

# ST JOHN'S COLLEGE TRUST BOARD

## ANNUAL REPORT

For the year ended 31 December 2015



## **1. INTRODUCTION**

- 1.1 On behalf of Trustees, it is a pleasure to present the 156<sup>th</sup> Annual Report<sup>1</sup> of the St John's College Trust Board (the "Trust") in my fourth and therefore, in accordance with the terms of Title E, Canon II, my final year as the Chair of the Trust.
- 1.2 In presenting this report it is important to note that, given the timing of its preparation, the audit of the Trust's 2015 financial statements is yet to be finalised. Therefore this report and the figures contained within it remain subject to audit clearance.

## **2. A YEAR IN REVIEW**

- 2.1 The 2015-year was marked by the Trust continuing to work towards the implementation of its Strategic Plan and in doing so undertaking a number of transactions to improve the stewardship of the assets entrusted to the care of Trustees.
- 2.2 Of these transactions perhaps the most notable was, acting on the approval received from Te Hinota Whanui in 2013, was to sell a prepaid 127-year terminating ground lease on the site commonly known as Parsons' Paddock adjacent to St John's College.
- 2.3 Following an international tender a transaction was finalised with Summerset Group, which plan to develop and operate a retirement village on the site.
- 2.4 By creating a terminating ground lease structure, the Trust continues have a titular interest in this property and full ownership will revert to the Trust at the expiry of the lease, enabling then Trustees to consider how to reutilise this asset for future beneficiaries.
- 2.5 In line with its strategy, the Trust has also sold a number of surplus residential properties held for the purposes of the Colleges, as well as the sole remnant of the Trust's residential ground lease portfolio.
- 2.6 The Trust is now investigating options for the development of residential housing within the 5.1 hectare site occupied by St John's College, which will in part begin to address the very high costs that the Trust has reported to past Synods in regards to the maintenance of the College and its housing.
- 2.7 In terms of acquisitions, the Trust has an unconditional contract to purchase the new Countdown retail complex being constructed in Hobsonville Point, Auckland. This acquisition is in accordance with the Trust's commercial property investment strategy and will be a significant contributor to the stability of the Trust's revenue streams.
- 2.8 While the commercial details of these transactions are subject to confidentiality, they all either release significant capital for re-investment or enhance the Trust's ability to increase its investments.

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<sup>1</sup> 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 generated an operating surplus<sup>2</sup> of \$13.7 million during 2014 an increase of 5.0% in comparison to the previous financial year, despite continued depressed income returns but principally as a result of the growth in the capital base of the Trust.

3.2 The financial performance of the Trust, for the years ended 31 December 2015 can be summarised as follows:

	<b>2015</b> \$'000	<b>2014</b> \$'000
<b>Financial Performance</b>		
Operating Revenue	18,003	16,968
Operating Expenditure	4,285	3,934
<b>Income surplus available for distribution</b>	<b>13,718</b>	<b>13,034</b>
Net distributions paid to Beneficiaries	12,241	12,440
Income surplus/(deficit) after distributions	<b>1,477</b>	<b>595</b>
Capital gains/(losses)	48,168	14,433
Adjustment to the value of the loan to the Te Aute Trust	(5,145)	-
<b>Net total surplus/(loss) after distributions</b>	<b>44,500</b>	<b>15,028</b>
<b>Trust Capital</b>		
Value of investment portfolio	356,091	297,277
Value of Te Aute Trust loan	7,704	10,856
Value of St John's College, Meadowbank	45,166	56,584
<b>Total Trust Capital</b>	<b>408,961</b>	<b>364,717</b>

3.3 In addition to the excellent operating performance the Trust benefited from strong valuation gains of its investments and from the various transactions executed during the year. Total capital gains of \$48.2 million dollars were recorded, an exceptional 13.2% gain.

