

40. Central Finance Board of the Methodist Church

Contact name and details	John Sandford, Chair admin@cfbmethodistchurch.org.uk
---------------------------------	---

Chair's Report

Review of the year ended 29 February 2020

When life is shaken to its core,
when clouds and storms arrive,
we find it difficult to know
God present in our lives.
Yet there's no misery or grief,
pain, doubt, or emptiness,
that is not known by the divine
and filled with tenderness.

When we are tempted to give up,
and purpose drains away,
where is the God of hope and joy?
Can peace replace dismay?
God, in the centre of our pain,
makes of our dark a tent,
a holy place of tearfulness
as life splits and fragments.

We need to learn to trust and know
God in our lives, God here
hidden within the clouds and storms,
one with our doubts and fears.
This is our peace: that in the depths
of our adversities
we find a God who shares our pain
and life's cruel miseries.

Words: © Andrew Brown (November 2019, rev. March 2020)

Introduction

This statement is written in extraordinary times. The above is a hymn written by Andrew Brown, a local preacher in the Nidd Valley Circuit.

The purpose of this report is to look back over the Central Finance Board's year that ended in February 2020. It was a year of high activity for the Central Finance Board as we saw volatile investment markets, the completion of our operations review, the end of our work

on the review of the oil and gas industry and new fund launches in our regulated subsidiary, Epworth Investment Management Limited. However, all that now seems insignificant in light of the events of March 2020 as the world fell into the grip of a pandemic. The Chief Executive describes below the steps that we have taken to protect our colleagues, clients and friends. Our prayers and thoughts are with all of you as we protect our health and have to look forward to an uncertain financial future.

Response to COVID-19

Our focus in facing this difficult time has been to ensure the safety of our people and maintain full continuity of service to our clients.

I have observed, with awe, how we have transformed ourselves from working fully in the office to 96 percent working from home in the space of three weeks, with no loss of control; no diminution in service to our clients; and no loss of quality in our investment decision-making ability. All this was done at a time when markets are in turmoil.

By 23 March 2020, with a few modest work-arounds the transformation was complete and the CFB was working from home effectively, keeping our people safe while continuing with the high standards of service we offer to our Methodist and non-Methodist clients.

My thanks and those of the CFB Council and the Board go to the Executive and all our people who have responded magnificently, going 'the extra mile' time and time again.

Our financial position

The Council of the CFB continues to closely monitor the Board's financial position. At the end of the financial year the consolidated net assets of the Board and Epworth Investment Management stood at £2,296,389. Due to continuing expenditure on the operations review and the recharge mechanism to Epworth, the CFB reported a loss of £332,189 for the year. Epworth in contrast reported a profit of £229,383. These figures include exceptional costs of £107,027 on the final elements of the operations review. Therefore, the consolidated position on a continuing business basis showed a break-even position. The approved budget for 2020/2021 forecasts a return to a small trading surplus – however, this is unlikely to be achievable in light of recent severe market movements.

Scenario and stress testing of the CFB's financial position is regularly undertaken and the Council has set clear targets for the performance of the balance sheet that would lead to a review of our strategic plan. We are presently well removed from these trigger points. We continue to see our pension scheme clients switch their assets out of 'risk portfolios' with the CFB into other asset classes managed externally. As I warned last year, to mitigate the impact of this deterioration in our asset base, the management fees on CFB Funds were increased on 1 February 2020. These fees were set at a discount to the equivalent Epworth Funds and the Methodist Church therefore continues to pay management fees well below their third-

40. Central Finance Board of the Methodist Church

party market equivalent. The legacy of £200,000 that I reported receipt of last year remains largely unspent as we wait to see the outcome of the CFB's strategic plan.

With the launch of the Epworth Investment Funds for Charities and the cross investment into them by the CFB, Epworth Investment Management was profitable in 2019/2020 and there are no capital requirements from the CFB.

Assets under management

During the year, the CFB's funds under management fell from £1.14 billion to £1.03 billion. This was largely due to a change of strategy by a major client who 'derisked' their assets, moving them to external managers that provide Liability Driven Investment solutions. This trend of moving assets to external managers by our larger clients is likely to continue in the year ahead. A strong calendar year for investment performance was largely reversed in the first two months of 2020 as the reality of the COVID-19 pandemic began to bite. The consolidated funds under management with Epworth Investment management fell from £1.38 billion to £1.27 billion.

