

## 45. Central Finance Board

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### Summary statement of change in unit holders' net assets Year to 28 February 2017

<b>CFB Funds</b>	<b>Net assets at 29/2/2016 £'000s</b>	<b>Net creations/ cancellations £'000s</b>	<b>Change in net assets £'000s</b>	<b>Net assets at 28/02/2017 £'000s</b>
<b>UK Equity Fund</b>	355,248	(22,079)	58,738	391,907
<b>Overseas Fund</b>	159,281	(22,160)	51,440	188,561
<b>Gilt Fund</b>	33,463	(8,074)	812	26,201
<b>Corporate Bond Fund</b>	94,586	6,024	5,320	105,930
<b>Short Fixed Interest Fund</b>	10,162	8,575	71	18,808
<b>Inflation Linked Fund</b>	30,520	(11,732)	4,845	23,633
<b>Property Fund</b>	20,288	586	(121)	20,753
<b>Deposit Fund</b>	357,805	11,992	0	369,797
<b>Less: CFB Deposit Fund balances held in other CFB funds</b>	(2,440)	(5,921)		(8,361)
<b>Total</b>	<b>1,058,913</b>	<b>(42,789)</b>	<b>121,105</b>	<b>1,137,229</b>

### Review of the year ended 28 February 2017

#### Introduction

The report which follows details the year in monetary terms and gives a flavour of our ethical impact inspired by Christian teaching.

The key issue for myself and Council this year was to find a new Chief Executive Officer (CEO) to replace Bill Seddon, and then to manage the transition to the new CEO. In David Palmer we believe we have found someone of great investment management experience and deep Christian faith who can build on Bill's impressive legacy and grow the organisation in the 21<sup>st</sup> century. Mr Seddon and Mr Palmer have worked together and with the Executive during the transition period to provide a seamless service to all our clients.

## **Summary of financial position**

The twelve month period ended February 2017 continued the pattern of the previous year. The strong financial performance can largely be attributed to costs falling well below budget. The surplus recorded for the year of £496,312 exceeded our expectations and was mainly due to a number of positions in the investment management team that remained unfilled during the year. Assets under management also grew strongly during the period; increasing by 7.4% to £1.14bn. When we include our wholly owned subsidiary, Epworth Investment Management, total assets now stand at £1.36bn (£1.28bn at February 2016).

These strong numbers disguise some disappointing underlying trends. The growth in assets can be attributed to good underlying investment markets. Net flows from our clients actually saw a decline of £42.8m (-4.0%) during the year, largely due to a decision by several of our pension fund clients to switch assets from their portfolio with the Central Finance Board into external Liability Driven Investment solutions. Furthermore, the impact of rising asset values on the revenue from our existing client base is restricted by the tiered pricing structure that we have in place for some of the larger pension clients – the corollary of this is that we have some protection from falling asset values.

We have been blessed by strong markets in recent years and it is imperative that we take this opportunity to secure the long-term future of the Central Finance Board by making much needed investment in our operating platform and by growing our asset base.

## **Personnel**

It would be remiss of me not to acknowledge the strain that the unfilled vacancies in our investment personnel placed upon the team during the year. I must thank them for their hard work and continued support during this period. The management team is prioritising the outstanding recruitments and I hope that the investment management staff will be better supported in the year ahead.

## **Joint Advisory Committee on the Ethics of Investment (JACEI)**

The report of the Joint Advisory Committee on the Ethics of Investment (JACEI) is included elsewhere in the Conference Agenda. It is the work of JACEI that distinguishes the Central Finance Board from other investment managers. Our investment decisions and corporate engagement are driven by our commitment to ethical investment, as applied by JACEI on behalf of the Methodist Conference. The ethics of investment inevitably have many 'grey' areas where we have to decide between disinvestment or engagement – and, when we do engage, what form that should take. The Committee continues to undertake this work with understanding and compassion and I must thank them for their insightful and diligent work throughout the year.

## **Departures**

Several members of the Council are stepping down at this time. Sue Haworth has been a Council stalwart, having served for the maximum term of nine years. We are also sorry to say goodbye to Garry Young after six years on the Council. I thank them both for their hard work and unwavering support.

I must also reflect on the long period of service that Bill Seddon has given to the Central Finance Board. Bill's career with us started 32 years ago in a small office in Lincoln Inns Fields, as a portfolio assistant to the father of ethical investment, Charles Jacob. When Charles retired, Bill became our second Chief Executive Officer and under his leadership we have seen our Mission Statement develop,

Epworth Investment Management formed and assets under management grow from £83mln to £1.36bln. During this time, Bill has also been a leading figure in the world of ethical investing. He was an early contributor to EIRIS, helped launch the Institutional Investors group on Climate Change and was a leading figure behind the relaunch of the Church Investors Group. Bill retires from the Central Finance Board leaving it and the world of ethical investing in very fine health. I wish Bill and his wife Rosie great happiness in their retirement.

