

## 27. Central Finance Board

### Review of the year ended the 29 February 2008

Despite signs of growing instability in the financial system, equity markets were on course for a fifth successive year of rising prices as late as November. Investors had at first ignored the possibility that problems associated with highly questionable financial practices in the US housing market would spread and equity prices even recovered rapidly from the collapse of Northern Rock. However, a more serious decline then began and by mid January the FTSE All Share Index was down 18% from its peak. In March this was extended to over 20%. Investors became extremely risk averse, seeking the security of government bonds. Liquidity dried up as commercial banks feared to lend to each other, forcing central banks to intervene. Although some stability has returned, confidence remains fragile.

Against this background unit holders saw the profits made from equities in the first part of the year disappear, whilst bond losses turned into healthy positive returns. The highest CFB returns were achieved by the Inflation Linked Fund (+9.4%). As investors became increasingly nervous it was not surprising that the less volatile Short Fixed Interest Fund (+7.4%) produced the best returns of our conventional bond funds. Trailing well behind was the Corporate Bond Fund (+1.7%) although our insistence on keeping an extremely high credit quality paid off, with a return 2.7% above that of its benchmark.

For eight years, we have been faced with a severe headwind due to our values-driven investment policy. This trend reached a new extreme over the past twelve months. Those stocks that we exclude on ethical grounds rose on average 9% whilst the remaining 88% of the market declined 8%. The result was a total return for the FTSE All Share Index (-2.7%) 1.8% better than when adjusted for the ethical exclusions. It is therefore extremely pleasing that the CFB UK Equity Fund matched the return of the benchmark before taking account of the ethical input, beating its investable universe by almost 2%. Over the years the CFB has been adept at avoiding the worst of market declines and this has proved to be the case once again.

The return on the Overseas Fund (+2.2%) was boosted by the weakness of sterling. Outsourcing its fund management is now almost complete with the European portfolio now invested through our own, FSA regulated, Epworth Investment European Fund. This in turn has recently chosen an external manager, whilst retaining control of the ethical policy. There was a much improved relative performance in all regions except Japan and the Fund matched the return of the FTSE All World ex UK Index. Unfortunately, unable to overcome the 1% impact of taxes and expenses, it lagged behind the Composite Index (+3.2%).

The Deposit Fund with its combination of competitive interest payments and high quality loan book grew by nearly 6% in the past year. It is an ideal investment vehicle for those who cannot run the risks of fluctuating equity and bond prices. It has now been managed through the Affirmative Deposit Fund for over a year. This fund, established by the Charity Commission, allows us to offer the expertise

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of our team to other churches and charities to the benefit of all concerned. We are particularly grateful to all the local Methodist treasurers who have helped in promoting the new fund by passing on the good news of the CFB's work and introducing their many non-Methodist charitable contacts. By joining with these new investors, the CFB will be able to continue improving its services and become even more competitive in its offering.

The most significant development in our ethical work was the adoption of a CFB policy statement on investment in companies with military exposure. Although we have always avoided investment in armaments companies, this was the first structural review we had undertaken for twenty years. The new policy builds on latest Methodist thinking on the subject, enables us to assess companies on a consistent basis regarding their military related businesses and provides a statement that can more easily communicate our position.

Last year Javaid Khan, executive director of NCH, retired and stood down from the Council. He provided much helpful advice from the perspective of a user of our services and will be missed. Sue Haworth, who is a qualified accountant with experience in the fields of tax and compliance, has now been appointed to the Council as his replacement. There have also been changes to our loyal and hardworking staff. Nancye Nosworthy, who carried out secretarial, receptionist and other administrative duties retired, whilst we welcomed back Janice Thomson after more than a year following her battle with serious ill health.

The gyrations of the stock market over recent months have been viewed by many with bewilderment and perhaps some concern. It is at times like this that we are particularly grateful for our experienced and level-headed team led by Bill Seddon, who ably assisted by the advice of our knowledgeable Council, steered their way through the current financial turmoil with assurance. In a constantly changing world both Council and staff will continue working on your behalf to develop the service that Methodism requires.

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### Investment Performance Internal Assessment (Total returns of audited unit values)

