

ST JOHN'S COLLEGE TRUST BOARD

ANNUAL REPORT

For the year ended 31 December 2017



1. INTRODUCTION

- 1.1 On behalf of Trustees, it is a pleasure to present the 158th Annual Report¹ of the St John's College Trust Board (the "Trust").

2. FINANCIAL PERFORMANCE

- 2.1 The Trust generated an operating surplus² of \$16.3 million during 2017, a solid increase on the 2016-year due largely to higher than anticipated income earned on the Trust's global equity investments.
- 2.2 The financial performance of the Trust, for the years ended 31 December 2016 and 2017 can be summarised as follows:

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Financial Performance | | |
| Operating Revenue | 22,274 | 18,715 |
| Operating Expenditure | 5,950 | 5,496 |
| Income surplus available for distribution | 16,324 | 13,842 |
| Net distributions paid to Beneficiaries | 13,815 | 12,283 |
| Income surplus/(deficit) after distributions | 2,509 | 936 |
| Capital gains/(losses) | 27,801 | 25,404 |
| Adjustment to the value of the loans | 534 | (331) |
| Net total surplus/(loss) after distributions | 30,844 | 26,009 |
| Trust Capital | | |
| Value of investment portfolio | 408,917 | 378,816 |
| Value of Te Aute Trust loan | 9,219 | 8,683 |
| Value of St John's College, Meadowbank | 44,938 | 44,812 |
| Total Trust Capital | 463,074 | 432,311 |

- 2.3 During 2017, in addition to the income earned, the Trust also benefited from continued strong capital appreciation of its investment portfolio, with its equities portfolio increasing in value by 18.6% and its property portfolio by 5.1%.
- 2.4 Overall the capital growth of the Trust's investment portfolio was 7.9% and its total return, including income earned, was a very pleasing 13.5%.

3. TRUST CAPITAL

- 3.1 As a result of positive investment revaluations, the capital of the Trust increased to \$463 million as at 31 December 2017.
- 3.2 However, as readers of this report may know, the capital of the Trust is collectively represented by two principal funds, the College Fund and the Scholarships Fund. The differing purposes of these funds being governed by the provisions of the St John's College Trusts Board Act 1972 ("the Act").

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

² Excluding investment gains and losses

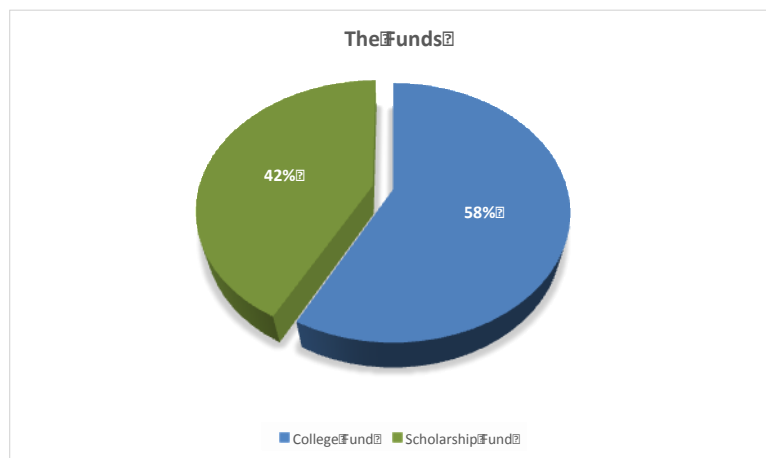
3.3 Broadly, the purposes of the College Fund allows for the funding of St John’s College and other education as long as it includes the principles of the Christian faith. Both the income and capital of the College Fund may be expended to achieve these purposes.

3.4 The Scholarship Fund has the purpose of providing education scholarships to candidates for ordination and the ordained. Only the income generated by the Scholarship Fund may be utilised for the provision of such scholarships.

3.5 Therefore, with this distinction, the Trust’s capital value can be represented as follows:

| | |
|---------------------------|----------------------|
| College Fund ³ | \$236,127,000 |
| Scholarship Fund | \$158,759,000 |
| Other | <u>\$14,031,000</u> |
| Investment capital | \$408,917,000 |
| St John’s College | \$44,938,000 |
| Te Aute loan | <u>\$9,219,000</u> |
| Total capital | \$463,074,000 |

3.6 Considering the the two principal funds only, the Trust’s capital can be summarised as follows:



3.7 With the inclusion of the value of the land and buildings at St John’s College (\$44.9 million) and the present value of the loan to Te Aute (\$9.2 million), as at 31 December 2017 the Trust’s capital was \$463 million.