Summary statement of change in unit holders' net assets - Year to 29 February 2020

CFB Funds	Net Assets at 28/02/2019	Net Creations/ Cancellations	Change in Net assets	Net Assets at 29/02/2020
	£'000s	£'000s	£'000s	£'000s
UK Equity Fund	429,168	(67,222)	(10,600)	351,346
Overseas Fund	180,239	(48,244)	12,955	144,950
Gilt Fund	4,602	(1,819)	351	3,134
Corporate Bond Fund	102,183	1,153	7,201	110,537
Short Fixed Interest Fund	16,718	(2,211)	434	14,941
Inflation Linked Fund	19,230	811	2,695	22,736
Property Fund	24,495	(2,945)	(604)	20,946
Deposit Fund	370,913	(2,627)	0	368,286
Less: CFB Deposit Fund balances held in other CFB funds	(5,621)	1,018	0	(4,603)
Total	1,141,927	(122,086)	12,432	1,032,273

Ongoing work on the climate emergency

At the time of writing this report, the report of the Joint Advisory Committee on the Ethics of Investment (JACEI) to the 2020 Methodist Conference has been drafted. This includes a special report on the Committee's consideration of the oil and gas and extractives industries. It followed the 2017 Methodist Conference resolution asking the Committee to consider disinvestment from any company in those sectors whose business investment plans were incompatible with the targets set by the Paris Agreement on Climate Change. It has been an

intense three years of work for both the Committee and our investment and ethics team. I commend to the Conference the depth of analysis and challenge that went into this report.

The closure of the PASLEMC pension scheme

I advised in last year's report that we were consulting with members of the lay persons' scheme about the future provision of pension benefits by the CFB. This consultation ended with the closure of the scheme by all employer members to new members and new accruals. For future pension provision, the CFB has put in place a defined contribution scheme with Aviva. We have used a default investment option in the scheme that is based upon the Stewardship range of investment funds, thus ensuring that our staff have an ethical investment option for their ongoing pension provision.

Council and board membership

At the start of this year Anne Goodman stepped down after serving a full nine-year term on Council. Terry Wynn will be stepping down on the same basis this year. I am so grateful to them both for the nine years of dedication, support and hard work they have given the CFB. We are currently seeking new Council members and they have been given very big boots to fill.

The future

This year has seen a number of successes for the CFB, notably the change of regulatory regime and the launch of new funds in Epworth; the completion of the operations project which upgrades the capacity of our systems and processes to deliver; some ground-breaking work on climate change; continued delivery of good quality investment returns and high service standards to clients; and finally but not least the transformation from office to home-working in a short space of time.

I am not sure what the world is going to look like in six months or a year's time, but it will be different, perhaps very different, from how it looked in January 2020. However, I am sure that the changes we have made this year including making launching new funds easier, improving our systems, and developing our thinking further on climate change combined with the dedication and ability of our staff, put us in the best position possible to navigate these challenges successfully, both for ourselves and our clients.

It has always been a privilege to serve as the Chair of the CFB and be part of an organisation that invests with Christian ethics. However as I write this, I could not be more proud of the CFB and its people and the way they have responded and will respond to the challenges we face.

John Sandford, Chair

Chief Executive Officer's report

Investment review of the year

The year started from a low base after falls at the end of 2018 with concerns about slowing forecasts for economic and inflation growth. Through most of 2019, global bond

40. Central Finance Board of the Methodist Church

and equity markets rallied, pushed forward by softening interest rates. The UK significantly underperformed global equity markets due to the uncertainty surrounding the Brexit negotiations. Following the General Election in December 2019, the UK markets rallied. However, this was quickly reversed when warning signs of a global economic slowdown started to emerge as the COVID-19 pandemic started to take hold in Asia, moving into mainland Europe by the end of February.

Fund performance

The Equity Funds managed by the CFB have had a mixed outcome during 2019/2020 with the UK Equity Fund significantly out-performing its benchmark while the Overseas Fund lagged. The latter was largely due to the focus of our USA manager on smaller companies.

The Bond Funds managed by the CFB showed strong absolute returns but underperformed their benchmarks due to our continued cautious approach to interest rates.

