Anglicanfunds
GRAFTON DIOCESE

To be the trusted financial services provider of the Diocese of Grafton, enabling ministry growth.

ANGLICAN FUNDS GRAFTON DIOCESE
SPECIAL BOARD MEETING
Wednesday 17th April 2019
AGENDA

1. **9.30am** - Opening Prayer

2. Confirm attendees and apologies

3. Conflict of Interest Declarations
   Current standing register of interests:
   - Bishop Murray Harvey – various Diocesan boards and committees
   - David Ford – Chair of Bishop Druitt College Council; member of Bishop-in-Council
   - Ted Clarke – Agreement with Clarence Valley Anglican School
   - Chris Nelson – involved on various Diocesan boards and committees

4. Business
   Consideration of Strategic Options
   a) Analysis of 4 options by TNR – discussion of report
   b) Possible extra option as per 11 March email from Blaine Fitzgerald
   c) Next steps?
      i. Options excluded
      ii. Options for further investigation
      iii. Feedback to Corporate Trustees
      iv. Feedback to AFSA

5. Next meeting scheduled for 23 May 2019 and includes joint meeting with Corporate Trustees and Auditor.

6. Meeting close

Strategic Options

Please find attached the Strategic Option paper from July 2018.

TNR were commissioned to conduct a financial analysis that compared 4 possible options for AFGD.
Option A Current arrangement
Option B Current arrangement with AFSA services
Option C Treasury model
Option D Wind up

The TNR report follows.

The following papers relate to an email discussion between David Ford and Blaine Fitzgerald. Those discussions seem to have brought back to life the type of proposal that David Ford and Chris Nelson took to Adelaide for consideration in September 2018.

A copy of the email is followed by discussion points on this "option".

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AFGD Strategic Options

Introduction

There have been a number of recent events that have prompted a reconsideration of AFGD's Strategic Direction.

These recent events have come after a sustained period of a market with lower interest rates and modest profitability. During that period the reputation of GDIF/AFGD has been rebuilt and in general terms the organisation has had increased financial stability.

Despite the good work in rebuilding the GDIF/AFGD brand, the levels of profitability have been insufficient to both make contributions to the Diocesan budget and to address the capital adequacy of the fund. At current trends, Capital Adequacy will not achieve the benchmark level for at least 5 years and the fund will lack the strength to withstand defaults or a sudden outflow of funds.

Recently, a number of events have prompted a review of strategic direction especially with regard to range of services and structure of delivery. These include:

- Increased concern of the Diocesan schools with regard to s83C of the Education Act and the pricing of loans and deposits leading to tighter margins in school business;
- Withdrawal from negotiations with Melbourne Securities Corporation regarding a vehicle for retail investors;
- Resignation of Blaine Fitzgerald as Fund Manager;
- Exit of retail non-associate investors in compliance with ASIC guidelines (plus seemingly increasing difficulties in dealing with ASIC);
- Comments made in Audit Committee about lack of real return for Corporate Trustee funds in AFGD; and
- Corporate Trustees starting a program of greater diversity of its investments which has the consequence of reducing deposits in AFGD.

With AFGD Board agreement:

- The Chair and Registrar visited both Diocese of Brisbane and Diocese of Sydney to understand their Treasury operations;
- Mr Clive Mason provided some on site assistance and gave a report reflecting on his time on site; and
- Initiatives for a closer working relationship among DIFs across the Anglican Church of Australia are being monitored.

2017 Financial Audit

The audited financial accounts that despite a reported AFGD profit of $31,458 and a contribution to the Diocese of Grafton of $150,000, the net contribution to the overall position of the Corporate Trustees was only about $125,000.

On the basis that the Corporate Trustees and parishes forego potential returns to support AFGD, the value return is disappointing.

It is assumed that apparent from unusual expenses in 2017, the low value add is largely due to the cost structure of AFGD.

Diocese of Brisbane Treasury

On 14 May 2018, David Ford and Chris Nelson met with David Burton of the Diocese of Brisbane to discuss the changes made by Brisbane to their Anfin operations.

The Diocese of Brisbane made significant changes in 2015 because of:

- Requirements for lenders;
- Forward projections;
- Accounts held by individuals totalled $10M and was trending downward;
- Becoming responsible for Anglicare treasury management;
- A number of strategic projects in the Diocese;
- No demand for retail;
- Heightened probability of increased regulation for a small proportion of funds base;
- Retail investors created more work than value (e.g. relationship management)

Change away from retail meant 1-2 FTE staff reduction.

Anfin still conducting personal transactional banking for parishes but are migrating parishes to Anfin on-line.

Anfin now holds $290M. 98% are 'internal' funds.

Anfin conducts treasury for Diocese, Anglicare and 14 Diocesan-owned schools
- Obtain a weekly cashflow forecast from each school and Anglicare on a quarterly basis
- Have sufficient liquidity and historical analysis for parish cashflows
- 5 year project horizon
- Manage Anglicare accounts payable and accounts receivable
- On basis of cash needs Anfin invests remainder of funds
- When schools need cash funds are transferred to schools CBA account (as low as $50,000 per week)
- Rates are published but in practice Anfin targets a 1.7% margin
- Loans set at 2.5% over bank bills (unsecured) [these are within market rates and subject to board review]

The change away from retail to the current model has improved Anfin's profitability by $2.5M.

Currently, Anfin have 3.2FTE managing the $290M fund (2 customer service, 1 insurance manager, and David Burton (Anfin management and treasury at 20% FTE).

DataAction is used as their banking and accounting platform to track accounts.

Diocese of Brisbane has a Financial Services Commission and this has replaced the Anfin board.

Anfin recognises the potential to follow a model where all participants share the ups and downs of the investments and the treasury function takes a percentage fee for service. That change is not yet on the agenda.

Anfin's focus is Brisbane Diocese only and not looking to expand geographic area.

Diocese of Sydney Treasury
On 5 June 2018, David Ford and Chris Nelson met with Robert Wicks (CEO Diocesan and Corporate Services) and Isaac Kuruvilla (Head of Investments) of the Diocese of Sydney to discuss the changes made by Sydney to their investment fund operations.

AFGD Strategic Options

Sydney decided to exit the 'full service' investment fund because of:

- Tightening terms; and
- Tightening regulatory environment.

About 2 years ago, Sydney closed down the retail structure of the Diocesan Cash Investment Fund (DCIF). At the time the DCIF had $25M of retail funds of $130M funds under management and only one school loan in place. (Note: The structure of the schools of the Diocese of Sydney enable most schools to finance within the Schools Corporation.)

The DCIF now holds funds of affiliates, mainly:

- Church property trust
- See Endowment
- Glebe administration
- St Andrew's House

The DCIF is

- open to parishes and schools
- a scale business
- not operating term accounts
- split into investment and 'at call'
- invests in the Mercer Cash Fund (managed by Challenger)
- has no other investments (risk avoidance)
- generating a net return of approx. 1.5%
- maintains sufficient liquidity to balance demands

The Public Documents for the DCIF can be found at https://www.sds.asn.au/glebe-administration-board-0

Clive Mason Observations
For 2 weeks in May 2018, AFGD was assisted by Clive Mason who had recent relevant experience in the church NFP finance industry. Clive's overall observations that AFGD are meeting 'declared goals' with the exception of 'regulatory compliance' and noted that the task of meeting compliance is urgent.

