Pare Aratema. Trustees and the Executive will miss Pare's long commitment and passion for the Trust, her invaluable experience and expertise in education and sound grip on accounting issues.

7. THE ROLE OF THE TRUST AND TE KOTAHITANGA

- 7.1 The Trust's role, in addition to hold and managing all endowments and investments upon Trust, is to receive and act on the advice received from Te Kotahitanga in regard to distributions and beneficiaries.
- 7.2 The Trust, as it does every year, and in accordance with the Canons of this Church, sought, received, approved and acted upon the advice received from Te Kotahitanga regarding distributions in 2010 and 2011.
- 7.3 While detail of the role and relationship between the Trust and Te Kotahitanga has been a topic discussed in a number of previous reports, trustees thought it important to once again provide the detail of this relationship.
- 7.4 As members of General Synod will know Te Kotahitanga was established many years ago as a Standing Commission of the General Synod, under the provisions of Statute 597, with responsibility for oversight of theological education within the Church.
- 7.5 More specifically Section 3.11 of Title E, Canon II states that the role of Te Kotahitanga is to "advise the St John's College Trust Board regarding the disbursement of College Funds and Scholarship Funds and to make recommendations to the said Board regarding the proportion of available income from the Trusts to be allocated for theological education, ministry training, and other education and training relevant to advancing the mission and ministry of the Church".
- 7.6 It is for this reason that Te Kotahitanga, as it has done since its establishment, receives and considers the applications from potential beneficiaries of the Trust and it is Te Kotahitanga that recommend/directs which beneficiaries should receive funding from the Trust and in what proportions.
- 7.7 For many years the Trust and Te Kotahitanga have worked together in accordance with the provisions of Title E, Canon II and sections 3 and 7 of the St John's College Trust Board Act. We are pleased to advise that the working relationship between the Trust and Te Kotahitanga, while importantly remaining independent from each other, continues to strengthen each year.
- 7.8 The strength and trust of this working relationship has, despite recent reports to the contrary in respect to the funding of Tikanga Maori Schools, resulted in funding recommendations received from Te Kotahitanga being in very large part approved by the Trust almost without variation.



8. DISTRIBUTIONS

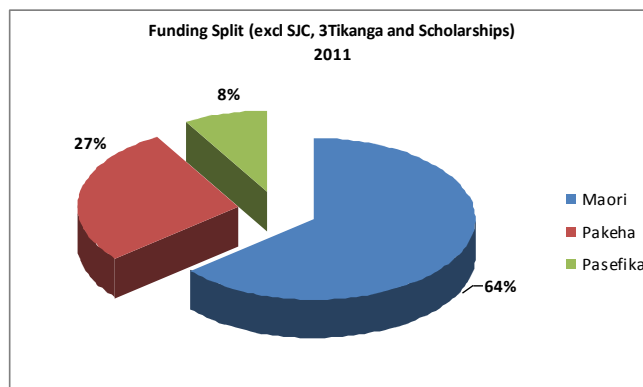
- 8.1 During 2011, once again following completion of a considerable amount of work by Te Kotahitanga, trustees approved annual distributions totaling \$12.5 million, consistent with the level of distribution agreed with Te Kotahitanga in 2010.
- 8.2 However, as usual the actual distributions made by the Trust varied slightly in terms of the approved budget as distributions were not required by some beneficiaries and previous year's unspent distributions were returned to the Trust.
- 8.3 The following analysis provides further detail of the actual distributions made by the Trust in the 2008 to 2011 period:

Recipient	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
The College of St John the Evangelist	3,160	3,135	2,711	3,002
The John Kinder Theological Library	600	551	519	428
Tikanga Maori	4,036	4,111	3,992	2,727
Tikanga Pakeha	2,082	1,891	1,792	1,231
Tikanga Pasefika	626	495	580	555
Te Kotahitanga	151	304	146	133
Three Tikanga	579	530	525	354
Consolidated Scholarships	526	634	468	303
Other	25	303	453	477
Te Aute and Hukarere Colleges	759	245	-	1,023
	12,544	12,199	11,186	10,233
Unspent distributions returned	(150)	(245)	(174)	(12)
Total	12,394	11,954	11,012	10,221

- 8.4 During 2011 the Trust distributed \$12.4 million to beneficiaries against budgeted and approved distributions of \$12.5M. An analysis of the major funding variances is noted in the following paragraphs.
- 8.5 Due to further cost control the actual distributions made to the College of St John the Evangelist ("the College") were 2010: \$3.15 million and 2011: \$3.16 million. These actual distributions were significantly below the College's approved funding of \$3.41 million and \$3.73 million for 2010 and 2011 respectively.
- 8.6 Over the 2010 – 2011 period the Trust also received \$395,000 of unspent distributions back from beneficiaries, continuing the trend of recent years.
- 8.7 On the basis of resolutions passed at the meeting of the General Synod in May 2010 and the subsequent advice received from Te Kotahitanga, the Trust distributed in excess of \$1 million to the Te Aute Trust Board during 2010 and 2011 for the funding of the Te Aute and Hukarere Schools and Hostels. Due to the timing of the advice received in 2010 the \$245,000 distributed in 2010 was unbudgeted.
- 8.8 These distributions followed the special distribution to Te Aute of \$1,022,000 approved by Trustees in 2008 and brings total distributions made to Te Aute over the past four years to \$2.026 million.



