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Summary statement of change in unit holders' net assets
As at 28 February 2021

CFB Funds	Net Assets at 29/02/ 2020	Net Creations/ Cancellations	Change in Net assets	Net Assets at 28/02/ 2021
	£'000s	**£'000s**	**£'000s**	**£'000s**
UK Equity Fund	351,345	(38,636)	11,517	324,226
Overseas Fund	144,950	(23,361)	27,321	148,910
Gilt Fund	3,134	2,407	(274)	5,267
Corporate Bond Fund	110,537	(2,406)	(2,203)	105,928
Short Fixed Interest Fund	14,941	222	(161)	15,002
Inflation Linked Fund	22,736	(23,832)	1,096	0
Managed Mixed Fund	27,593	(718)	1,813	28,688
Property Fund	20,946	949	(1,222)	20,673
Deposit Fund	368,286	(12,015)	0	356,271
Less: CFB Deposit Fund balances in other CFB funds	**(4,603)**	**2,459**	**0**	**(2,144)**
Total funds under management	**1,059,865**	**(94,931)**	**37,887**	**1,002,821**

Chair's Report

Introduction
I started last year's Chair's statement reflecting upon the extraordinary times that we were in. Twelve months later and the extraordinary has become the normal. David Palmer, our CEO, started writing a weekly newsletter to all staff when we first commenced working shifts in the office just before lockdown started properly. He is now approaching update Number 60. Most of our colleagues have not stepped into Bonhill Street for over a year. We learnt very rapidly how to work remotely, and I am pleased to report that, after the initial adjustment and sharp market falls, we have had a relatively problem free year. We even managed to launch a new Fund during this time and run some successful campaigns for new business. The support of our Directors and Council members during this time has been extraordinary and I must thank you all for the faith that you have shown in me and in the management team at the Central Finance Board over the last

twelve months. I must also acknowledge the work of the management and staff at the CFB who have coped admirably with the disruption to working patterns and home life. We have seen families and friends of our colleagues suffer losses during the pandemic and we send our prayers and deepest condolences to them and all that have suffered loss or hardship over the last year. It is at times like these that I am so grateful to be part of the community that is the Methodist Church.

Our financial position
At the start of this financial year, we faced an uncertain time as global equity markets suffered severe falls. As our revenue is based upon a percentage of Assets Under Management (AUM), these declines severely impacted upon our first quarter's earnings. Since then, we have seen a good recovery in the Global stock markets and our revenue from the international assets that the CFB manages has recovered. In contrast the UK Equity market continues to be well below pre-Pandemic levels as it also had to deal with the UK's tortuous exit from the European Union. Our new business was behind expectations; hardly surprising given that for many charities the focus has been on survival rather than investment for the last 12 months.

The consolidated position for the CFB, including Epworth Investment Management shows a deficit of £148,426. This includes exceptional costs that were incurred in the fourth quarter of the year following a management re-organisation. The budget for the year ahead suggests that the CFB should return to a broadly balanced position for 2021/22. The consolidated net current assets of the organisation remain above £2 million and the Council continues to stress test the CFB's financial resources and has no concerns about its continued financial stability.

Assets under management
The "de-risking" of pension assets that I described last year continued during 2020 as we saw one of our long-standing pension clients close their account with the CFB. This represented the conclusion of a 20-year recovery plan for the Scheme and we wish them well as the underlying charity deals with the twin financial strains of a pension deficit and falling donor revenue. Our other Methodist Pension scheme clients

have deferred further de-risking for the time being, but we expect this to resume as deficits close. To compensate for this client loss, we had some successful new business campaigns during the year that David describes below. Overall, in a year of extraordinary volatility, the CFB assets under management finished the year virtually unchanged at £1.05 bln (2020 £1.06bln).

The Climate Emergency
The Joint Advisory Committee on the Ethics of Investment (JACEI) delivered a special report to the 2020 Methodist Conference about the alignment of the oil, gas, and mining

sectors with the long-term temperature change commitments of the Paris Accord. This report advised that a number of companies were not aligned, resulting in the sale by the CFB of several positions, including BP. The report also concluded that four companies were aligned, or close to being aligned, with the Accord. These companies included Shell. The 2020 Conference referred this report to Methodist Council and they in turn have asked JACEI to review the findings in relation to these four companies.