Clive also noted that AFGD at that time has a 'void of proficiency managing the "high value" clients'. This situation continues with the AFGD Manager position remaining vacant.

Clive's other key concern is that 'the document resources are dated and in pressing need of attention.'

Clive's recommendations were:

- Increase staff numbers in order to meet compliance deadlines (Note: Staff are reporting good progress toward compliance without increased staff numbers)
- Alter staffing structure in order to fill skill gaps
- Rewrite of Procedures Manual to include all AFGD operations
- Review and update Board Protocols manual
- Seek IT expertise's opinion on the vulnerability of hacker infiltration into the Data Action network from the Diocese office network
- Update forms and documents in line with compliance requirement
- The 'float' account should be moved to an interest bearing account with interest accruing daily

- Resolve the inefficiencies around "End of Year" rollover
- Investigate business models in greater detail
- Give support to current staff

With respect to business models, the following were discussed in Clive's report:
- Current business model with addition of Relationship Manager (probably part-time)
- Treasury Model
- Treasury approach to generate new investments
- Wind-up

Clive's report discusses some of the strengths and weaknesses of each model but does not make any recommendation on a preferred way forward.

National initiatives
Arising out of discussions in the Anglican Church of Australia's Registrars' Conference held in Perth in November 2017, there have been some discussions facilitated by the Diocese of Adelaide as to possibilities for Dioceses and Diocesan DIFs to work closer together.

The first meeting of interested parties was held on 22 March 2018 In Adelaide. The meeting noted that a previous attempt at a nationwide fund failed because of local differences so this series of discussions would focus on beneficial cooperation. Possible areas of cooperation were listed as:
- Contracts
- Governance
- Systems
- Financial performance/purchasing power
- Networking/communications
- New product information

The next meeting has been set for 23-24 August 2018.

Summary
The above reports point to the lack of continued viability for the current operating model for AFGD and that other options need consideration. The balance of this paper is the description of several options and discussion of their strengths and weaknesses. Recommendations for next steps are offered.

AFGD Strategic Options

MAJOR OPTIONS

Option A. Current arrangements

AFGD customer service structure with parishes, schools, agencies and retail associated investors lending mainly to schools and diocesan agencies. Organisation includes an AFGD Manager and up to 1.5 customer service staff. Customer service includes business hours counter and telephone service plus banking portal.

Strengths	**Weaknesses**
• Allows Diocese to use deposits to service borrowings • Creates ability to borrow when banks won't lend • Makes a financial contribution to the Diocese • Leverages AFSA structure • Allows personalised assistance to parishes for transactional banking	• Returns small compared with costs (staffing, computer systems) • Significant risk exposure (retail clients, loan concentration, deposit-loan mismatch) • Further system development required • Siphons value to make 'profit' (especially from Corporate Trustees) • Structural weakness (segregation of duties) giving exposure to fraud • Declining retail customer base
Opportunities	**Threats**
• Most opportunities are covered by other strategic options • Business from other Anglican dioceses	• Further regulation from ASIC or APRA • Section 83C of Education Act creating restrictions • Schools borrowing needs outstripping AFGD capacity (beyond pari passu arrangements) • Decline in deposits (Professional Standards redress, parishes using up funds) • Cyber attack • Key person risk

Comments

Naturally, the status quo normally means the least work but as pointed out by Clive Mason and the auditors there needs to be an investment in documentation and IT systems. There is also the need to recruit a suitable lead person for AFGD. The wisdom of this is questionable because of the current low returns, unmitigated risks and a tightening regulatory/business environment.

Option B. AFGD without individual customers

AFGD customer service structure with parishes, schools and agencies (but no individual investors) lending mainly to schools and diocesan agencies. Organisation includes an AFGD Manager and customer service staff (number TBD). Customer service includes (reduced?) business hours counter and telephone service plus banking portal.

AFGD Strategic Options

Strengths	Weaknesses
• Allows Diocese to use deposits to service borrowings • Creates ability to borrow when banks won't lend • Makes a financial contribution to the Diocese • Leverages AFSA structure • Allows personalised assistance to parishes for transactional banking • Operate without ASIC or APRA intervention	• Reduced Funds under Management • Returns small compared with costs (staffing, computer systems) • Significant risk exposure (loan concentration, deposit-loan mismatch) • Further system development required • Siphons value to make 'profit' (especially from Corporate Trustees) • Structural weakness (segregation of duties) giving exposure to fraud but less exposure than if retail included
Opportunities	**Threats**
• Most opportunities are covered by other strategic options • Non-retail business from other Anglican Dioceses	• Section 83C of Education Act creating restrictions • Schools borrowing needs outstripping AFGD capacity (beyond pari passu arrangements) • Decline in deposits (Professional Standards redress, parishes using up funds) • Cyber attack • Key person risk

<u>Comments</u>
This option will relieve regulatory pressures and give the opportunity to reduce the customer service infrastructure however does this mean that the service model leans on too few customers to be profitable. This change would not eliminate the need to investment in improvements to documentation and IT systems and to recruit a suitable lead person for AFGD.

Option C. AFGD under another Anglican Development Investment Fund

An arrangement is created with another Anglican DIF to take over the AFGD business space (possibly retaining the AFGD brand) where the Anglican DIF operates the fund in our region and provides a share of returns. Local staff person for continued customer service in the first two years of changed operation.

Strengths	Weaknesses
• Allows total funds of DIF to be used to service borrowings • Maintains ability to borrow when banks won't lend • Provides a financial contribution to the Diocese • Leverages a larger structure	• Less local identification with new DIF • Reliant on good management of DIF • New DIF may be less sympathetic to needs of Diocese and its parishes and agencies

• Personalised assistance to parishes for transactional banking (for at least 2 years) • Governance oversight requirements reduced for Grafton Diocese • Management, risk management and development responsibilities transferred and probably reduced for Grafton Diocese	
Opportunities • No locking in of Corporate Trustees and other diocesan deposits. Greater opportunity for investments • Increased capacity could unlock other opportunities	**Threats** • Further regulation from ASIC or APRA • Section 83C of Education Act creating restrictions • New arrangement may threaten pari passu arrangements

Comments
This would require the identification of a suitable partner for this venture with Newcastle, Canberra, Adelaide and Melbourne being the most likely. This model would be most profitable where there is no customer service presence locally in the Diocese of Grafton except visits by a relationship manager from time to time. The AFGD Board would be disbanded.

Financial return to the Diocese of Grafton should be a share of return according to percentage of Funds Under Management contributed from the Grafton Diocese. The operating diocese would get a higher portion of the financial returns to compensate for their bearing of risk and management responsibilities.

The Diocese of Grafton would have to release its parishes and agencies from the obligation to use the Fund in recognition that it is no longer a Grafton fund. This may be a disincentive for the other diocese to take on this venture. Alternatively, it may be possible to maintain the obligation on Grafton parishes and agencies on a transitional basis.