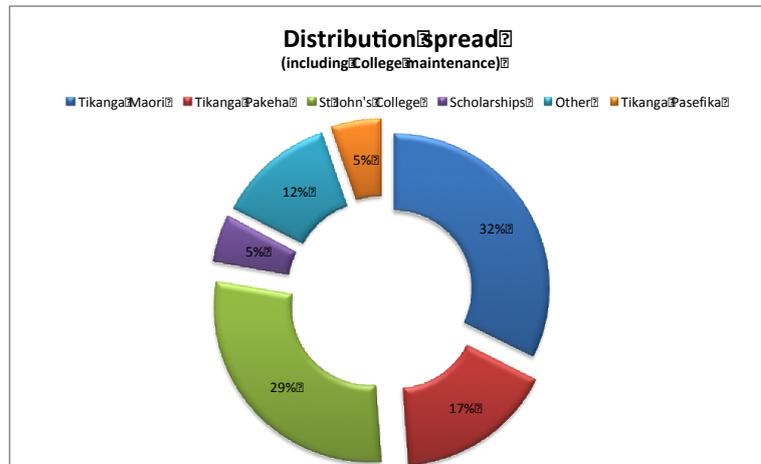
3.4 However, on the basis of a recommendation of the Trust's auditors, Trustees decided to discount the value of the loan provided to the Te Aute Trust Board to reflect that there will be no interest charged on this loan over its 10-year term. This 'non-cash' adjustment resulted in a \$5.1 charge in the 2015 year.

3.5 It should be noted that this 'discount' is not an impairment or write-off of this loan.

<sup>2</sup> Excluding investment gains and losses

**4. DISTRIBUTIONS**

4.1 On the basis of advice received from Te Kotahitanga in accordance with the Canons, the Trust approved distributions totaling \$12.6<sup>3</sup> million for the 2015 year.



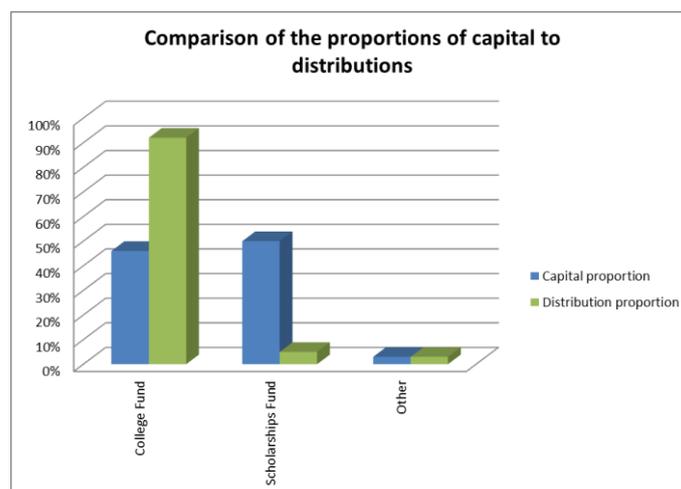
4.2 However, consistent with prior years the Trust benefited from beneficiaries returning unspent distributions from the 2014 year. As a result of these returns, net distributions amounted to \$12.2 million.

4.3 While the level of distribution has remained largely consistent over the last five years, Trustees did increase the level of 2016 distributions by \$250,000 and has signaled that, given the success of the transactions it has completed, it is now in a position to increase distributions for the 2017 year and beyond.

The Trust is presently discussing the potential increase in distributions with Te Kotahitanga, with Trustees having expressed a desire to see new and innovative education projects being funded along with the provision of additional scholarship funding to address a perceived imbalance.

4.4 In this regard Trustees remain concerned at the very low allocation of funding for the purposes of awarding scholarships from the Consolidated Scholarships Trust<sup>4</sup>.

4.5 The value of Consolidated Scholarships Trust represents approximately 50.0% of the total investment value of the Trust at \$187 million and therefore, while scholarship funding represents only 5.0% of distributions<sup>5</sup>.



<sup>3</sup> Excluding the value of maintaining the land and buildings occupied by St John's College and the John Kinder Theological Library.

<sup>4</sup> Pursuant to section 7 of the St John's College Trusts Act 1972

<sup>5</sup> The funding of students attending St John's College are funded from the College Fund and not the scholarships Fund.