The Climate Emergency has been a focus of the CFB and JACEI for almost two decades. We initially focused our limited resources on the “users” of carbon fuels such as utility companies but then refocused to the suppliers of these fuels as required by the Methodist Conference motion of 2017. For the last 42 months we have undertaken a highly comprehensive analysis of the companies in the oil, gas, and mining sectors to evaluate whether they align with the “well below 2 degrees” requirements of the Paris Accord.

The easy solution for JACEI and the CFB in response to the 2017 motion would have been to have undertaken immediate and complete disinvestment from the oil and gas sector. However, we also recognise our obligation to use all the powers that we have to address the climate catastrophe that we are facing. We do believe in the value of shareholder engagement – through our voting powers in co-operation with others we have a voice that the company management must listen to. I sincerely believe that Shell’s recent policy changes to improve their emissions disclosures, increase investment in alternative energies and partially link executive pay to GHG performance came as a result of pressure from the broad shareholder community. I am proud that the CFB has been part of that. However, I totally understand the view of many church members that, in the context of a climate emergency, this is now not enough.

JACEI set aside a special meeting in April to review their previous conclusions on the alignment of these four companies with the Paris Accord and we will follow their advice.

CFB Working Party

The CFB has set up a working party to consider the role of the CFB within Methodism. This has been prompted by recent decisions of the Conference regarding the ethical investment policies of the CFB, requests for information from the CFB from within the Church, and the increasing pressures upon the assets held by the Church arising from the funding needs of the Church’s pension schemes. I am grateful to the Revd Peter Howson, a Council member, for chairing this working party. It will be reaching out to all interested parties within the Church over the next year for information and contributions and I commend it to the Board.

New Council Members

Following the retirements of Anne Goodman and Terry Wynn last year we have co-opted two new members to the CFB Council, and they will be offered for nomination at the 2021 AGM. Matthew Tattersall is the Director of Finance and Resources for the Connexional

Team. Julian de G Parker has been a Director of Epworth Investment Management Ltd since 2015 and is highly experienced in regulation and compliance. Matt and Julian will bring strong financial and regulatory oversight to the Council.

Changes to Senior Management
At the end of the year, we said goodbye to Stephen Beer, our Chief Investment Officer. Stephen had been with the CFB for 27 years and has contributed to its growth and development. Stephen will be much missed, and I thank him for his strong commitment and support.

I am very pleased to announce two new senior roles in the CFB. Roz Amos will be joining us shortly as Chief Investment Strategist. Roz started her career with 15 years as an investment consultant with Towers Watson. When Roz left Towers Watson in 2012, she was head of their New Ideas research team and their Indexation research team. Roz then joined UBS and she has spent the last four years in Zurich leading product development and investment oversight. Roz arrives at the CFB with a macro, multi asset view and the disciplines that 24 years at an investment consultant and investment bank bring.

We have also created a new role of Head of Ethics. This role acknowledges the incredible legacy that the CFB and Epworth Investment Management Ltd have in the world of ethical investors. Given our long and proud history in this field, the Council determined that we should create a new role that focuses on ethical thought leadership. This role will not only drive forward the current priorities of the Church on issues such as the Climate Emergency, Israel/Palestine and Tax Justice but will also identify emerging ethical trends that require research and original thinking. I am delighted to announce that the Revd Andrew Harper, formerly the Head of Global and Learning Innovation at Cliff College, joined us in this role in early April. Andrew is a Texan by birth, studied for his undergraduate degree in theology at Manchester University and was ordained in Nigeria. He has just completed his Doctor of Ministry at Wesley University in Ondo, Nigeria.

Chief Executive Officer's Report

Investment review of the year
Moving into 2020 the outlook for global markets appeared relatively benign. The world was heading into election year in the USA, but the UK had returned a sizeable Conservative majority that seemed to remove much of the uncertainty surrounding Brexit. Interest rates looked set to gradually increase with stable economic growth and equities looked good value, particularly in comparison with bond yields that were reflecting a decades long bull run.