This change will increase the potential seriousness of security for loans as it would make the possibility of foreclosure more likely. It could also lead to a request for the Corporate Trustees to guarantee loans.

The quality of all current loans would be scrutinised during any due diligence exercise. This could mean an attempt to exclude some lower quality loans (e.g. CVAS loan).

Option D. Formation of a national Anglican Development Investment Fund

All (or a significant number) of Dioceses of the Anglican Church of Australia by agreement create a new AFSL licenced DIF that operates across all Dioceses (where the agreement is in place). Each Diocese participates as a shareholder. Possibility of a local staff person for continued local customer service (at least in the initial years of the new operation).

AFGD Strategic Options

Strengths	**Weaknesses**
• National DIF will have greater resources, capability and efficiencies • National DIF should be understanding of and sympathetic of church projects • National DIF should be AFSL licensed • Expect a dividend for the Diocese • Governance oversight requirements reduced for Grafton Diocese • Management, risk management and development responsibilities transferred and dramatically reduced for Grafton Diocese	• Less local identification with national DIF • Reliant on good management of national DIF • National DIF may be less sympathetic to needs of our Diocese and its parishes and agencies • National DIF will find personalised service a challenge
Opportunities	**Threats**
• No locking in of Corporate Trustees and other diocesan deposits. Greater opportunity for investments • Increased capacity could unlock other opportunities	• Ability to demand agency participation is in doubt • New arrangement may threaten pari passu arrangements

Comments
The formation of a national investment fund seems unlikely and if it were to happen would take at least 18 months to achieve. Any national fund would more likely be a semi-national fund (i.e. a collection of interested DIFs) but this would not significantly affect the likelihood or timing.

Similar to the previous option, this model would be most profitable where there is no customer service presence locally in the Diocese of Grafton except visits by a relationship manager from time to time.

The AFGD Board would be disbanded.

Financial return to the Diocese of Grafton would be as per the agreement that forms the new investment fund but should provide a financial return according to percentage of Funds Under Management contributed from the Grafton Diocese. The operating diocese would get a higher portion of the financial returns to compensate for their bearing of risk and management responsibilities.

The Diocese of Grafton would have to release its parishes and agencies from the obligation to use the Fund in recognition that it is no longer a Grafton fund.

This change will increase the potential seriousness of security for loans as it would make the possibility of foreclosure more likely. It could also lead to a request for the Corporate Trustees to guarantee loans.

The quality of all current loans would be scrutinised during any due diligence exercise. This could mean an attempt to exclude some lower quality loans (e.g. CVAS loan).

AFGD Strategic Options

Option E. AFGD to adopt a Treasury model

AFGD to become a consolidator of investment funds of the Diocese, parishes, schools and agencies placing those funds on investment (including some loans to parishes, schools, agencies) to achieve the best return and use of funds for bodies. No retail or high transaction operations. No counter operation. Staffing to be Treasury Officer to maximum of 0.5.

Strengths	**Weaknesses**
• Allows Diocese to use deposits to service borrowings • Maintains ability to borrow when banks won't lend • Makes a financial contribution to the Diocese on a service fee • Lower risk model • Lower infrastructure model • Adds treasury and investment skills to Diocesan finance team • Not an ASIC or APRA regulated space	• Requires close and trustworthy relationship with schools, parishes and agencies on cashflow forecasts • Recruitment and new processes to be developed
Opportunities	**Threats**
• Provide Treasury for other small dioceses	• Section 83C of Education Act would need to be navigated • Pari passu arrangements may need some • Schools borrowing needs outstripping loan capacity (beyond pari passu arrangements)

<u>Comments</u>

The Treasury model should generate good returns for lower risk and should increase the investment returns for the participating parishes and organisations. It will rely heavily on the 'buy in' from other organisations in that the willingness to plan and share cashflow needs is integral to the success of the model. There will be claims from some organisations that they are better placed to handle treasury and investments than the Diocese.

Transition from the current model of operation to a treasury model would need to be carefully planned and executed taking into account:

- Change of Ordinance
- Communication with all stakeholders
- Maintaining capital adequacy and liquidity
- Managing retail and small customers out
- Seek alternatives for Parish Provider and migrate users
- Retained customers setting up transactional banking arrangements
- Withdrawal from AFSA and DataAction arrangements
- Liaison with Westpac about pari passu arrangements and determine the impact
- Balance the loan holdings within the capacity of the treasury funds (and seek a home for some loans, if necessary)
- Development of the procedures for treasury function
- Recruiting skills to conduct the treasury and investment work
- Redeployment/redundancy of current staff

The AFGD Board would be disbanded upon practical completion.

Option F. Wind up of AFGD

Planned closure of AFGD.

Reasons • Insufficient return in AFGD model • Insufficient benefits to Diocese in maintaining AFGD • Efforts in maintaining AFGD (governance and management) • AFGD facing investment in procedures, systems and staff • Risks involved in AFGD model • Avoid dealing with an increasing regulatory environment
Challenges • Finding new arrangements for loans held by AFGD • Matching the release of loans and the loss of deposits • Staff redundancies • Obtaining loans if banks tighten their lending

<u>Comments</u>

A controlled wind-up of AFGD is a consideration and may be a net positive if those investing in AFGD can get better outcomes elsewhere.

A wind-up would need to be carefully planned and executed taking into account:

- Communication with all stakeholders
- Maintaining capital adequacy and liquidity
- Managing a staged exit of investors/customers/borrowers
- Withdrawal from AFSA and DataAction arrangements
- Liaison with Westpac about pari passu arrangements
- Seek a new home(s) for loans
- Seek alternatives for Parish Provider and migrate users
- Redeployment/redundancy of current staff

The AFGD Board would be disbanded upon practical completion.

Consideration of Options

On the basis that the status quo is not truly viable, the following options are the most attractive (in order):
Option E. AFGD to adopt a Treasury model
Option C. AFGD under another Anglican Development Investment Fund
Option F. Wind up of AFGD

This selection and order was based on the ongoing viability of the option (once established) relative to the risk exposure.

AFGD Strategic Options

Recommendations

It is recommended that:

1. AFGD seek the services of an accountancy firm to undertake a financial assessment of options E, C and F versus the current operations; and
2. Discreet enquiries be made of various Anglican Diocesan Investment Funds to ascertain interest in participation in option C and the likely terms of that arrangement.

Chris Nelson
Registrar/General Manager
Anglican Diocese of Grafton

3 July 2018

Report to the Anglican Funds Grafton Diocese

Financial Modelling of Strategic Options

Thomas Noble & Russell

Accountants | Auditors | Business Advisers

ISSUED: 10 April 2019

www.tnr.com.au

Thomas Noble & Russell

Accountants | Auditors | Business Advisers

Table of Contents

Thomas Noble & Russell

Accountants | Auditors | Business Advisers

Executive Summary

Anglican Funds Grafton Diocese ("AFGD" or "the Client") has engaged Thomas Noble and Russell to prepare a financial analysis of the following 4 strategic options:

Option A: Maintain the current arrangement with the addition of a fund manager.