CFB Funds: Investment performance to 29.02.2020 (All figures annualised and after fees)

	Fund size		One year	Three years	Five Years	Ten years
CFB UK Equity Fund	£352.1m	Fund	-0.11%	+3.05%	+4.27%	+7.25%
		Benchmark	-1.43%	+1.53%	+3.56%	+6.80%
		Excess return	+1.32%	+1.52%	+0.71%	+0.45%
CFB Overseas Equity Fund	£145.1m	Fund	+8.22%	+6.44%	+10.05%	+10.86%
		Benchmark	+9.45%	+6.82%	+10.71%	+10.90%
		Excess return	-1.23%	-0.38%	-0.66%	-0.04%
CFB Gilt Fund	£3.1m	Fund	+10.60%	+3.87%	+4.48%	+w5.52%
		Benchmark	+11.88%	+4.26%	+4.87%	+5.83%
		Excess return	-1.28%	-0.39%	-0.39%	-0.31%
CFB Inflation Linked Fund	£22.8m	Fund	+13.19%	+4.86%	+7.34%	+8.46%
		Benchmark	+12.65%	+4.36%	+7.33%	+8.34%
		Excess return	+0.54%	+0.50%	+0.01%	+0.12%
CFB Short Fixed Int. Fund	£14.9m	Fund	+3.81%	+1.40%	+2.08%	+3.07%
		Benchmark	+4.04%	+1.49%	+2.19%	+3.14%
		Excess return	-0.23%	-0.09%	-0.11%	-0.07%
CFB Corporate Bond Fund	£111.2m	Fund	+8.61%	+3.52%	+4.06%	+5.82%
		Benchmark	+9.18%	+3.72%	+4.29%	+5.93%
		Excess return	-0.57%	-0.20%	-0.23%	-0.11%

Epworth Investment Fund for Charities

In May 2019, Epworth converted its range of Common Investment Funds (CIFs) into Charity Authorised Investment Funds (CAIFs). This conversion was driven by the need to expand Epworth's range of equity funds in order to meet the needs of our existing and prospective clients. The Charity Commission was no longer permitting any new funds under the old CIF structure so this move into the new CAIF structure was the chosen route. CAIFs also have the added benefits of being free of VAT on the management fee and of being under the supervision of the FCA, as well as the Charity Commission. Epworth took advantage of this fund migration to delegate many of the administration functions to HSBC and move the funds from dealing every ten business days to dealing every day.

The CFB funds have cross-invested into the Epworth funds in order to take advantage of their regulatory environment. The CFB enjoys a 0% management fee from the Epworth funds. At present the targeted cross-holdings from the CFB Funds into the Epworth funds are as follows:

CFB Fund	Into Epworth fund	Target % of CFB Fund
UK Equity	UK Equity	25%
Overseas Equity	Global Equity	25%
Gilt	£ Sovereign Bond	100%
Corporate Bond	Corporate Bond	100%
Mixed Managed	Multi Asset	100%

Major clients in the CFB Overseas Equity fund have indicated that they would like to see a full year of trading history in the new Epworth funds before further cross-investment is undertaken. While the CFB and Epworth UK Equity funds mirror each other, the Epworth Global Equity Fund uses the long established CFB investment management approach to the selection of companies for investment across all of its assets. The CFB Overseas Fund in contrast uses a number of third-party funds and portfolio managers. Since their launch, both Epworth equity funds have out-performed their benchmarks and we hope that the CFB funds will fully cross-invest into these later this year.

For internal purposes only, the following table summarises the cross-investment between the CFB and Epworth funds and the performance of the Epworth funds since inception.

40. Central Finance Board of the Methodist Church

	Fund size	Value of CFB holding	Value of external investment		Date of inception	Return from inception*
Epworth UK Equity Fund	£173.8m	£102.7m	£71.1m	Fund		-4.10%
				Benchmark	01.05.19	-6.50%
				Excess return		+2.40%
Epworth Global Equity Fund	£55.6m	£46.3m	£9.3m	Fund		+2.50%
				Benchmark	01.05.19	+1.80%
				Excess return		+0.70%
Epworth Sovereign Bond Fund	£14.8m	£3.1m	£11.7m	Fund		+9.20%
				Benchmark	01.05.19	+10.80%
				Excess return		-1.60%
Epworth Corporate Bond Fund	£134.9m	£113.7m	£21.1m	Fund		+7.10%
				Benchmark	01.05.19	+8.00%
				Excess return		-0.90%
Epworth Multi Asset Fund	£29.3m**	£27.7m	£1.6m	Fund		-3.77%
				Benchmark	01.08.19	N/A
				Excess return		
Affirmative Deposit Fund	£482.7m	£368.1m	£108.8m***	N/A		
TOTALS	£891.1m	£661.7m	£223.6m			