Then on 5 January the World Health Organisation published news of an outbreak of a new form of Coronavirus in China. Initially the markets reflected on the relatively low mortality rate from this latest outbreak in comparison with other forms of coronavirus such as SARS and MERS. However, there was an initial failure to recognise the highly infectious nature of this new pathogen. By March COVID-19 had become a global pandemic and many Governments had taken drastic preventative measures to restrict the movement of people in a bid to slow down the spread of the disease. Investors fled from equity markets into safe havens such as Government bonds and gold, leading to some of the most dramatic falls in stock market history. We entered one of the sharpest equity bear markets in history. For many markets it was also one of the shortest.

The initial economic shocks from the pandemic were severe. The jobless rate in the USA hit 14.7%, 4.7% higher than at the worst of the 2007 financial crises. In the UK we saw a decline of 19.8% in GDP in the 3 months to June. Central Bank and Government responses were robust. China and the US announced several enormous stimulus bills and the UK Government continues to support the employment and property markets. With so much stimulus, the second half of the year has seen a recovery by most global equity markets. The Technology sector was a major benefactor and led to a strong performance by the US. The UK market has underperformed its global rivals – held back by its lack of technology companies and large exposure to oil companies and banks. The former hurt by the lack of economic activity and the latter by the very low interest rate environment. The continued uncertainty over Brexit also held the UK market back.

The outlook remains uncertain. The Bank of England is planning for two scenarios – one where interest rates remain exceptionally low as the UK economy struggles to regain its lost ground amidst rising taxes to pay for the costs of the pandemic and a second where the exit from lockdown and successful vaccination programme leads to a surge in economic activity and a spike in inflation. In the United States the new Democratic Government is likely to reverse some of Trump's tax cuts but re-open America's doors to world trade. We expect there to be significant sector rotation, the UK stock market to recover some of its underperformance and Bond markets to be nervous about rising inflation.

Ethical Review
John Sandford has already described the intense body of work that has been undertaken on the Climate Emergency and the alignment of the oil, gas, and mining sectors with the Paris Accord. This work absorbed much of our resources this year, but we have been able to lead on several other themes during the year, most notably Tax Justice. I am very proud to report that Epworth became the first asset manager in the UK to receive the Fair Tax Mark accreditation and engagement with our investee companies on their tax policy is now part of our standard conversation.

Several of these companies have applied or have indicated that they will apply for the Fair Tax Mark. Others, whilst not recognising the accreditation, have changed the way they present their tax reporting following our engagement on the issue. Towards the end of the year, the CFB and JACEI began work on our Israel/Palestine policy following a direction from the Methodist Council. I hope to be able to report more on this next year. For full details on our ethical work during the year may I refer you to the JACEI Annual report for 2021 which will be presented to this year's Methodist Conference.

Fund changes during the year
During the year, the CFB closed the Inflation Linked Fund due to the withdrawal from the Fund by a substantial unit holder. The residual assets in the Fund were converted to the CFB Gilt Fund on 10 August 2020.

The investment rules of the CFB Short Fixed Interest Fund have been amended to allow investment into Eurobonds issued by sovereign or supranational bodies, in addition to Gilts. This change was made to take advantage of the slightly higher yields available from these issuers relative to Gilts.

Epworth added a new fund to its Epworth Investment fund for Charities - the Climate Stewardship Fund. This Sub fund applies all of the CFB/ Epworth's existing ethical policies and in addition excludes companies that extract or refine fossil fuels; have a material involvement in supplying the fossil fuel industry; and minimises exposure to companies that are responsible for high levels of GHG emissions. The Sub fund also looks to invest in companies that positively contribute to the transition to a low carbon economy. This Sub fund was launched in response to the demand from Epworth's clients for an investment Fund that does not have exposure to the oil and gas sector. The Sub fund's design was driven by a client round table held in Bonhill Street in late 2019. The initial investors switched from the UK Equity Sub fund and the Climate Stewardship Sub fund now has assets under management of more than £30m.

The CFB has explored launching its own Climate Stewardship Fund (which would feed into the Epworth Sub fund) but to do so £1m of initial investment is required. To date there has not been a sufficient level of interest in this fund from within the Methodist Church.