## 5. TRUST CAPITAL

- 5.1 As at 31 December 2014 the Trust's capital was \$408 million. This 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.
- 5.2 As at 31 December 2015 these properties had a book value of \$45 million, a reduction on the 2014 valuation reflecting the sale of the terminating ground lease interest over Parsons' Paddock.
- 5.3 It should be noted that an independent valuation of the College site has not been undertaken since 2007 and the true market value, should it be assessed, would be significantly higher than the \$45 million recorded by the Trust.
- 5.4 However, as a sale is extremely unlikely and as this asset is held for achieving the purposes of the Trust, the property will be retained in the accounts at this historic value.
- 5.5 Similarly, the loan facility provided to the Te Aute Trust Board during 2014 is not considered part of the Trust's investment capital. Advances totaling \$12.8 million had been made against this \$15 million facility as at 31 December 2015.
- 5.6 This loan is interest free and repayable in 2024 and, as noted in paragraph 3.4, has been discounted in the financial statements to reflect these generous terms.
- 5.7 Excluding these 'non-investment' assets, the Trust's Investment Capital was valued at \$356 million as at 31 December 2015 including the Trust's Income Equalisation Reserve which remains fully funded at \$14.2 million.
- 5.8 Of significance is that the performance of the Trust's investments and the outcome of the transactions completed during 2015 has seen the capital of the Trust surpass its real, or inflation-adjusted, value for the first time since 2007, when the Trust was adversely impacted by the GFC.



- 5.9 This pleasing result is a contributing factor to the desire of Trustees to increase distributions in a measured and strategic manner.
- 5.10 The Trust's investment strategies and asset allocation remains sensitive to the need to invest in an ethical and sustainable manner, eliminating where possible investments in gambling, tobacco, alcohol, armaments, pornography and fossil fuels.
- 5.11 The Trust has a policy that actively excludes such investments where possible. Some residual 'passive' exposure to such investments may exist in passive mandates that track international indices, however the Trust does not invest in these in an active manner.
- 5.12 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 In recent months, at the request of the Archbishops, as the Chair of the Trust I have participated in meetings and worked with the Chairs of Te Kotahitanga and Te Kaunihera to closely consider the roles and responsibilities of our respective organisations in regards to the funding and delivery and education throughout the Church.
- 6.2 I look forward to concluding this work and reporting back on this matter to the Archbishops.
- 6.3 Otherwise, and as previously reported, the Trust progressed to implement its strategic plan, as set in 2014. The key objectives of this plan 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.
- 6.4 As noted in this report many of these objectives have been achieved, although some remain in progress. As such Trustees met early in 2016 to reconsider its strategy and I look forward to sharing this with members of Synod in the near future.
- 6.5 In the meantime Trustees are mindful that the returns enjoyed by the Trust in past years are not being, and are unlikely to be, earned in the 'low return environment' which is now the new norm.
- 6.6 This requires Trustees to continually review the Trust's strategies, asset allocation and opportunities to realise capital gains to maximise returns for today's and tomorrow's beneficiaries of the Trust.

## 7. THE TRUST AND ITS TRUSTEES

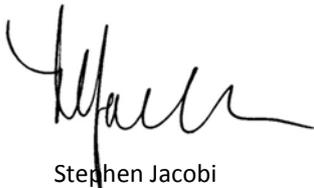
- 7.1 Trustees of the Trust are appointed by General Synod on the nomination of Tikanga ministry groups, under the provisions of Title E, Canon II.
- 7.2 As at 31 December 2015 the Trustees of the Board were:

Trustee	Nominated by	Seat number
Mr Maui Tangohau	Tikanga Maori	1
The Most Reverend William Brown Turei	Tikanga Maori	2
The Most 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 It was with great sadness that Trustees' learned on the passing of former Trustee the Rt. Rev. John Gray during 2015. In paying tribute to Bishop John, Trustees' recalled his steadfast passion and commitment to the Church and his unwavering support for Hukarere and Te Aute Colleges.

**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 Trustees continue to work hard on a voluntary basis governing the Trust's affairs that are complex and require a significant commitment of time and effort.
- 8.3 The continued strong performance of the Trust and maintenance of, now ambition to increase, distributions during a depressed investment environment is testament to a strong, committed and skilled Board of Trustees.
- 8.4 During the year the Trust took the opportunity to visit Tairawhiti and utilise the Amorangi's Te Rau College premises for a meeting, while Trustees attended the Missions Conference and Anglican Schools Conference
- 8.5 Trustees undertake this work on behalf of our three tikanga Church and seek the prayerful support of General Synod/Te Hinota Whanui.
- 8.6 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 manner and efficiently execute the resolutions of the Board.
- 8.7 The strong relationship and commitment of Trust Management to the success of the Trust is very evident to Trustees.



Stephen Jacobi  
Chairman

February 2016