Option B: Maintain the current arrangement with additional expanded service agreement from Anglican Funds South Australia ("AFSA")

Option C: Treasury Model

Option D: Wind Down

These four options are being considered due to:

- Increasing restrictions resulting from changes in exemptions under the *Banking Act 1959 (Cwlth)*
- Sustained periods of low interest rates
- Low returns for the Corporate Trustee Funds invested with AFGD

The board has acknowledged the maximising returns for the Corporate Trustees and parishes is key.

The table below compares the figures projected from a 12 month period for Option A, Option B and Option C:

Account Name	**Option A** **$**	**Option B** **$**	**Option C** **$**
Income			
Total Income	**1,464,876**	**1,607,733**	**973,773**
Cost Of Sales			
Interest Paid to Investors	747,037	747,037	583,593
Total Cost Of Sales	747,037	747,037	583,593
Gross Profit	**717,839**	**860,696**	**390,180**
Expenses			
Total Expenses	498,361	391,456	153,038
Surplus Profit for Distribution	**219,478**	**469,240**	**237,142**

Entity Returns

Projected returns for AFGD, the Corporate Trustees and Diocese of Grafton is summarised in the table below:

Entity	Option A Return $	Option B Return $	Option C Return $	Option D Return $
AFGD	44,478	294,240	62,142	-
Corporate Trustees	292,151	628,151	490,779	490,779
Less: 25% to ADoG	(73,038)	(157,038)	(122,695)	(122,695)
Total Corporate Trustees	219,114	471,114	368,084	368,084
Diocese of Grafton	175,000	175,000	175,000	-
Add: 25% from Corporate Trustees	73,038	157,038	122,695	122,695
Total Diocese of Grafton	248,038	332,038	297,695	122,695
Combined	**511,629**	**1,097,391**	**727,921**	**490,779**

- AFGD return based on surplus available after contribution to Grafton Diocese.
- Contribution to Diocese of Grafton estimated at 2018 actual of $175,000.
- Assumed approximately 25% of the Corporate Trustees returns relate to funds held on behalf of the Diocese of Grafton, shown as an adjustment above.
- Corporate Trustees returns calculated as follows:
  - Option A: Maintaining the current status and returns
    - Type A Funds - $572,666 returning 1.5% = $8,590
    - Type B Funds - $10,906,205 returning 2.6% = $283,561
  - Option B: Participation in the AFSA Endowment fund will provide an additional benefit over Option A. This is a direct result of the $8m returning 5% plus 1.8% CPI compared to 4.5% on an open market
    - Type A Funds - $572,666 returning 1.5% = $8,590
    - Type B Funds - $2,906,205 returning 2.6% = $75,561
    - Funds with AFSA - $8,000,000 returning 5% + CPI @1.8% = $544,000
  - Option C: Treasury role provides the opportunity for investment in the open market. Open market returns calculated using 4.5%
    - Type A Funds - $Nil
    - Type B Funds - $10,906,205 returning 4.5% = $490,779
  - Option D: Opportunity for investment in the open market. Open market returns calculated using 4.5%
    - $10,906,205 returning 4.5% = $490,779

The table below displays any additional benefits compared to maintaining the current arrangement of Option A:

Entity	Additional Benefits of Option B v Option A $	Additional Benefits of Option C v Option A $	Additional Benefits of Option D v Option A $
AFGD	249,762	17,664	(44,478)
Corporate Trustees	336,000	198,628	198,628
Less: 25% to ADoG	(84,000)	(49,657)	(49,657)
Total Corporate Trustees	252,000	148,971	148,971
Diocese of Grafton	-	-	(175,000)
Add: 25% from Corporate Trustees	84,000	49,657	49,657
Total Diocese of Grafton	84,000	49,657	(125,343)
Combined	**585,762**	**216,292**	**(20,850)**

- Of the $585,762 combined benefit of Option B v Option A above, $184,000 is the direct result of the 2.3% additional margin on $8m

Capital Adequacy

Asset	Option A $	Option B $	Option C $
Loans	20,392,036	20,392,036	-
Investments	7,415,286	-	20,371,822
AFSA Endowment Fund	-	7,415,286	-
Cash	3,089,702	3,089,702	3,595,027
Total	30,897,024	30,897,024	23,966,849
Capital Adequacy	7.42%	7.42%	13.58%

1. Instructions

1.1 Anglican Funds Grafton Diocese ("AFGD") has engaged Thomas Noble & Russell to prepare a financial analysis of the following 4 strategic options that are being considered by AFGD based upon assumptions and parameters provided by AFGD.

1.2 Option A comprise maintaining the current arrangements. The model is to draft a 5 year budget with a path of improving AFGD's capital adequacy over a 3 year time frame;

1.3 Option B comprises a continuance of the current structure with additional services provided by AFSA;

1.4 Option C comprises a funds management model whereby AFGD manages the excess cash needs of various entities. Existing loans and advances would be absorbed within the portfolio and eventually paid out.

1.5 Option D comprises a "wind up" model. At this stage a "map" of how to proceed down this path would need to be developed after Options A, B and C are considered. Consideration of the potential impact of the finances of the Anglican Diocese of Grafton and the Corporate Trustees of the Diocese of Grafton over the review period will be important.

2. Disclosure of Other Services

We note that Thomas Noble & Russell acts as auditor for AFGD. AFGD acknowledges that we provide this other service, and have agreed for Thomas Noble & Russell to perform the engagement.

3. Sources of Information

We have reviewed and relied upon the following sources of information:

- 2017 Financial Statements for AFGD
- 2018 Draft Financial Statements for AFGD
- Letter of Offer from David Ford of AFSA including expanded Service Agreement from AFSA
- Emails from Chris Nelson
- Telephone conversations with Chris Nelson
- Confidential paper summarising AFGD Strategic Options
- Ord Minnett Portfolio Valuation as at 31 December 2018
- Summary of Estimated Income Yields for 2019

Thomas Noble & Russell

Accountants | Auditors | Business Advisers

4. Analysis of Options A, B & C

Option A: Maintain Current Arrangements

Under this option the current operations continue with parishes, schools and associated retail investors. Customer service levels will remain with counter service during business hours, telephone service and a business banking portal. Refer to Appendix A for assumptions

