

Endowment Report

30 June 2013

For an overview, features and benefits of the Benevolent Endowment, refer to page 28.

Governance

The Endowment is governed by The Endowment Investment Advisory Committee (“the Committee”) in accordance with its Charter as agreed by the Board. It is a standing advisory committee to the Board.

The purpose of the Committee is to advise the Board on the following aspects of the Endowment:

- Investment and disbursement policy
- Investment strategy
- Implementation of the investment strategy
- Reviewing the outcomes
- Evolution of policy and strategy
- Reporting on disbursements, distributions and investment performance.

Members

The Committee Members as appointed by the Board are shown with full bios on page 29 of this report.

Chairman: Bill Webster F Fin, MAICD
(Appointed March 2009).

John Bowers MCom Newcastle, A.M. Harvard University, CFA, FAICD (Appointed March 2009. Resigned 13 May 2013).

Paul Heath BCom, ASIA (Appointed March 2009).

Justin Wood PhD Fin, BCom (Hons), CFA
(Appointed July 2009).

Craig Ueland AB Ec (Stanford), MBA (Hons), CFA
(Appointed May 2013).

The Endowment structure

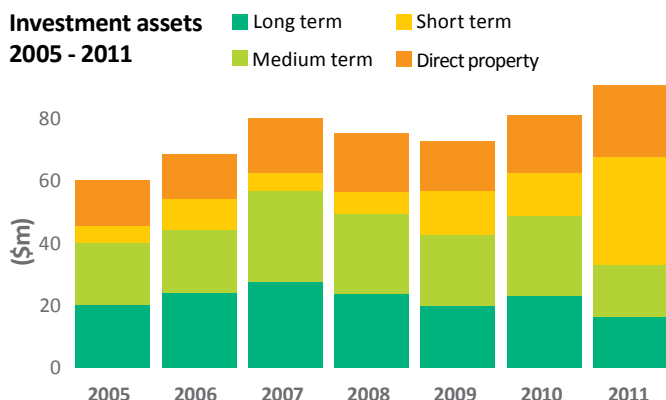
In the latter part of the 2011 financial year, after delineating which assets would be included in the Endowment and managed under advice by the Committee, the portfolio underwent a substantial restructuring where specific business and freehold property assets were separated from Endowment assets.

Previously The Benevolent Society’s investment assets were in four portfolios: short term (effectively cash), medium term, long term and freehold property. The medium and long term portfolios had separate objectives and risk profiles.

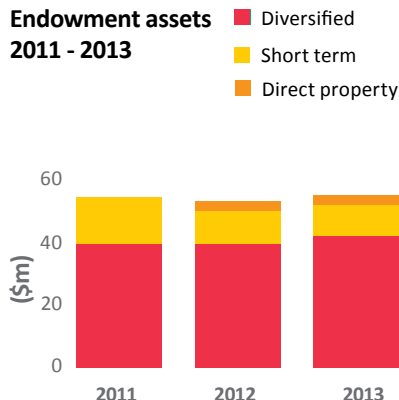
With effect from the beginning of the 2011 financial year the Endowment has been structured as a well diversified portfolio designed specifically to provide a high probability of meeting The Benevolent Society’s ongoing needs (income) and longer term needs (maintenance of capital value in real terms).

A Strategic Asset Allocation (on page 51) has been determined that will govern the shape of the portfolio. Under advice from the Committee the actual exposures may deviate from this allocation, provided rational arguments are presented to the Board. The long term Strategic Asset Allocations are subject to review annually.

