

Investment Newsletter No.22

April 2010

Market Review

A cut to 0.5% from 1% on 6 March 2009 was the only change in base rate during the year. The premium of three month deposit rates over the base rate began the year at 95bp, peaked at 140bp in March, before gradually declining to close at a nil premium. The Deposit Fund paid an average rate of interest of 1.5% (aer) compared to 0.1% (aer) for higher rate bank deposits. Gilts were volatile but prices trended lower with the 10 year yield opening at 3.63%, with a low of 2.95% in March and a high of 4.23% in February, before closing at 4.03%. Corporate bonds enjoyed a strong rally with the average yield spread over gilts falling by 251bp to close at +172bp having moved between +478bp and +163bp. For the year corporate bonds were the best performing UK bond class: iBoxx Non Gilts Index (+17.0%); FTSE All Stocks Index Linked Index (+10.8%); FTSE All Stocks Gilts Index (+2.5%). Short dated issues slightly outperformed long dates: Short Fixed Interest Fund Composite Index (+2.6%); Over 15 Year Gilts Index (+2.5%). The best return relative to benchmark came from the Short Fixed Fund (+1.1%) followed by the Gilt (+0.3%) and Managed Fixed Interest (+0.4%) funds. The Inflation Linked (-2.0%) and Corporate Bond (-3.6%) lagged due to the strength of lower quality corporate bonds.

The low point for UK equity prices occurred in early March since when the market rallied strongly with the FTSE All Share Index up 63% by mid January. It closed up 42% over the year, for a total return of 47.3%. Smaller more cyclical companies provided the best returns with the FTSE Mid 250 outperforming the FTSE 100 Index (+58.9% vs +45.5%). The CFB ethically adjusted benchmark lagged behind the All Share Index (-61bp). The UK Equity Fund return (+42.8%) lagged the ethically adjusted benchmark by -3.9% and the FTSE All Share Index by -4.5% as the lower quality cyclical stocks that led the way down outperformed significantly. The FTSE All World ex UK Index also rose strongly closing up 46% for a total return of +50.0%. Although currency movements had little impact the FTSE World ex UK Index outperformed the FTSE All Share Index by 2.7%. The return on the Overseas Fund (+41.6%) was 8.4% behind the Index as investments in the US and Pacific lagged behind their local benchmarks due to relatively cautious strategies. The Managed Equity (+42.7%) and Managed Mixed (+31.5%) lagged their benchmarks by 4.4% and 1.3%, respectively. The Property Fund produced an estimated return of +17.4% based on distributions to 31 December and the value on 28 February.

Economic Overview and Market Outlook

In most countries industrial production and exports have begun to recover after the collapse in world trade seen last year, although consumer confidence and consumer spending remain relatively muted. It is positive that the US economy seems to be entering a normal cyclical upturn. The UK economy also seems to be on course for a recovery that may prove more buoyant, at least in the early stages, than official forecasts indicate. The Purchasing Managers Index for February shows that both manufacturing and service sector surveys are above their long term averages and that the Composite Index for the first two months of the year is above its fourth quarter average. This would be consistent with annualised GDP growth of at least 3%, well above the Treasury forecast of 1.25% for 2010. However, there remains a significant discrepancy between official growth data and most other indicators of economic activity, whilst the need to cut the budget deficit indicates that following the initial recovery phase, growth may be below trend for several years.

In February the Bank of England put the Quantitative Easing programme (QE) on hold, although the first increase in the base rate is not expected until the fourth quarter. Together with the current steepness of the money market yield curve this indicates that there is still some value in longer-term deposits. Gilt prices have rallied in response to the Budget deficit undershooting estimates and increased demand from banks in response to new FSA rules. However, longer term there seems little reason not to remain underweight. Corporate bond spreads no longer look outstanding value compared to gilts, and positions should only be increased on setbacks. Although inflation linked yields have risen from the recent 49bp low, at 80bp they still do not look good long-term value. Since last summer UK equities have been supported by corporate profits being consistently better than expected. This may not continue indefinitely given that below par long term economic expansion is anticipated. They also appear cheap relative to gilts with the gilt yield premium still under 20%. However, with the average equity dividend yield 60bp below its twenty year average, this has more to do with bonds being expensive. The equity rally has also been supported by unprecedented central bank intervention on a global scale. If as seems likely, these measures are now gradually withdrawn, there is a considerable risk of profit taking. It appears timely to reduce underweight UK equity positions after a fall of nearly 10% compared to other markets.