Account No.	Account Name	Year 1 $	Year 2 $	Year 3 $	Year 4 $	Year 5 $
4-0000	Income					
4-1012	Interest Recd - AFSA	6,931	7,056	7,183	7,312	7,444
4-1013	Interest Recd - Melb CF7963	80,673	82,125	83,604	85,109	86,640
4-1014	Interest Recd - WBC	25,090	25,542	26,002	26,470	26,946
4-1020	Overdraft/LOC INT INC	187,175	190,544	193,974	197,466	201,020
4-1021	Interest Only Loans INT INC	247,383	251,836	256,369	260,984	265,681
4-1022	Princ & Int Loans INT INC	422,005	429,601	437,334	445,206	453,220
4-1055	Ord Min List Interest Income	120,513	122,682	124,891	127,139	129,427
4-1056	Ord Min U/List Interest Income	233,937	238,148	242,435	246,799	251,241
4-2100	Line Fee Income	141,167	143,708	146,294	148,928	151,608
	Total Income	**1,464,876**	**1,491,244**	**1,518,086**	**1,545,412**	**1,573,229**
5-0000	Cost Of Sales					
5-2100	Interest Paid to Investors	747,037	760,484	774,172	788,108	802,294
	Total Cost Of Sales	747,037	760,484	774,172	788,108	802,294
	Gross Profit	**717,839**	**730,760**	**743,914**	**757,304**	**770,935**
6-0000	Expenses					
6-1100	Provision for Annual Leave	2,994	3,048	3,103	3,158	3,215
6-1300	Salaries and Wages	222,400	226,403	230,478	234,627	238,850
6-1500	Superannuation	21,128	21,508	21,895	22,290	22,691
6-1700	Fund Manager Vehicle	4,800	4,886	4,974	5,064	5,155
6-4200	Advertising	2,878	2,930	2,983	3,036	3,091
6-4300	Audit Fees	26,890	27,374	27,867	28,368	28,879
6-4360	Legal Fees	7,262	7,392	7,525	7,661	7,799
6-4400	WBC Bank Charges	6,398	6,513	6,630	6,750	6,871
6-4402	Indue Fees	586	597	608	619	630
6-4425	Depreciation Expense	7,516	7,652	7,789	7,930	8,072
6-4440	WBC Line of Credit Charges	10,230	10,414	10,602	10,792	10,987
6-4442	Ord Minnett Brokerage/Advice	18,538	18,872	19,212	19,557	19,909
6-4445	ASFA Line of Credit Charges	624	635	647	658	670
6-4450	AFSA Service Agreement Fees	118,718	120,855	123,030	125,245	127,499
6-4510	Insurance - Workers Comp	3,336	3,396	3,457	3,519	3,583
6-4530	Insurance - General	18,818	19,157	19,501	19,852	20,210
6-4600	Meeting Expenses	822	837	852	868	883
6-4700	Postage	2,030	2,067	2,104	2,142	2,180
6-4800	Printing & Stationery	2,093	2,130	2,169	2,208	2,248
6-4900	Rent/Victoria Street	5,200	5,294	5,389	5,486	5,585
6-5000	PC Repairs & Maintenance	25	25	26	26	27
6-5100	Telephone	2,332	2,374	2,417	2,460	2,505
6-5200	Travel & Accommodation - Board	10,415	10,603	10,794	10,988	11,186
6-5300	Travel & Accommodation - AFGD	1,706	1,737	1,768	1,800	1,832
6-5310	AFGD Staff Expenses Other	621	632	643	655	667
	Total Expenses	498,361	507,331	516,463	525,760	535,223
	Surplus Profit for Distribution	**219,478**	**223,429**	**227,450**	**231,544**	**235,712**

Option B: Continue with additional management services from AFSA

This option assumes the current business operations continue with the vacant manager position not filled. The additional management service requirements will be met by an expanded service agreement from AFSA.

In addition to the extra services from AFSA, we have factored in an adjusted investment profile with AFGD moving Corporate Trustee funds of $8m to AFSA endowment fund. Refer to Appendix B.

Account No.	Account Name	Year 1 $	Year 2 $	Year 3 $	Year 4 $	Year 5 $
	Income					
4-1012	Interest Recd - AFSA	504,239	513,316	522,555	531,961	541,537
4-1013	Interest Recd - Melb CF7963	80,673	82,125	83,604	85,109	86,640
4-1014	Interest Recd - WBC	25,090	25,542	26,002	26,470	26,946
4-1020	Overdraft/LOC INT INC	187,175	190,544	193,974	197,466	201,020
4-1021	Interest Only Loans INT INC	247,383	251,836	256,369	260,984	265,681
4-1022	Princ & Int Loans INT INC	422,005	429,601	437,334	445,206	453,220
4-1055	Ord Min List Interest Income	-	-	-	-	-
4-1056	Ord Min U/List Interest Income	-	-	-	-	-
4-2100	Line Fee Income	141,167	143,708	146,294	148,928	151,608
	Total Income	**1,607,733**	**1,636,672**	**1,666,133**	**1,696,123**	**1,726,653**
5-0000	Cost Of Sales					
5-2100	Interest Paid to Investors	747,037	760,484	774,172	788,108	802,294
	Total Cost Of Sales	747,037	760,484	774,172	788,108	802,294
	Gross Profit	**860,696**	**876,189**	**891,960**	**908,015**	**924,360**
6-0000	Expenses					
6-1100	Provision for Annual Leave	1,244	1,266	1,289	1,312	1,336
6-1300	Salaries and Wages	92,400	94,063	95,756	97,480	99,235
6-1500	Superannuation	8,778	8,936	9,097	9,261	9,427
6-4200	Advertising	2,878	2,930	2,983	3,036	3,091
6-4300	Audit Fees	26,890	27,374	27,867	28,368	28,879
6-4360	Legal Fees	7,262	7,392	7,525	7,661	7,799
6-4400	WBC Bank Charges	6,398	6,513	6,630	6,750	6,871
6-4402	Indue Fees	586	597	608	619	630
6-4440	WBC Line of Credit Charges	10,230	10,414	10,602	10,792	10,987
6-4442	Ord Minnett Brokerage/Advice	0	-	-	-	-
6-4445	ASFA Line of Credit Charges	624	635	647	658	670
6-4450	AFSA Service Agreement Fees	188,718	192,115	195,573	199,093	202,677
6-4510	Insurance - Workers Comp	1,386	1,411	1,436	1,462	1,489
6-4530	Insurance - General	18,818	19,157	19,501	19,852	20,210
6-4600	Meeting Expenses	822	837	852	868	883
6-4700	Postage	2,030	2,067	2,104	2,142	2,180
6-4800	Printing & Stationery	2,093	2,130	2,169	2,208	2,248
6-4900	Rent/Victoria Street	5,200	5,294	5,389	5,486	5,585
6-5000	PC Repairs & Maintenance	25	25	26	26	27
6-5100	Telephone	2,332	2,374	2,417	2,460	2,505
6-5200	Travel & Accommodation - Board	10,415	10,603	10,794	10,988	11,186
6-5300	Travel & Accommodation - AFGD	1,706	1,737	1,768	1,800	1,832
6-5310	AFGD Staff Expenses Other	621	632	643	655	667
	Total Expenses	391,456	398,502	405,675	412,978	420,411
	Surplus Profit for Distribution	**469,240**	**477,686**	**486,285**	**495,038**	**503,948**

Option C: Treasury

This option examines the results after making changes to the structure of the businesses service offerings by reducing the accounts available to customers, reducing customer service and focusing on maximising the overall return on investments. Refer to Appendix C for assumptions.

Funds managed are divided into the following categories:

- Type A Funds: Excess cashflow not required for that organisation's cashflow in the next 30 days. These funds are those of the Corporate Trustees of the Diocese of Grafton; Anglican Schools and Anglicare North Coast Funds.
- Type B Funds: Amounts greater than $50,000 or greater from Parishes and other organisations of the Diocese of Grafton.