Investment assets 2005 - 2011



Endowment assets 2011 - 2013



The exposures as at 30 June 2012 and 30 June 2013 were:

	Strategic Asset Allocation	Actual Allocation 2012	Actual Allocation 2013
Equities	52%	52%	52%
Domestic Equities	36%	35%	35%
International Equities (Unhedged)	8%	14%	11%
International Equities (Hedged)	8%	3%	6%
Property	20%	19%	19%
Domestic Direct Property	20%	4%	4%
Domestic Direct Property (proxy)	–	15%	15%
Bonds & cash	28%	29%	29%
Domestic Inflation Linked Bonds	15%	16%	13%
Domestic Fixed Income	8%	6%	5%
Domestic cash	5%	7%	11%
	100%	100%	100%

In order to maintain value and provide some yield, part of the property exposure has been proxied with a holding of cash and inflation linked bonds. Appropriate freehold property held by The Benevolent Society has not been available for inclusion in the Endowment. This is seen as a temporary position.

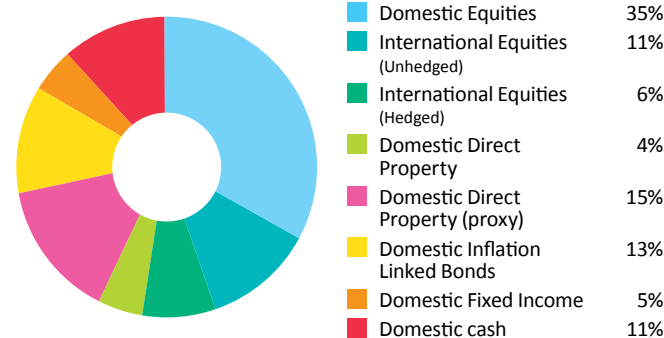
The Strategic Asset Allocation did not change over the year.

- The Strategic Asset Allocation has been designed to produce, over a 7 year time frame, a real return averaging about 3.5% p.a. with volatility close to 10%.
- A long term disbursement rate of 3.5% has been agreed for 2014 which will result in approximately \$2,000,000 for The Benevolent Society's programs (2013: \$2,000,000).

2013 performance

The Endowment assets returned 14.1% (2012: 2.6%) for the year ended 30 June 2013, which represents a real return after inflation of 11.4%. The expected long term real return for the Endowment is 3.5% p.a. The graphs on page 52 show total Benevolent Society returns over the 7 years to 2013. Prior to 2011 the portfolio included business assets used for operating its programs.

Actual allocation can be further represented as:



Current Strategy

Investors continue to face significant uncertainty, whether relating to future economic growth, the financial stability of a number of countries, the future direction of interest rates or volatile currencies. In such circumstances the Committee is of the view that it is prudent for the Endowment's portfolio to be well diversified with exposures limited to high quality assets and managed with investment expertise. It is more important to focus on conditions and risks that may evolve over the next 3-5 years than on the immediate future. The structure and investment exposures of the Endowment reflect this view and the Committee will continue to recommend changes to exposures accordingly.

During the year the Committee met with the Endowment's investment managers and made some changes to mandates and the portfolio structure based on the information gathered. At the start of the year the Endowment had a tactical tilt in its international equity holdings towards an unhedged versus hedged exposure. This reflected a concern that the risk of a decline in the Australian dollar exchange rate outweighed the risk of further appreciation over the longer term. Following a fall in the exchange rate over the year, the tilt has been reduced but not yet eliminated.

Mid-way through the year, the Endowment replaced an enhanced yield strategy in Australian equities with an index strategy. While high yield strategies have continued to perform throughout the year, the change reflects a concern about the risk of such strategies should economic conditions deteriorate.

Finally, the Endowment has continued to hold a tactical tilt towards short-term bank deposits rather than traditional bond funds to reduce duration risk and take advantage of the premiums banks have been willing to pay to increase their domestic sources of funding.