CFB fund performance
I am pleased to report that the CFB UK Equity Fund is now showing an outperformance of its benchmark over all periods (see table 1). This is largely due to the decision in the underlying Epworth UK Equity Fund to increase the focus on companies where we expect long-term share price out-performance. This has been achieved with no noticeable increase in the overall volatility of unit prices in the Fund.

The CFB Overseas Fund has also seen some recent outperformance and we hope to build on this through more cross investment into the appropriate Epworth Fund. The CFB's Fixed Interest Funds have shown mixed performances as we remain cautious at the end of a prolonged bull market. The average duration in these funds is shorter than benchmark and, in the Corporate Bond Fund, higher credit quality than that implied in the Fund's benchmark.

Epworth Investment Fund for Charities

Last year I described the conversion of Epworth's Charity Investment Funds into Charity Authorised Investment Funds and the launch of several new Sub funds to broaden Epworth's offering to the Charity market. Many of the CFB's funds invested into these Epworth Funds with the CFB UK Equity and Overseas Equity fund initially investing 25% of their assets in the Epworth vehicles. Since that time the Epworth Funds have continued to perform well and the CFB UK Equity Fund is now fully invested into the Epworth UK equity Fund.

The CFB Overseas Equity Fund remains 25% invested into the Epworth Global Equity Fund but a transition plan has been agreed to fully cross invest into the Epworth Fund. This reflects the better performance of the Epworth Fund and its lower costs. It also has better ethical outcomes because the directly invested nature of the underlying assets gives greater visibility on the Funds ethical performance than some of the Funds used by the CFB Overseas Fund.

For internal purposes only, table 2 summarises the cross investment between the CFB and Epworth funds and the performance of the Epworth funds since inception:

Table 1 - CFB fund performance summary
As at 28 February 2021

Table 1 - CFB fund performance summary As at 28 February 2021	**1 year** %	**3 years** **% p.a.**	**5 years** **% p.a.**	**10 years** **% p.a.**
CFB UK Equity Fund	5.7	3.2	7.0	6.1
Benchmark	3.5	1.2	5.9	5.5
Excess return	2.2	2.0	1.1	0.6
CFB Overseas Equity Fund	21.4	10.9	14.8	11.4
Benchmark	20.3	10.7	15.3	11.5
Excess return	1.1	0.2	-0.5	-0.1
CFB Gilt Fund	-3.9	2.9	2.6	4.5
Benchmark	-4.3	3.2	2.9	4.8
Excess return	0.4	-0.3	-0.3	-0.3
CFB Short Fixed Interest Fund	-0.4	1.7	1.3	2.6
Benchmark	-0.8	1.7	1.2	2.6
Excess return	0.4	0.0	0.1	0.0
CFB Corporate Bond Fund	-0.6	3.4	3.7	5.1
Benchmark	2.0	4.6	4.6	5.6
Excess return	-2.6	-1.2	-0.9	-0.5

Table 2 - Cross investment between the CFB and Epworth funds summary	**Fund size £m**	**CFB holding £m**	**Date of inception**	**Performance since inception % p.a.**
Epworth UK Equity Fund for Charities	375.8	331.0	01.05.19	0.4
Benchmark				-1.8
Excess return				2.2
Epworth Global Equity Fund for Charities	88.3	72.7	01.05.19	12.6
Benchmark				11.2
Excess return				1.4
Epworth Sterling Sovereign Bond Fund for Charities	15.8	5.2	01.05.19	2.6
Benchmark				3.3
Excess return				-0.7
Epworth Corporate Bond Fund for Charities	129.7	109.2	01.05.19	3.3
Benchmark				5.4
Excess return				-2.1
Epworth Multi-Asset Fund for Charities	31.4	28.8	01.08.19	2.6
Benchmark				2.6
Excess return				0.0
Epworth Climate Stewardship Fund for Charities	31.6	3.7	29.05.20	6.4
Benchmark				9.9
Excess return				-3.5
Affirmative Deposit Fund for Charities	537.4	373.7		
Total	1,210.0	924.3		

ADF and ECSF campaigns

During 2020 Epworth undertook two marketing campaigns, one for each of the Affirmative Deposit fund and the Epworth Climate Stewardship Fund. These campaigns involved a series of emails to over 30,000 charities, with follow up calls from an agency on behalf of Epworth. Together the campaigns raised more than £60m in new assets for Epworth. The ADF campaign was particularly successful and introduced to Epworth several high value new clients. These become our pipeline for the year ahead for other products and services offered by Epworth.