As at 31 December 2018 Type A, Type B and funds to be returned to investors comprise the following:

Description	Totals $	Type A $	Type B $	Funds Returned $
Anglican Affiliate Entity	6,700,691	1,005,104	5,695,587	
Grafton Diocese	12,208,494	1,831,274	10,377,220	
Individuals	4,047,888			4,047,888
Organisation	393,804			393,804
Parish	4,617,512	692,627	3,924,885	
School	440,153	66,023	374,130	
Self Managed Superannuation Fund	2,488,479			2,488,479
	30,897,021	3,595,027	20,371,822	6,930,171

This results in $23,966,849 remaining in the Treasury Model. Refer to Appendix C.

Account No.	Account Name	Year 1 $	Year 2 $	Year 3 $	Year 4 $	Year 5 $
4-0000	Income					
4-1055	Ord Min List Interest Income	331,083	337,042	343,109	349,285	355,572
4-1056	Ord Min U/List Interest Income	642,690	654,259	666,035	678,024	690,228
	Total Income	**973,773**	**991,301**	**1,009,144**	**1,027,309**	**1,045,801**
5-0000	Cost Of Sales					
5-2100	Interest Paid to Investors	583,593	594,097	604,791	615,677	626,760
	Total Cost Of Sales	583,593	594,097	604,791	615,677	626,760
	Gross Profit	**390,180**	**397,204**	**404,353**	**411,632**	**419,041**
6-0000	Expenses					
6-1100	Provision for Annual Leave	1,010	1,028	1,046	1,065	1,084
6-1300	Salaries and Wages	75,000	76,350	77,724	79,123	80,548
6-1500	Superannuation	7,125	7,253	7,384	7,517	7,652
6-4360	Legal Fees	7,262	7,392	7,525	7,661	7,799
6-4442	Ord Minnett Brokerage/Advice	50,930	51,846	52,780	53,730	54,697
6-4510	Insurance - Workers Comp	1,125	1,145	1,166	1,187	1,208
6-4530	Insurance - General	9,409	9,578	9,751	9,926	10,105
6-5000	PC Repairs & Maintenance	13	13	13	13	13
6-5100	Telephone	1,166	1,187	1,208	1,230	1,252
	Total Expenses	153,038	155,793	158,597	161,452	164,358
	Surplus Profit for Distribution	**237,142**	**241,411**	**245,756**	**250,180**	**254,683**

5. Comments on Option D

In order to wind the fund up in an orderly and structured manner a number of key financial decisions would need to be made inter alia:

- Managing the wind down of the existing loan portfolio;
- Return of deposits from investors
- Payment of entitlements to staff
- How any surplus of funds are to be distributed

6. Scope of Engagement

6.1 We have provided the Services to you in accordance with engagement letter dated 15 February 2019.

6.2 The Services covered by this engagement do not include audit or review services, therefore, no assurance will be provided.

6.3 The Services do not cover financial or legal advice. Should you require financial or legal advice we can recommend a licenced practitioner to you or you may seek your own advice from a licenced practitioner.

6.4 Other than our responsibility to AFGD's Board of Directors and Management, neither Thomas Noble & Russell nor any member or employee of Thomas Noble & Russell undertakes responsibility arising in any way from reliance placed by a third party on this Report. Any reliance placed is that party's sole responsibility

6.5 Our Report is for the sole use of the board and is not to be used by any other person for any other purpose and may not be distributed, duplicated, quoted, referred to, in whole or in part, without our prior written consent.

6.6 The report was prepared on the basis that full disclosure of all information that may affect the options considered in this report was made to us. We have not verified the reliability, accuracy or completeness of the information provided to us

6.7 We reserve the right, if it is considered necessary, to review all calculations referred to in this report.

THOMAS NOBLE AND RUSSELL
CHARTERED ACCOUNTANTS

Per:

B Lane

....

BRETT LANE (Partner_

7. Appendix A

Income Assumptions

- Interest Received – based on 2018 actuals
- Ord Minnett Investment returns based on the yield projections for 2019 for Ord Minnett performance, calculated at 4.78%. Income split between listed in unlisted based on 2018 actuals.
- Ord Minnett returns calculated on funds invested of $7.4m.
- The following accounts have been deemed not relevant:
    - 4-1058 Profit/Loss on Sale of Fixed Assets
    - 4-2000 Service Fees Received
    - 4-1057 Proceeds on Sale of Bonds
    - 4-3000 Sundry Income
    - 4-1011 Interest Recd – NAB
    - 4-1015 Interest Recd - AMP

Investor Distribution Assumptions:

- Distributions to Investors has been calculated on the following Assumptions:
    - Type A Funds – 1.5%
    - Type B Funds – 2.6%

Expense Assumptions:

- The following accounts have been deemed not relevant:
    - 6-1200 Provision for Long Service Leave
    - 6-4410 Consultancy Fees – replaced with manager wage
    - 6-4412 Donations

- 6-1300 Salaries & Wages – increased with an additional manager role at $130,000p.a plus on-costs
- 6-1500 Superannuation – 9.5% of Salaries & Wages
- 6-1100 Provision for Annual Leave – Monthly Accrued entitlement based on Salaries & Wages
- 6-4510 Insurance – Worker's Comp – 1.5% of Salaries and Wages
- 6-4360 Legal Fees - reduced to 50% of 2018
- 6-4425 Depreciation Expense – Included to account for fund manager vehicle
- 6-4442 Ord Minnett Brokerage/Advice – reduction from 0.4% management fee to 0.25% as negotiated by Blaine Fitzgerald

Thomas Noble & Russell
Accountants | Auditors | Business Advisers

8. Appendix B

Income Assumptions:

- Interest Received – based on 2018 actuals
- Ord Minnett Investment returns have been reduced to $Nil, based on reinvesting the balance of $7.4m into the AFSA Endowment Fund.
- $8m of Corporate Trustees funds moved to AFSA, and replaced by AFSA back-filling $8m into AFGD and invested in the same proportions as 2018.
- Endowment fund income calculated at 5% + 1.8% CPI on $8m
- The following accounts have been deemed not relevant:
  - 4-1058 Profit/Loss on Sale of Fixed Assets
  - 4-2000 Service Fees Received
  - 4-1057 Proceeds on Sale of Bonds
  - 4-3000 Sundry Income
  - 4-1011 Interest Recd – NAB
  - 4-1015 Interest Recd - AMP

Investor Distribution Assumptions:

- Distributions to Investors has been calculated on the following Assumptions:
  - Type A Funds – 1.5%
  - Type B Funds – 2.6%

Expense Assumptions:

- The following accounts have been deemed not relevant/significant:
  - 6-1200 Provision for Long Service Leave
  - 6-4412 Donations
  - 6-4410 Consultancy Fees – replaced with increased AFSA Service Agreement of $70,000
  - 6-4425 Depreciation Expense
  - 6-1700 Fund Manager Vehicle
- 6-1300 Salaries & Wages – Only existing staff. Management reporting taken on through additional service agreement from AFSA
- 6-1500 Superannuation – 9.5% of Salaries & Wages
- 6-1100 Provision for Annual Leave – Monthly Accrued entitlement based on Salaries & Wages
- 6-4510 Insurance – Worker's Comp – 1.5% of Salaries and Wages
- 6-4360 Legal Fees - reduced to 50% of 2018
- 6-4450 AFSA Service Agreement – Increase of $70,000 per year
- 6-4442 Ord Minnett Brokerage/Advice – reduction from 0.4% management fee to 0.25% as negotiated by Blaine Fitzgerald – Balance transferred to AFSA Endowment Fund has resulted in $Nil Ord Minnett Fees.