- 8.9 Excluding distributions to the College, the John Kinder Theological Library, and Three Tikanga beneficiaries, distributions made during 2011 can be summarised as follows:

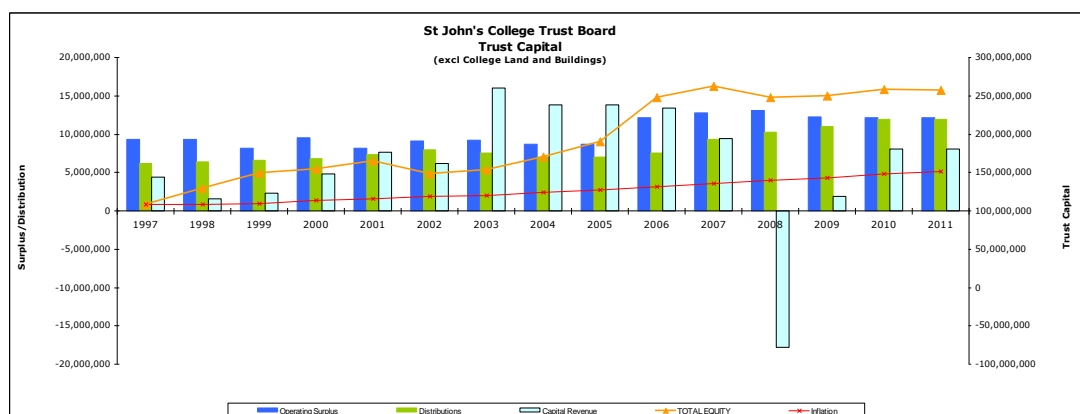


9. TRUST CAPITAL

- 9.1 As at 31 December 2011 the Trust's capital was \$315 million.
- 9.2 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.
- 9.3 As at 31 December 2011 these properties had a book value of \$57.8 million and, as they are occupied by beneficiaries of the Trust and derive no income, cannot be classified as being part of the Trust's "investment capital".
- 9.4 As at 31 December 2011 the value of the Trust's investment capital was \$257.5 million.

9.5 Capital returns

- 9.6 Trustees thought it may be useful to provide readers of this report further detail in respect to the capital returns earned by the Trust in recent years.
- 9.7 The Trust's capital has grown significantly over that last fifteen years³ as depicted in the chart below.



- 9.8 Excluding the value of the College of St John the Evangelist the Trust's capital has grown from \$105 million in 1997 to \$257 million as at 31 December 2011 despite the significant impact of the GFC in 2008 which saw the Trust's investments devalued. This is a capital return of 6.2% p.a.

³ The period over which accurate property and investment valuations are available.



- 9.9 However, over the same period the impact of inflation has accounted for 2.3% of this growth. The Trust's capital has therefore grown some 3.9% in real terms.
- 9.10 The Trust has for many years set an investment strategy to grow the capital of the Trust by at least the rate of inflation. That is to achieve growth in "real" terms.
- 9.11 However, the investment strategy adopted by the Trust has in fact performed significantly better than expectations with a combination of good management and significant growth in property values, most notably in the eastern suburbs of Auckland⁴.
- 9.12 As readers of this report will be aware the Trust historically had a concentration of investments in residential ground lease properties in the eastern suburbs of Auckland. Over the last fifteen years these properties have experienced growth in their capital value at rates far exceeding inflation, in line with the general property market.
- 9.13 However, while the capital values of these properties rose, the income generated by these investments did not as the properties were all individually subject to ground leases with rent reviews only every 21 years. As such, while the Trust reported strong capital growth, its income and distributable surplus did not rise to the same extent.
- 9.14 Over recent years trustees have taken steps to address this anomaly with many of these properties having been sold and the proceeds reinvested in assets that will produce more stable levels of income.
- 9.15 Some parties claim that the growth has been at the expense of the funding of potential beneficiaries.
- 9.16 The Trust has always approved in broad terms, the distributions recommended to it by Te Kotahitanga. Secondly it is this growth that today enables the Trust to distribute \$12.5M annually. Had the investments of the Trust not performed as strongly as they have, the value of the Trust's investments today would be \$151 million and distributions from the Trust would total just \$7.3 million, a shortfall in terms of the 2011 distribution of \$5.2 million.
- 9.17 Instead, as evidenced in the graph above, the Trust has been able to grow distributions significantly as the investment assets of the Trust have grown and been converted into income generating investments. During the same period, with the assistance of Te Kotahitanga, no recommendation for funding of a beneficiary has been overlooked and the number of beneficiaries has in fact grown considerably.