*CFB units (CFB units have a 0% management fee)

**Includes cross holdings in other Epworth funds

***Excludes investment from other Epworth funds

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 2019/2020 is as follows.

Type	For	Oppose	Abstain	% Against or abstain
Auditors	377	7	0	1.82%
Directors	1897	413	17	18.48%
Remuneration	278	399	4	59.18%
Executive Pay Scheme (UK)	10	10	0	50.00%
Shareholder Capital (Overseas)	378	78	10	18.88%
Other	1517	100	6	6.53%
Total	4457	1007	37	18.98%

Epworth Climate Stewardship Fund

The Methodist Conference will receive a report from the Joint Advisory Committee on the Ethics of Investment (JACEI) in June 2020 on how the oil and gas majors are meeting the commitments required by the Paris Agreement on Climate Change. Epworth held a client forum in the autumn of 2019 to understand how our major clients wish to respond to the climate emergency. We learnt from that forum that a number of our clients will support a Fund that excludes investment in companies which extract or refine fossil fuels or which obtain a significant portion of their revenues from supplying such companies. We therefore hope to launch the Epworth Climate Stewardship Fund in May 2020 to meet these client needs. In addition to excluding companies involved in the fossil fuel industry, it will also exclude companies that leave large greenhouse gas footprints. The Fund will also seek to invest in companies that will aid the transition to lower carbon emissions.

Response to the coronavirus pandemic

The end of 2019/2020 saw the spread of coronavirus around the globe. The CFB reacted early and quickly to this health threat and ceased face-to-face meetings in February. We then moved to split site working early in March and reduced the office personnel to a skeleton staff several days before the lockdown announced by the UK government. Thanks to amazingly hard work by everyone involved, the CFB is now operating remotely from people's homes. We continue to manage the CFB and Epworth funds as we always have. We monitor fund liquidity and investor movements daily and continue to report to the FCA that we are not seeing the stress positions that many of our peers are facing. The one fund that has been impacted by the coronavirus pandemic is the CFB Property Fund, where we were forced to suspend dealing at the end of March due to the suspension of the underlying Fund, the Property Income Trust for Charities. This fund was suspended due to the low conviction applied to property valuations by the independent valuers at a time when rents were being renegotiated or withheld and access to property was severely curtailed.

Looking forward to 2020/2021

Our Chair has reported on the strong financial position of the CFB. Nevertheless the significant fall in markets that we have seen at the start of this financial year and the stated intention of some of our major clients to move assets away from the CFB, present significant challenges to our current strategy. The Council of the CFB have identified key "trigger" points for a review of the growth strategy through Epworth. Should these be breached, alternative routes to secure the CFB's continued service to the Methodist Church will be examined. However, we are presently a long way removed from these triggers. Instead, the executive is focused on new marketing campaigns for the Affirmative Deposit Fund and the Epworth Climate Stewardship Fund. Epworth's profile in the charity market continues to grow, our ethical presence impresses and investment performance delivers. It is a strong basis for growth and the executive remains focused on this despite the short-term challenges presented by the coronavirus pandemic.

David Palmer, Chief executive officer

40. Central Finance Board of the Methodist Church

*****RESOLUTIONS**

40/1. The Conference adopts the Report of the Central Finance Board.

40/2. The Conference elects the following persons to the Central Finance Board for the period of one year from 1 September 2020:

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, the Revd Andy Laird, Theophilus Mensah, Nick Moore, the Revd Leslie Newton, John O'Brien, Colin Pearson, the Revd Jennifer Potter, Martin Rees, John Sandford, Gordon Slater, Andrew Slim, the Revd Eleanor Smith, Anthea Sully, the Revd Graham Thompson, Geoffrey Wilcox, Morwenna Williams