9. Appendix C

The following assumptions are in relation to Option C Treasury Model.

Income Assumptions:

- Investment returns based on the yield projections for 2019 for Ord Minnett performance, calculated at 4.78%. Income split between listed in unlisted based on 2018 actuals.
- The following accounts have been deemed not relevant:
    - 4-1058 Profit/Loss on Sale of Fixed Assets
    - 4-2000 Service Fees Received
    - 4-2100 Line Fee Incomes
    - 4-1057 Proceeds on Sale of Bonds
    - 4-1020 Overdraft/LOC Interest Income
    - 4-1021 Interest Only Loans Interest Income
    - 4-1022 Princ & Int Loans INT Inc
    - 4-1011 Interest Recd – NAB
    - 4-1012 Interest Recd - AFSA
    - 4-1013 Interest Recd – Melb CF7963
    - 4-1014 Interest Recd - WBC
    - 4-4015 Interest Recd – AMP
    - 4-3000 Sundry Income

Investor Distribution Assumptions:

- Distributions to Investors has been calculated on the following Assumptions:
    - Type A Funds – 1.5%
    - Type B Funds – 2.6%

Expense Assumptions:

- The following accounts have been deemed not relevant:
    - 6-1700 Fund Manager Vehicle
    - 6-4200 Advertising
    - 6-4300 Audit Fees
    - 6-4402 Indue Fees
    - 6-4410 Consultancy Fees
    - 6-4412 Donations
    - 6-4440 WBC Line of Credit Charges
    - 6-4445 AFSA Line of Credit Charges
    - 6-4450 AFSA Service Agreement Fees
    - 6-4600 Meeting Expenses
    - 6-4700 Postage
    - 6-4800 Printing & Stationery
    - 6-4900 Rent/Victoria Street

  - 6-5200 Travel & Accommodation – Board
  - 6-1200 Provision for Long Service Leave
  - 6-4425 Depreciation Expense
  - 6-5310 AFGD Staff Expenses

- 6-4360 Legal Fees - reduce to 50%
- 6-4530 Insurance - General - reduce to 50%
- 6-5000 PC Repairs & Maintenance - reduce to 50%
- 6-5100 Telephone - Reduce to 50%
- 6-1300 Salaries & Wages – Based on a 0.5 FTE manager role at $150,000
- 6-1500 Superannuation – 9.5% of Salaries & Wages
- 6-1100 Provision for Annual Leave – Monthly Accrued entitlement based on Salaries & Wages
- 6-4510 Insurance – Worker's Comp – 1.5% of Salaries and Wages
- 6-4442 Ord Minnett Brokerage/Advice – reduction from 0.4% management fee to 0.25% as negotiated by Blaine Fitzgerald

Service Agreement activities AFSA

Current Service agreement

Definition

Backoffice and reporting charge, including operation of EFT, and BPay clearing,
Branch Financial Reporting, Operational Liaison with Data Action, access to AFSA operational processes and procedures

Expanded Service agreement

Definition: *Portfolio Management Services*

Meaning the provision of services from AFGD to an Anglican Body Corporate:

1. Handling of enquiries from Anglican bodies corporate;
2. Periodic reviews in accordance with loan covenants of body corporate's performance and ability to service debt;
3. Liaison with other lender(s) in the case of the body corporate having loan commitments to parties other than the Client;
4. Evaluation of requests for new or increased borrowing or the amendment of terms;
5. Personal contacts with each Anglican school no less frequently than once every 3 months and each other Anglican body, corporate no less frequently than once every 6 months:
6. Providing a report with recommendations to the client following each periodic review;
7. Providing an analysis with recommendations to the Client following each formalised request for new or increased borrowing or amended of terms; and
8. Assist the client with the review of any draft contractual terms relating to facilities provided to Anglican bodies corporate.

Services

a. In consideration for AFGD paying the Fees, and subject to the provisions of this Agreement, AFSA hereby agrees to provide AFGD with the following services:

The provision of portfolio management services for AFGD's Loan portfolio for the following clients;

	Activity	Frequency	
i. **School portfolio** St Columba Anglican School Bishop Druitt College Clarence Valley Anglican School Emmanuel Anglican College Lindisfarne Anglican Grammar School	Half yearly performance review data extraction, analysis, credit report writing including one increase funding request per annum Key ratio analysis Recommendation	2 per year	for each entity
	Personal contact with each Anglican school no less frequently than once every 3 months	2 per year face to face	for each entity
		2 per year other	for each entity
Other Anglican bodies corporate Anglicare North Coast St Cuthbert's Retirement Living Complexes	Yearly performance review data extraction, analysis credit report writing including one increase funding request per annum Key ratio analysis Recommendation	once per year	for each entity
	Personal contact with each Anglican body corporate no less frequently than once every 6 months:	2 per year via phone or if required face to face	for each entity
AFGD Board Reporting requirements	Provision of a written structured Board report summarising	quarterly 2 via Zoom teleconference	

	Key client activities Risk Management Framework (covering all items in item b) Financial Performance - analysing performance against agreed benchmarks.	2 face to face.
ii. Assist as required with enquiries from parishes and external organisations seeking a loan facility from AFGD as requested by either the Chair of the AFGD Board or the Registrar of the Anglican Diocese of Grafton.	phone diversion call service during staff absences in Grafton Services to be agreed between the two parties	as required

b. Other Services

Risk Management Framework	Policy assistance review and recommendation	once every 2 years
Interest rate Risk	Policy assistance review and recommendation Review and produce Investor Interest rate data Review and produce Lending reference rate data	once every 2 years weekly monthly
Credit Risk	Policy assistance review and recommendation Apply credit policy and authorisations on all credit recommendations	once every 2 years as required when applied
Capital Adequacy - includes DFATF prudential benchmarks.	Policy assistance review and recommendation DFATF prudential benchmark template	once every 2 years

Liquidity - including surplus liquidity policy	Policy assistance review and recommendation Interest Bearing securities review and recommendation Data available monthly		once every 2 years report to AFGD Board Quarterly
audit assistance	Financial year end 31/12 annually January annually produce Data Action reports to satisfy audit requirements Including but not limited to		once every year one week collating the data per year by AFSA Team.
	Investor book information	maturity forecast information interest rate information open closed reports sample data as requested.	
	Loan book information	maturity forecast information interest rate information open closed reports credit policy compliance sample data as requested.	
	other information as requested		
		Proposed cost of the increased service	**<u>$70,000</u>**

c. **The Services may also include any other tasks which both Parties may agree on at a rate to be determined and agreed before proceeding.**

Gmail by Google

Chris Nelson <chris.nelson@graftondiocese.org.au>

Some dates we need to be aware of PLUS

Fordie <fordie@mac.com> 11 March 2019 at 11:48
To: Chris Nelson <chris.nelson@graftondiocese.org.au>

Greetings Chris,
I am sure you are aware that the insurance and contract that we have in please with Blaine for his contribution finish on 15th June this year.