### Transition to new management

With the retirement of Bill Seddon, it is time to look forward to a new management team for the Central Finance Board. David Palmer's broad leadership experience in the wealth management sector gives us the foundation for growth that will enable the re-investment that we need in the business. Marina Phillips continues to do an outstanding job as our Chief Financial Officer whilst Stephen Beer as Chief Investment Officer brings together the critical investment and ethical elements of our engagement with the financial community. Together these three make up a strong Executive Committee and I look forward to working closely with them as we begin a new chapter in the history of the Central Finance Board.

### Investment performance External assessment

(Source: Portfolio Evaluation, except where stated) 28 February 2017

Index	1 year to 28.02.17	5 years to 28.02.17	10 years to 28.02.17
	%	% p.a.	% p.a.
<b>Equity</b>			
<b>CFB UK Equity Fund</b>	<b>+21.1</b>	<b>+9.3</b>	<b>+5.8</b>
FTSE All Share Index	+22.8	+9.2	+5.9
CFB proprietary ethical Index	+20.6	+9.3	+5.6
FTSE All Share Index (traditional ethical adjustment)	+21.8	+8.8	+5.2
<b>CFB Overseas Fund</b>	<b>+35.9</b>	<b>+14.8</b>	<b>+9.9</b>
FTSE All World ex U.K Index	+38.7	+15.0	+10.0
<b>CFB Managed Equity Fund<sup>1</sup></b>	<b>+23.4</b>	<b>+10.2</b>	<b>+6.5</b>
Managed Equity Fund Composite Index	+25.1	+10.1	+6.5
Managed Equity Fund Composite Index (using CFB proprietary UK Index)	+23.2	+10.2	+6.3
Managed Equity Fund Composite Index (using traditional UK ethical adjustment)	+24.3	+9.7	+5.9
<b>CFB Managed Mixed Fund<sup>1</sup></b>	<b>+18.4</b>	<b>+9.2</b>	<b>+6.6</b>
Managed Mixed Composite Index	+18.5	+8.6	+6.4
Managed Mixed Composite Index (using CFB proprietary UK Index)	+17.2	+8.7	+6.2
Managed Mixed Composite Index (using traditional UK ethical adjustment)	+17.9	+8.4	+6.0
<b>Fixed Interest</b>			
<b>CFB Managed Fixed Interest Fund<sup>1</sup></b>	<b>+4.4</b>	<b>+3.8</b>	<b>+5.6</b>
Managed Fixed Interest Composite	+4.7	+4.0	+5.5

<b>CFB Short Fixed Interest Fund</b>	<b>+2.8</b>	<b>+2.6</b>	<b>+4.8</b>
Short Gilt Composite Index	+2.2	+2.5	+4.8
<b>CFB Gilt Fund</b>	<b>+5.4</b>	<b>+4.5</b>	<b>+6.1</b>
FTSE All Stock Gilt Index	+6.1	+4.9	+6.2
<b>CFB Corporate Bond Fund<sup>1</sup></b>	<b>+8.7</b>	<b>+6.2</b>	<b>+6.5</b>
Corporate Bond Composite Index	+9.3	+6.5	+5.6
<b>Inflation Linked</b>			
<b>CFB Inflation Linked Fund</b>	<b>+19.3</b>	<b>+8.4</b>	<b>+8.6</b>
FTSE All Stock Index Linked Index (gilt only)	+20.2	+8.7	+8.8
<b>Property</b>			
<b>CFB Property Fund<sup>1,3</sup></b>	<b>+9.8</b>	<b>+10.0</b>	<b>+3.4</b>
IPD All Balanced Funds Index <sup>2,3</sup>	+7.2	+8.4	+2.9
<b>Cash (AERs)</b>			
<b>CFB Deposit Fund<sup>1</sup></b>	<b>+0.5</b>	<b>+0.8</b>	<b>+1.8</b>
Higher Rate Bank Deposits (over £10,000)	+0.1	+0.1	+0.5
1 Week LIBID	+0.2	+0.3	+1.3

<sup>1</sup> Source: CFB

<sup>2</sup> Source: IPD

<sup>3</sup> Performance to 31 December 2016

### **\*\*\*RESOLUTIONS**

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

**45/2. The Conference elected the following persons to the Central Finance Board for the period of one year from 1 September 2017:**

Dr Keith Aldred, Ruby Beech, Graham Boyd, Ralph Dransfield, Caroline Edwards, the Revd Anne Ellis, Ashley France, John Gibbon, Anne Goodman, Hazel Griffiths, Alan Groves, Frank Guaschi, David Haslam, Sue Haworth, Peter Hobbs, the Revd Dr Peter Howson, the Revd R Andrew Laird, the Revd Leslie Newton, Theophilus Mensah, Nick Moore, John O'Brien, Colin Pearson, the Revd Jennifer Potter, Martin Rees, John Sandford, Maureen Sebanakitta, Gordon Slater, Andrew Slim, the Revd Eleanor Smith, Anthea Sully, the Revd Graham Thompson, Geoffrey Wilcox, Michael Willett, Morwenna Williams, Terry Wynn.