ADF review and interest rates
The Epworth Board has undertaken a full review of the Affirmative Deposit Fund into which the CFB Deposit Fund invests. This review was triggered by the threat of negative interest rates in the UK. The Bank of England cut its key base rate to 0.1% in March 2020 and rates currently payable in the money markets are even lower than this. Considering Epworth/CFB's management fees and other third-party costs, the actual interest rate accruing to depositors is already in negative territory.

A positive interest rate is being maintained on the Funds thanks to the interest reserve account that has been built up over many years. However, this will eventually be depleted and, unless market interest rates pick up, the CFB/Epworth will have to consider lowering its management fee or charging clients to hold cash in the Funds – or more likely both. The Board are considering options to improve the yield received in the Fund by accepting additional credit risk. We are also engaging with the CFB's software suppliers to ensure that our operations can cope with negative interest rates. The CFB is also in discussion with TMCP regarding their Trustee Interest Fund which has to bear additional costs from TMCP. This Fund (which sits within the CFB Deposit Fund) may accept increased duration risk to achieve additional gross returns for depositors.

The CFB's voting record
The CFB continues to be a very active investor. Our voting policy follows the agreed template of the Church Investors' Group. Under the template most of the Christian investment bodies in the UK vote together on such issues as Executive pay and boardroom diversification. The CFB's voting record in 2020/21 can be seen in table 3.

Looking forward to 2021/22
The investment review has highlighted the knife edge upon which investment markets sit. Will economic activity recover quickly or will the high cost of the pandemic hamstring Governments for years ahead as they repay the massive debts that have been accumulated?

For Epworth the critical impact is on ADF where the Board have been scenario planning for the event of negative interest rates in the UK. There is no doubt that negative rates will be a shock to our depositors and our planning seeks to ensure that we are not a first mover to declare negative interest rates.

I am very excited about our new senior management team. Roz Amos's breadth of experience will add tremendously to our strategic investment thinking and improve our presence in some of the key distribution channels for Epworth. Andrew Harper brings an energy and dynamism to our ethical thought leadership that will get attention. Over the last few years, we have significantly improved our client proposition and we have plans for further changes in the year ahead. Our Fund management team have delivered strong risk adjusted equity performance for several years. We have also made substantial investment in our operations, compliance, and risk functions. The finance function has always been in very strong hands. With this tremendous base and our new leadership team, 2021 holds great promise as we emerge from the Pandemic this summer.

Table 3
CFB Voting Record

Year to 28 February 2021	For	Oppose	Abstain Against or abstain	
Auditors	183	1	0	1%
Directors	1,143	120	34	12%
Remuneration	205	139	17	43%
Executive Pay Scheme (UK)	9	4	1	36%
Shareholder Capital (Overseas)	178	15	0	8%
Other	886	117	26	14%
Total	2,604	396	78	15%

***RESOLUTIONS

45/1. The Conference adopts the Report of the Central Finance Board.

45/2. The Conference elects the following persons to the Central Finance Board for the period of one year from 1 September 2021:

Dr Keith Aldred, Jennie Austin, Ruby Beech, Graham Boyd, Ralph Dransfield, Caroline Edwards, the Revd Anne Ellis, Ashley France, John Gibbon, Anne Goodman, Alan Groves, Frank Guaschi, David Haslam, Sue Haworth, Peter Hobbs, the Revd Dr Peter Howson, Theophilus Mensah, Nick Moore, the Revd Leslie Newton, John O'Brien, Julian de Garis Parker, Colin Pearson, the Revd Jennifer Potter, Martin Rees, John Sandford, Gordon Slater, Andrew Slim, the Revd Eleanor Smith, Anthea Sully, Matthew Tattersall, the Revd Graham Thompson, Geoffrey Wilcox, Morwenna Williams