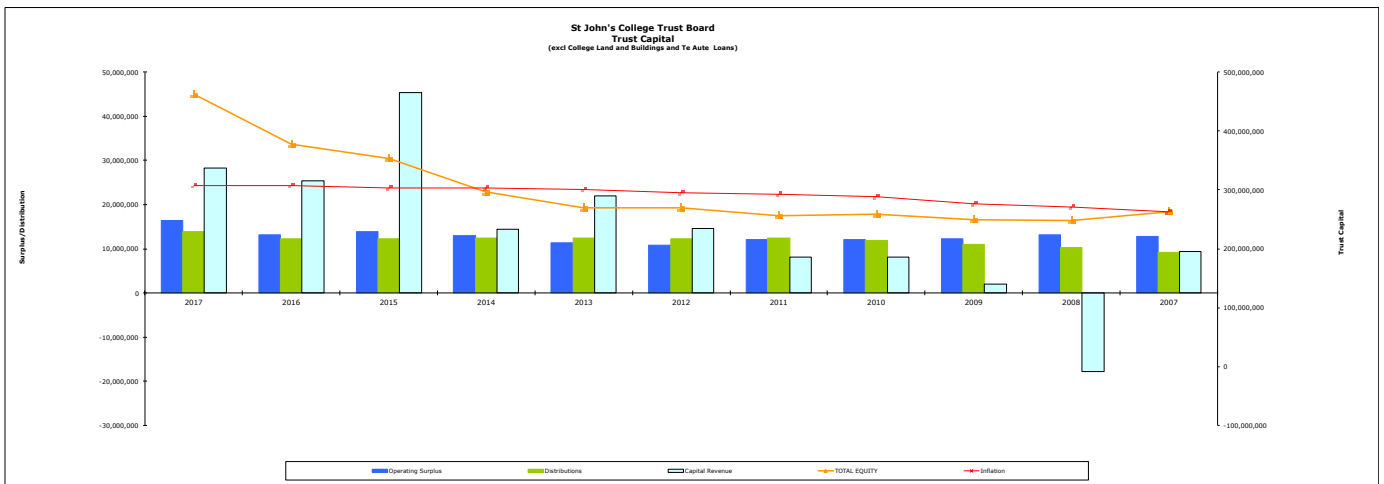
3.8 It should be noted that an independent valuation of the College site has not been undertaken since 2007 and the true market value, should it be assessed, would be significantly higher than the \$44.9 million recorded by the Trust. However, as a sale is extremely unlikely and as this asset is held for achieving the purposes of the Trust, the property will be retained in the Trust’s accounts at its book value.

3.9 Similarly, the loan facility provided to the Te Aute Trust Board during 2014 is not considered part of the Trust’s investment capital. While the value of this loan has been recorded at \$9.2 million, being the present value of the deferred repayment terms attached to this arrangement, advances totaling \$14.5 million had been made against this \$15 million facility as at 31 December 2017.

3.10 Excluding these ‘non-investment’ assets, the Trust’s Investment Capital was valued at \$409 million as at 31 December 2017, including the Income Equalisation Reserve which remains fully funded at \$14.2 million.

3.11 The result recorded in 2017 continues the trend in recent years of the Trust once again growing its capital at a rate greater than inflation, especially since 2015 when a more aggressive investment strategy was adopted to reverse the stagnation of growth that had occurred since the Global Financial Crisis in 2008.

³ Excluding the value of the College land and buildings and Te Aute loan



3.12 This strong performance has supported the desire of Trustees to continue to increase distributions in a measured and sustainable manner.

4. DISTRIBUTIONS

4.1 In accordance with the Trust’s strategy to grow the real value of distributions, the Trust distributed \$13.8 million during 2017, a 12% increase on the \$12.3 million distributed in 2016.

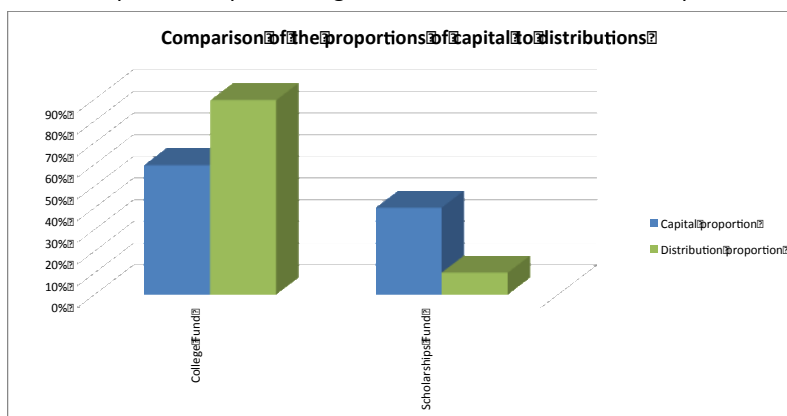
4.2 This increase included the first ‘new initiatives’ funding provided by the Trust with funding of \$739,000 of the \$2,231,000⁴ approved by Trustees having been distributed.

4.3 The Trust also made distributions for the purposes of funding the study leave of Bishops (\$114,000), training grants to newly ordained Bishops (\$75,000), emergency grants to students attending Anglican Schools (\$52,000) and a special distribution to St Michael’s Church School in Christchurch (\$250,000).

4.4 In accordance with the provisions of Canon II, Title E these distributions were made following the Trust liaising with and taking advice from Te Kotahitanga.