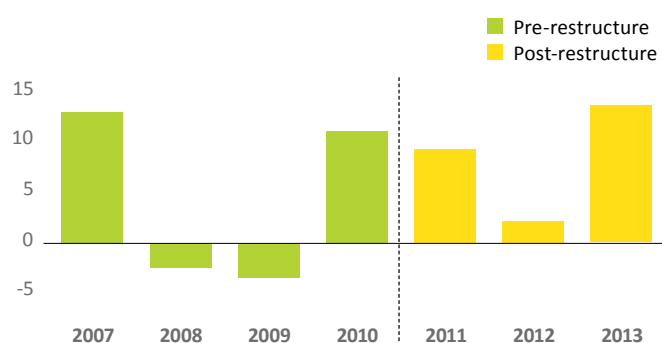
The Committee recognises that it is likely that there will be years in which the Endowment's investment returns will fall short of the long term objective, but believes its diversified approach and the risk reducing tactical positions adopted increases the probability of achieving the long term objective. After adjusting for inflation, the real return achieved over the seven years to June 2013 has been 3.4% p.a., which is in line with the Endowment's expected real return of 3.5% p.a. over the next seven years.

Investment Managers

The Committee appoints investment managers to manage the Endowment's investments. As at 30 June 2013 the following managers invested funds on behalf of the Endowment:

	2013	2012
Antares Fixed Income	18%	20%
ANZ Trustees Limited	21%	20%
MLC Investments Limited	17%	4%
Russell Investment Management Limited	5%	35%
BlackRock Investment Management (Australia) Limited	15%	–
Cash deposits and direct property are managed by The Benevolent Society.	24%	21%
	100%	100%

Total returns (%)



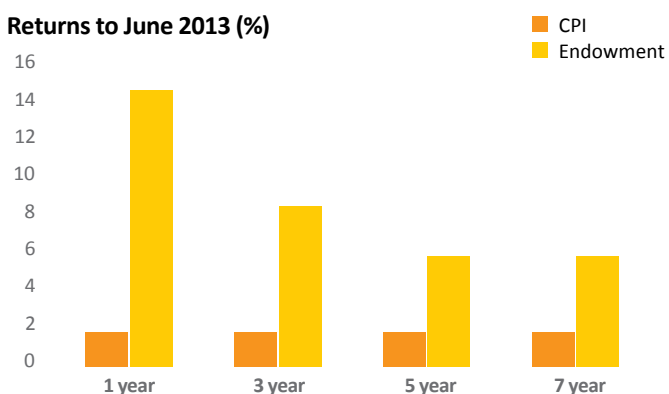
How we spent these funds

During the 2013 financial year The Benevolent Society Endowment provided funding of \$1,963,000 to support our wider innovation strategy and provided the resources to enhance and support specific initiatives that had been identified and part funded by donors. We invested in the following initiatives:

Social Benefit Bonds

Development of the Social Benefit Bond project is an important initiative between the NSW Government, The Benevolent Society and our consortium partners, Westpac and Commonwealth Bank. The consortium has established an intensive family support service funded by a social benefit bond. The service offers support to families whose children are at risk of being placed in out-of-home care. The consortium will mobilise sources of private capital to fund the service by the issue of a social benefit bond. Social Benefit Bonds are financial instruments that pay a return based upon the performance of a service provider (in this case The Benevolent Society) in addressing a social problem. Development of social benefit bonds has two benefits for The Benevolent Society and the wider charity sector. First it provides access to a substantial pool of risk capital that has been difficult to access for such innovations. Second it provides a model to move evaluation of the sector towards outcomes that have a direct benefit for people in need rather than simple output measures.

Returns to June 2013 (%)



Growing Communities Together (including Taste Food Tours)

For some time we have worked with the Bankstown community to develop community projects to bridge cultural and generational gaps, improve employment pathways and empower residents to get more involved locally.

Taste Tours uses food to break down the stereotypes and builds community pride. Originating in Bankstown, Taste Tours now operates in 17 different communities. All tours are led by local guides who share their stories of food, culture and place.

Family Health & Mother-Baby Hub

This initiative provides a new model of wellbeing centre for families which combines a comprehensive range of GP and midwife-led health and community services, all located under one roof in Strathpine, Queensland.

Service Delivery Management System

We believe that our employees providing important social services deserve the best support. Systematic collection of high quality data is central to our program delivery and development. In order to ensure that we continue to be a leader in technological advances in the Community Services sector, the Endowment has enabled us to make further investments in our IT and case management systems.