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Internal Assessment
(Total returns of audited unit values)

Index	1 year to 28.02.10 %	5 years to 28.02.10 % p.a.	10 years to 28.02.10 %p.a.
Equity & Convertibles			
CFB Managed Mixed Fund (Charity)	+31.5	+5.4	+3.2
CFB Managed Equity Fund (Charity) *	+42.7	+5.4	+2.4
CFB UK Equity Fund (Charity) *	+42.8	+4.9	+2.4
FTSE All Share Index (Gross)	+47.3	+5.6	+2.5
FTSE 100 Index (Gross)			
CFB UK Equity Fund (Pension) *	+42.8	+4.9	+2.3
FTSE All Share Index (Net)	+47.3	+5.6	+2.4
FTSE 100 Index (Net)	+45.5	+5.4	+1.9
FTSE All Share Index Ethically Adjusted	+46.7	-	-
* Figures prior to 01/09/99 relate to CFB Investment Fund			
CFB Overseas Fund (Charity)	+41.6	+7.9	+1.4
CFB Overseas Fund (Pension)	+41.6	+7.9	+1.4
FTSE All World Index(ex U.K)	+50.0	+8.3	+1.9
Fixed Interest			
CFB Managed Fixed Interest Fund	+4.4	+5.7	+5.9
Managed Fixed Interest Composite	+4.0	+5.4	+5.6
CFB Short Fixed Interest Fund	+3.7	+5.9	-
FTSE Short Gilt Index Composite	+2.6	+5.8	-
CFB Gilt Fund*	+2.8	+5.2	+5.4
FTSE All Stock Gilt Index	+2.5	+5.2	+5.4
CFB Corporate Bond Fund	+11.2	+5.5	-
iBoxx Non Gilts Index	+17.0	+3.8	-
Corporate Bond Index Composite	+14.8	+3.5	-
* Figures prior to 01/11/02 relate to CFB Long Fixed Interest Fund			
Inflation Linked			
CFB Inflation Linked Fund	+10.1	+5.9	+5.7
FTSE All Stock Index Linked Index	+10.8	+6.1	+5.7
FTSE Inflation Linked Index Composite	+12.1	+6.1	-
Property			
CFB Property Fund	+17.4	-	-
IPD All Balanced Funds Index	-	-	-
Cash (AERs)			
CFB Deposit Fund	+1.5	+4.3	+4.4
Higher Rate Bank Deposits (over £10,000)	+0.1	+1.6	+1.4
1 Week LIBID (less CFB expenses)	+0.4	-	-

CFB Investment Funds
Prices and Historic Yields as at 28 February 2010

	Price (p)	Distribution over past year (p)	Yield %	Dealing Surcharge %
Managed Equity Fund	1619.0	46.13	2.9	0.30
Managed Fixed Interest Fund	173.5	6.82	3.9	0.10
Managed Mixed Fund	303.9	10.12	3.3	0.35
UK Equity Fund	1348.5	42.67	3.2	0.30
Overseas Fund	270.9	3.14	1.2	0.15
Gilt Fund	130.8	4.97	3.8	0.05
Corporate Bond Fund	115.9	5.59	4.8	0.45
Short Fixed Interest Fund	108.4	4.10	3.8	0.05
Inflation Linked Fund	243.7	4.09	1.7	0.30
Property Fund	61.9	6.69	10.8	n/a

Dealing takes place on the first day of each month. Instructions can be given through the appropriate Methodist Custodian body which in most cases will be the Trustees for Methodist Church Purposes (0161 235 6770)

Risk warning

CFB investment funds are designed for long term investors. While we hope that unit values will rise, prices can and do fall. They are not suitable for you to use if you cannot accept the possibility of capital losses.