I caught up with BF over the weekend.
I expressed my thoughts that it is a pity that AFSA didn't come back with a staged plan to "take over" AFGD.

As he is want to do BF came back to me with the following.

Is it possible that we could grab an hour with BF on Thursday or Friday, as he will also be in Port, to discuss these points please.

I think this should be thrashed out a bit more for clarity.
Here are some back of envelope thoughts.
Assume this means community fund - AFGD.
Investor book and loans -

Grafton:
What does Grafton want out of it per annum?
Annette remains as local representative - but remains on Grafton's payroll.
Grafton AFGD - audit cost saving $30K. (no longer required)
Service agreement saving - DA pass through software and transactional costs & Adelaide service costs will pass to Adelaide.
No financial reporting required as Adelaide simply distribute a consistent income back to Grafton on an agreed formula/methodology.
(less HR requirement in Finance Department Grafton.) 2 days per week -potentially - needs to be factored in.
Parishes and Anglican associated investors Grafton may be able participate in Adelaide's annual Participant distribution. $50K pool las two years.
Capital adequacy - Adelaide.
Existing retained earnings Grafton to transfer to Adelaide's to become stakeholder investment Circa $1.5m - to help offset Capital Adequacy burden.
Grafton simplify bank accounts with reconciliations reduced significantly.

Trustees stay with plan to invest in Adelaide Endowment Fund. $6m to $8m.

Adelaide:
All existing income and expenses associated in the Grafton portfolio including distribution to Grafton, is Adelaide's.
Can Adelaide make it work or be more profitable than it currently is. Don't know the answer.
Adelaide expand ASIC ID statement to include Grafton product offering. Initially no change then over time consolidate offerings taking the best from both parties.

Elephant in the room:
Loans - in the event of default.
Grafton
Existing loans written

Regards

David Ford
0418 654 909
fordie@mac.com

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For AFGD Board Discussion Only

Notes re Blaine Fitzgerald's March 2019 Responses

Basics:

- AFSA to take over AFGD 'book'
- AFGD brand remains
- AFGD contact person remains in Grafton Office (Grafton employee)
- Diocese of Grafton to get reward for book
- Diocese of Grafton dissolves AFGD Board. Relationship with AFSA under Corporate Trustees oversight.

What sort of 'reward' should be due to Grafton?

- Based on Grafton deposits? (Diocese, Schools, other organisations, individuals)
- Based on loans to Grafton?
- Based on a combination of deposits and loans? Share of margin?
- What would be our target figure?
  - GDIF provided about $500K per annum in the good ol' days
  - 2018 AFGD profit before distribution and revaluations was $345K
  - 2018 net interest/deposits was 2.20%
  - No target. "Go with the flow"
  - Need to cover local employment costs out of Grafton's share

Questions?

- Is this deal contingent on Corporate Trustees maintaining AFGD accounts and/or Adelaide Endowment deposits?
- Can we start off with the existing parameters (e.g. local staff, compulsory participation, AFGD branding) but put a sunset on each?

Elephants

- In the event of default of loan
  - If Corporate Trustees stood behind all loans then the risks are:
    - Soft or poorly managed loans
    - Corporate Trustees bearing contingent liabilities
    - Corporate Trustees would need to approve/monitor each loan
  - If AFSA wears default
    - Need ability to foreclose; appoint administrator and/or appoint liquidator (similar to a commercial bank)

- Existing loans
  - If AFSA were to take on AFGD 'book' then all existing loans would transfer across
  - All existing AFGD loans seem to be good quality with possible exception of CVAS but margin on CVAS loan is more attractive
  - AFGD is a signatory in Deed of Gift & Indemnity and CVAS subordinated debt
  - Makes sense for all loans to be included in 'deal' but not Deed of Gift & Indemnity

- Compulsory arrangements
  - Currently all Diocesan organisations are required to use AFGD unless approved otherwise
  - Assume that AFSA will want arrangement to remain in place which means that Bishop-in-Council will continue to approve exemptions from time to time. Potential source of conflict where exemption given despite AFSA desire to service that client.

- Cost shifting
  - Diocese of Grafton desires a share of the economic value arising from the deposits and loans of Grafton entities but AFSA could just increase the margin to cover Grafton's 'reward'. This will just shift costs and act as a levy on Grafton entities.

- Section 83C issues
  - If the Diocese gets a monetary reward as a result of schools deposits and loans but without the Diocese actually providing a service, the arrangement could be considered to be the type of financial siphoning that is prohibited under s83C of the Education Act
  - Legal advice would be required to clarify

Other issues:

- Legal processes
  - Will need legal advice on transfer of 'book' to AFSA to avoid the process of re-signing each loan contract and pari passu deed
  - Reassigning and renaming of Investment Fund ABN will probably be required

- Monitoring of relationship
  - What sort of effort/infrastructure is needed to monitor AFSA relationship?
  - Would the Corporate Trustees need to appoint a consultant/contractor to monitor and report?

- What if AFSA gets shaky?
  - AFSA's financial reports, audited financial reports would need to be available to Corporate Trustees
  - Would there be compulsory reporting covenants if certain KPIs (capital adequacy, liquidity, risk concentration) were triggered?
  - Right to conduct an orderly exit if AFSA reached particular levels on KPIs

- Retained earnings
  - Blaine's proposal is that Corporate Trustees hand over Retained Earnings with the 'book'
  - Unless this is converted into an equity position, there should be a time limit to this arrangement

- Promotions and gifting
  - Should be AFSA management responsibility

- Size of Corporate Trustees investment in Adelaide Endowment Fund
  - Investment in Adelaide Endowment Fund is more lucrative than investment in AFGD term deposits
  - $6M to $8M investment in Adelaide Endowment Fund would be the single largest investment by the Corporate Trustees and would need to be subject to its own due diligence

- Maintaining Grafton presence
  - There will be less need for a Grafton presence as AFSA becomes more familiar with the Grafton clients and the clients become less reliant on dealing with a Grafton office. Technology improvements will emphasise this trend.
  - There should be a time limit or periodic review of these arrangements

- Maintaining brand
  - The AFGD brand is positive at this time but will lose importance as a relationship with AFSA matures
  - There should be a time limit or periodic review of the brand strategy

- What happens if AFSA want to withdraw 3 years from now?
  - Once the AFGD 'book' is transferred to AFSA, most other options are removed
  - If AFSA decided at a future date to close AFSA or to return to just SA accounts, there would be no effective options for the former AFGD clients except individually to find the best arrangement/service provider they can

Next Steps?

1. Discuss in AFGD Board. Considering the potential positives and pitfalls and comparison to other options does the Board wish to explore this?
2. Contact Blaine Fitzgerald to confirm that AFSA are willing to enter into discussions on this basis.
3. Confirm with Corporate Trustees that they are willing for AFGD Board to enter into these discussions.
4. a. Agree on overall parameters; b. Appoint negotiating team; c. Appoint legal adviser and any other advisers who are required.
5. Commence negotiations