We are implementing a new Service Delivery Management System, which will integrate all data collection systems resulting in a more comprehensive picture in relation to the outcomes of our services. This will strengthen service planning, reporting and the identification of key issues for clients.

National influence

Influencing social change through research, evaluation, social policy development and advocacy is an important part of The Benevolent Society. Throughout our history we have advocated for change. The contribution from the Endowment has allowed The Benevolent Society to engage in advocacy that could not be supported from funds directly tied to existing projects. This advocacy is not built around access to additional funding for our organisation but rather to advocate for new initiatives that might be undertaken directly by government or where appropriate, the non-government sector. This continues our 200 year tradition of developing and promoting social support in response to changes in the needs of society.

During the year we continued building social policy in the area of early intervention, advocated for policy reform in relation to the assistance available to vulnerable families seeking

employment and continued developing best practice in evaluation in the non-government sector.

The ability to fund initiatives such as these (especially with other organisations) requires patient capital (and the awareness that results are not immediate) and involves the development of knowledge and infrastructure that is notoriously hard to fund through annual donations.

Future plans

- We propose to use disbursements from the Endowment strategically to invest with other donors since we recognise social initiatives are more powerful when undertaken alongside like-minded donors.
- We will continue to provide a long term investment vehicle for donors.
- We will focus on funding new initiatives that have the capacity to introduce lasting social change.

The Endowment assets and income are included in the Balance Sheet and Statement of Income and Comprehensive Income (see Note 22 for more details).

Statement of Income and Comprehensive Income

For the year ended 30 June 2013

	Notes	2013 \$'000	2012 \$'000
Revenue from continuing operations	4	91,960	81,748
Total revenue from continuing operations	4	91,960	81,748
Expenses			
Community program expenses		(85,303)	(76,318)
Fundraising and communications expenses		(1,811)	(1,221)
Social initiatives expenses		(1,684)	(1,577)
Infrastructure and investment expenses		(1,922)	(1,315)
Total expenses from continuing operations	5(a)	(90,720)	(80,431)
Surplus before income tax		1,240	1,317
Income tax expense	1(c)	–	–
Surplus from continuing operations		1,240	1,317
Surplus from discontinued operations	6(b)	–	1,788
Surplus for the year		1,240	3,105
Other comprehensive income			
Changes in the fair value of available-for-sale financial assets	15(a)	5,019	(690)
Realised gains on disposal of available-for-sale financial assets	15(a)	(1,912)	(64)
Income tax relating to components of other comprehensive income		–	–
Other comprehensive income for the year, net of tax		3,107	(754)
Total comprehensive income for the year		4,347	2,351

The above Statement of Income and Comprehensive Income should be read in conjunction with the accompanying notes.

Balance Sheet

As at 30 June 2013

	Notes	2013 \$'000	2012 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	7	27,507	25,224
Trade and other receivables	8	3,006	2,213
Total current assets		30,513	27,437
Non-current assets			
Receivables	9	7,016	6,695
Available-for-sale financial assets	10	42,822	40,321
Held-to-maturity investments	11	100	—
Property, plant and equipment	12	36,937	35,753
Total non-current assets		86,875	82,769
Total assets		117,388	110,206
LIABILITIES			
Current liabilities			
Trade and other payables	13	20,358	17,608
Resident contributions		478	540
Total current liabilities		20,836	18,148
Non-current liabilities			
Provisions	14	1,154	1,007
Total non-current liabilities		1,154	1,007
Total liabilities		21,990	19,155
Net assets		95,398	91,051
THE BENEVOLENT SOCIETY FUNDS			
Available-for-sale financial assets reserve	15(a)	2,691	(416)
Restricted grants reserve	15(b)	274	274
Retained surplus	15(c)	92,433	91,193
Total funds		95,398	91,051

The above Balance Sheet should be read in conjunction with the accompanying notes.