9.18 St John's College

- 9.19 As detailed above the value of the Trust's ownership of the land and buildings at the College of St John the Evangelist stands at \$57.8 million.
- 9.20 These assets, which include the buildings at the College, Faculty and Student Housing and the John Kinder Theological Library, are held for the use of the Trust's beneficiaries in accordance with the provisions of the St John's College Trust's Act 1972.
- 9.21 Visitors to the College will be aware that a number of the College buildings are heritage buildings and in general all College infrastructure is aging and is in need of maintenance and upgrade.

⁴ In 1998 73% of the Trusts investments were property a significant proportion represented by residential properties subject to perpetual ground leases in Auckland.

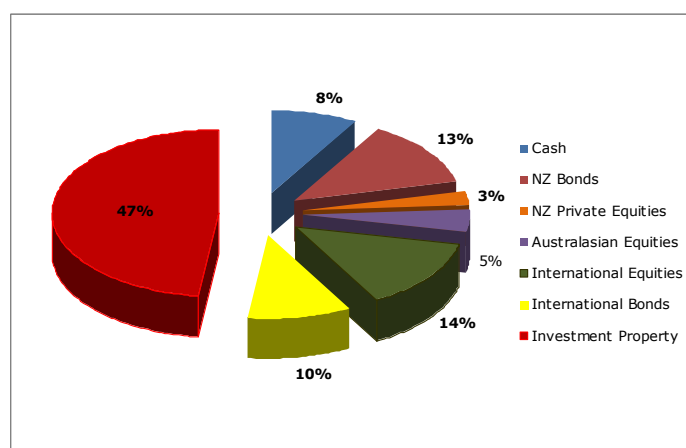


- 9.22 This is creating an issue for the Trust. The Trust expended \$1.3 million maintaining the College in 2011 on top of the \$800,000 spent in 2010 (2009:\$700,000). Not only is this cost an operating expense of the Trust which significantly reduces the annual distributable surplus of the Trust but it also resulted in an annual cost of operating College, including distributions, of \$5.3 million or 37% of total income. Trustees and Te Kotahitanga have discussed whether this situation is sustainable.
- 9.23 As a consequence trustees have reviewed the various future strategies of the College and in consultation with Te Kotahitanga have commissioned a review to consider whether the College properties could be redeveloped, leased or realised so that the Trust's capital can be better utilised for the benefit of all beneficiaries of the Trust. With Te Kotahitanga's assistance this review will include consideration of the eligibility and numbers of students attending the College in the future to ensure infrastructure can be designed to meet demand.

10. INVESTMENTS

10.1 Investment Strategy Review

- 10.2 As part of its normal annual procedures trustees review the Trust's Investment Strategy to determine the Trust's long-term strategic asset allocation that is required to support the present level of distributions and growing the value of the Trust's capital by at least inflation for the future generations of beneficiaries.
- 10.3 As at 31 December 2011 the Trust's asset allocation was as follows:



- 10.4 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 has adopted a pragmatic process of enquiry and investigation into the characteristics of all of the Trust's investments. Where applicable trustees make purchase, sale or retention decisions based on the outcome of these enquiries.

10.5 Income Equalisation Reserve

- 10.6 The Trust continues with its policy to maintain an Income Equalisation Reserve equal to one year's gross operating income. This reserve ensures that in event of significant adversity the Trust will be able to continue to meet its income distribution commitments even though its income returns may be significantly reduced.



- 10.7 During 2011 the reserve had to be utilised, as it is designed to be, as the income and surplus of the Trust fell to a level below the value of the distribution commitments of the Trust.
- 10.8 As at 31 December 2011 the reserve stood at \$14.1 million. The reserve remains fully invested and forms part of the investment portfolio of the Trust.