	1 year to 29 February 2008 %	5 years to 29 February 2008 % p.a.	10 years to 29 February 2008 % p.a.
<b>Equity &amp; Convertibles</b>			
<b>CFB Managed Mixed Fund (Charity)</b>	<b>-0.2</b>	<b>+11.6</b>	<b>+4.7</b>
<b>CFB Managed Equity Fund (Charity) *</b>	<b>-1.9</b>	<b>+13.9</b>	<b>+4.1</b>
<b>CFB UK Equity Fund (Charity) *</b>	<b>-2.7</b>	<b>+14.0</b>	<b>+4.1</b>
FTSE All Share Index (Gross)	-2.7	+15.1	+4.4
FTSE 100 Index (Gross)	-1.3	+13.8	-
<b>CFB UK Equity Fund (Pension) *</b>	<b>-2.7</b>	<b>+14.0</b>	<b>+3.9</b>
FTSE All Share Index (Net)	-2.7	+15.1	+4.2
FTSE 100 Index (Net)	-1.3	+13.8	+3.2
* Figures prior to 01/09/99 relate to CFB Investment Fund			
<b>CFB Overseas Fund (Charity)</b>	<b>+2.2</b>	<b>+12.9</b>	<b>+4.2</b>
<b>CFB Overseas Fund (Pension)</b>	<b>+2.2</b>	<b>+12.9</b>	<b>+4.2</b>
FTSE All World Index(ex U.K)	+2.2	+12.8	+4.7
FTSE All World Index Regional Comp	+3.2	+14.5	-
<b>Fixed Interest</b>			
<b>CFB Managed Fixed Interest Fund</b>	<b>+6.1</b>	<b>+4.2</b>	<b>+6.4</b>
Managed Fixed Interest Composite	+6.0	+4.2	+6.0
<b>CFB Short Fixed Interest Fund</b>	<b>+7.4</b>	<b>+4.2</b>	<b>-</b>
FTSE Short Gilt Index Composite	+7.7	+4.3	-
<b>CFB Gilt Fund*</b>	<b>+5.6</b>	<b>+4.0</b>	<b>+6.2</b>
FTSE All Stock Gilt Index	+5.7	+4.3	+5.9
<b>CFB Corporate Bond Fund</b>	<b>+1.7</b>	<b>+4.7</b>	<b>-</b>
iBoxx Non Gilts Index	-1.0	+3.9	-
* Figures prior to 01/11/02 relate to CFB Long Fixed Interest Fund			
<b>Inflation Linked</b>			
<b>CFB Inflation Linked Fund</b>	<b>+9.4</b>	<b>+6.9</b>	<b>+7.6</b>
FTSE All Stock Index Linked Index	+9.8	+6.8	+7.1
<b>Property</b>			
<b>CFB Property Fund</b>	<b>-10.7</b>	<b>-</b>	<b>-</b>
IPD All Balanced Funds Index	-	-	-
<b>Cash (AERs)</b>			
<b>CFB Deposit Fund</b>	<b>+5.7</b>	<b>+4.6</b>	<b>+5.0</b>
Higher Rate Bank Deposits (over £10,000)	+2.6	+1.6	+1.7
1 Week LIBID (less CFB expenses)	+5.5	-	-

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### Independent Assessment

(Cumulative total returns: source Portfolio Evaluation/Russell Mellon)

	1 year to 31 December 2007 %	5 years to 31 December 2007 % p.a.	10 years to 31 December 2007 % p.a.
<b>CFB UK Equity Fund</b>	<b>+4.9</b>	<b>+14.1</b>	<b>+5.9</b>
Index (FTSE All Share)	+5.3	+15.4	+6.4
<b>CFB Overseas Fund</b>	<b>+10.2</b>	<b>+13.8</b>	<b>+5.9</b>
Index (FTSE All-World ex UK)	+11.2	+14.2	+6.5
Index (Overseas Composite Index)	+12.7	+15.9	+7.5
<b>CFB Gilt Fund</b>	<b>+5.3</b>	<b>+4.3</b>	<b>+6.4</b>
<b>CFB Short Fixed Interest Fund</b>	<b>+6.4</b>	<b>+4.4</b>	<b>n/a</b>
<b>CFB Corporate Bond Fund</b>	<b>+3.0</b>	<b>+5.3</b>	<b>n/a</b>
Index (All Stock Gilts)	+5.2	+4.5	+5.8
Index (Short Fixed Composite)	+6.7	+4.4	n/a
Index (iBoxx Non Gilts)	+1.8	+4.7	n/a
<b>CFB Inflation Linked Fund</b>	<b>+8.5</b>	<b>+7.3</b>	<b>+7.5</b>
Index (All Stock Index Linked Gilts)	+8.5	+7.0	+7.0

### \*\*\*RESOLUTIONS

**27/1.** The Conference adopts the Report of the Central Finance Board.

**27/2.** The Conference elects the following persons to the Central Finance Board for the period of one year from the 1 September 2008

Nick Addo	Theophilus Mensah
Dr Keith Aldred	<u>Nick Moore</u>
Edward Awty	Sir Michael Partridge
Ronald Calver	Colin Pearson
Brian Coldwell	Alan Pimlott
Peter Cussons	Revd Jennifer Potter
Christopher Daws	Richard Reeves
Ralph Dransfield	Gordon Slater
J Allan Dyer	Eleanor Smith
Alan Emery	Roger Smith
Revd David Gamble	Revd Kenneth Street
John Gibbon	Paula Thomas
Hazel Griffiths	Revd Graham Thompson
Frank Guaschi	Peter Thompson
Sue Haworth	Alister Tough
Anne Hughes-Holmes	Herbert Tuckey
Mervin Liversidge	Ken Wales
Brian Mansfield	Geoffrey Wilcox
Tim Melling	Michael Willett

### Reasoned Statement for New Nominations

Nick Moore – Senior manager designate, Support Services Cluster