4.5 Included within the value of total distributions the Trust funded scholarships totaling \$1.4 million.

4.6 Trustees were pleased to see the value of scholarships being funded continue to increase. However, scholarships represent only 10% of the funding approved by the Trust despite the Scholarships Fund representing some 42% of its investment capital.



4.7 As noted at paragraph 3.4, the funding of scholarships is limited to candidates for ordination and the ordained. In addition to these categories, the Trust of course also funds scholarships for Lay members of the Church.

⁴ The funding of a number of these new initiatives is spread over three years.

- 4.8 These scholarships actually fall under the funding criteria of the College Fund and luckily provisions within the Act allow surplus income to be transferred from the Scholarship Fund to the College Fund permitting Trustees to fund these scholarships and many of the other recipients of funding.
- 4.9 As a consequence of the advice received from Te Kotahitanga and the level of scholarship funding approved by the Trust, under the provisions of section 8 of the St John's College Trusts Act 1972, surplus income of \$2.6 million was transferred from the Scholarship Fund to the College Fund to allow the funding of Lay and Group scholarships and other funding recipients.

5. THE FUTURE OUTLOOK

- 5.1 Over the last number of years the Trust has implemented a number of a number of strategies to increase the capital of the Trust to allow it to increase the real value of distributions over time. This strategy has been successful with funding levels proposed for the 2018 year increasing to 3.6% of Trust capital.
- 5.2 However, while investment markets have continued to perform strongly leading to solid increases in the value of the Trust's investment capital, Trustees remain cautious that there will inevitably be a period during which the Trust's investments do not perform so well.
- 5.3 As a consequence the ability of the Trust to match the income earned by the Trust with the current level of distributions will likely be challenged. However, as noted in this report the Trust has maintained a fully funded reserving policy that can be utilised to maintain distributions during periods of depressed investment returns.
- 5.4 As many readers will also be aware the Trust has endured a number of challenges in recent years in respect to its role in approving distributions. These challenges culminated with Trustees being the subject to a Title D complaint in 2016.
- 5.5 While this complaint was subsequently withdrawn the Trust looks forward to the resulting Commission to review the role and responsibilities of the various parties named in Canon II, Title E. Clarification of ambiguities in the Canon and resolution of potential conflicts between the Canon and the Act, the latter being the principal document under which the Trust is governed, would be of significant benefit to the whole Church.
- 5.6 The Trust and Te Kotahitanga, having together considered their respective roles, have however already embarked on a major overhaul of the process by which applications for funding are submitted, reviewed and approved.
- 5.7 As part of the changes being proposed is the ability of applicants to apply for multi-year funding, avoiding the need to reapply annually. However, in doing so more stringent evaluation processes will be implemented to review whether funding recipients are achieving the educational outcomes approved by the Trust.
- 5.8 The outcome of this overhaul is hoped to be an easier, more timely and efficient process that will allow greater transparency in the applications for funding being approved by the Trust and the evaluation of outcomes. It is hoped these new processes will be adopted in respect to applications for funding for the 2019 year.

6. THE TRUST AND ITS TRUSTEES

6.1 Trustees of the Trust are appointed by General Synod on the nomination of Tikanga ministry groups, under the provisions of Title E, Canon II.

6.2 As at 31 December 2017 the Trustees of the Board were:

| Trustee | Nominated by | Seat number |
|-------------------------------------|------------------|-------------|
| Mr Maui Tangohau | Tikanga Maori | 1 |
| The Venerable Donald Rangi | Tikanga Maori | 3 |
| The Most Reverend Philip Richardson | Tikanga Pakeha | 4 |
| Ms Moka Ritchie | Tikanga Pakeha | 5 |
| Ms Mele Tuilotolava | Tikanga Pasefika | 7 |
| Mr Joseph Halapua | Tikanga Pasefika | 8 |
| Mr Kevin Wearne | Tikanga Pasefika | 9 |

6.3 As at 31 December 2017 the Trust had two vacant seats, one due to the sad loss of The Most Reverend Brown Turei in early 2017 and the second due to the resignation of Mr Stephen Jacobi.

6.4 Stephen resigned from the Board during the year after 11 years of dedicated service to the Trust, a period marked by the capital of the Trust increasing by \$100 million, distributions more than doubling and the Trust introducing a number of new initiatives in respect to the funding of education with Aotearoa, New Zealand and Polynesia.

6.5 Subsequent to the end of the year, Trustees welcomed Rev Sue Fordyce to the Board and look forward to welcoming The Most Rev. Don Tamihere who has recently been appointed.

7. APPRECIATION AND THANKS

7.1 The Church is blessed by the size and of the St John's College Trust Board as an endowment, which provides significant funding to the Church in terms of funding its education requirements.

7.2 Given the scale of the Trust's operation, it does however represent an entity that is often involved in complex transactions, which require careful consideration and a significant time commitment by Trustees.

7.3 Trustees undertake this work on behalf of our three tikanga Church on a voluntary basis and seek the prayerful support of General Synod/Te Hinota Whanui.

7.4 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.

7.5 The partnership with and commitment of Trust Management to the success of the Trust is very evident to Trustees.

Kevin Wearne
Chairman

March 2018