11. THE FUTURE OUTLOOK

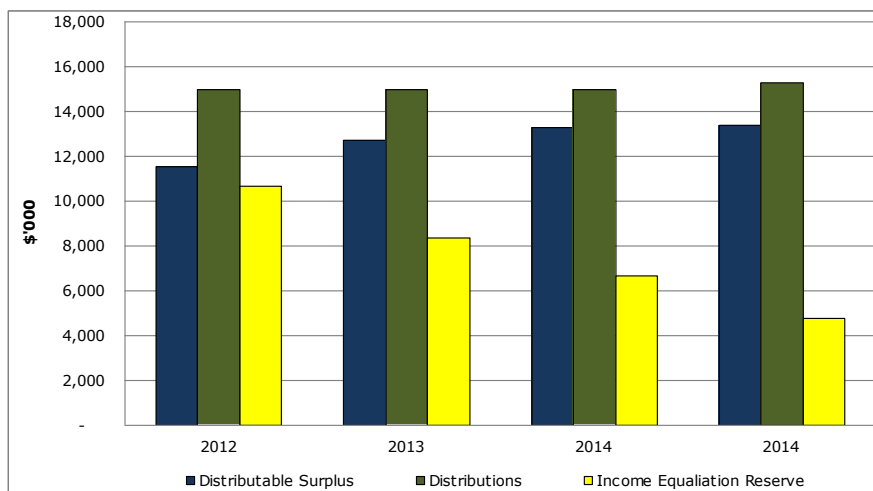
- 11.1 As readers of this memorandum will be aware, global investment markets have, since late 2008 experienced the worst economic downturn since the Great Depression of the 1930's. This period is commonly referred to as the Global Financial Crisis ("GFC").
- 11.2 The Trust, via its investment strategy and reserving policies, has managed to work through the GFC without impacting on the distributions to beneficiaries despite its investments being significantly devalued in 2008 (as indicated in the graph above).
- 11.3 The Global Financial Crisis continues through to the present day with the Trust operating in a very low investment return environment. That is returns from the investments the Trust has in New Zealand and in international markets have reduced.
- 11.4 An article in a recent edition of the Economist was titled "there is nowhere to hide" and explained that at present the returns from almost every investment class are depressed while the volatility of returns has increased.
- 11.5 There is no way to accurately know when the impact of the GFC will end, or whether it will end, but most market commentators are stating it will be at least 3 – 5 years until the high levels of sovereign debt, especially in Europe and the United States, are under control and the risk of default has reduced.
- 11.6 As such the Trust is forecasting reduced returns from its investments over the coming years. Added to this is the fact that the maintenance and operating costs of the College continue to increase. While the insurance and rates charges on the properties climb so does the maintenance of ever-aging buildings and housing.
- 11.7 The Trust is forecasting a significant reduction in its investment returns over the 2012 – 2015 years with the distributable surpluses and College costs increasing as follows:

(NZD '000)	2012	2013	2014	2015
Distributable Surplus	11,564	12,700	13,294	13,382
Less:	12,883	12,699	12,706	12,914
Distributions ⁵ (via Te Kotahitanga)				
College maintenance, capital and other costs.	2,103	2,301	2,294	2,387
Deficit	(3,422)	(2,300)	(1,706)	(1,919)

⁵ Forecast but not yet approved . As agreed with Te Kotahitanga there will be no overall increase in the amount available for distribution until 2015



- 11.8 With lower returns and with the increase in projected maintenance costs at the College the forecast distribution commitments of the Trust will exceed its sustainable level of income over the next four years. As such the Trust is anticipating that it will utilise \$9.4M or 67% of the Income Equalisation Reserve over this period.



- 11.9 However, as a cautionary note - this situation cannot be prolonged indefinitely without the capital of the Trust being eroded. If poor investment conditions persist in the longer term, changes to the Trust's asset allocation and level of sustainable distribution will need to be considered. Trustees are aware of the impact these decisions may have on beneficiaries.

12. RECENT CRITICISM OF THE TRUST

- 12.1 Trustees noted with some concern a number of comments in a recent Anglican Taonga magazine criticising the Trust. Specifically the comments made in this article stated or inferred that:

- The Trust had not assisted the Te Aute and Hukarere Schools.
- The Trust is obliged to help these schools.
- The closure of the St Stephen's, Queen Victoria and Te Waipounamu schools was due to "inadequate funding" which should have been provided by the Trust.
- The capital of the Trust has grown to in excess of \$300M while certain beneficiaries have not been assisted.

- 12.2 It is hoped that the information contained in the report, especially the detail of the role and responsibilities of Te Kotahitanga and the nature of and the benefit accruing from the growth in the Trust's capital, will provide readers with relevant information and facts in regard to the comments made.



13. APPRECIATION AND THANKS

- 13.1 I would like to pay tribute to my fellow trustees who have continued to work hard through a difficult period for the Trust and beneficiaries alike. The governance of the Trust's affairs requires a reasonably significant commitment of time and effort, and for this I thank trustees for their valued contribution and support.
- 13.2 Similarly I wish to record my, and the trustees', thanks to members of the Board's Secretariat who continue to ensure trustees remain informed, the decisions of trustees are enacted and the Trust's assets and business are managed, sometimes in trying circumstances, in a professional and efficient manner.

Anne Hinton, QC
Chair

Grant Hope
Secretary

March 2012