

40. Central Finance Board – Review of the year ended 28 February 2009

As what is likely to prove the worst economic downturn since the 1930s has unfolded, governments and central banks around the world have struggled to stabilise the financial system. In the UK hundreds of billions of pounds has been made available to provide liquidity to the money markets and to guarantee lending between the banks. It became necessary for the government to take effective control of both the Royal Bank of Scotland and, following its merger with HBOS, Lloyds Banking Group. Total bank dividends are now less than a quarter of the level being paid a year ago. It is scarcely surprising that with such a background equity prices fell precipitously with the FTSE All Share Index down 36% in the year under review. Those that avoided the capital risk of equities by keeping assets on deposits saw their income slump as the Bank Rate fell from 5.25% to 0.5%. The fixed interest market did provide protection but only through gilts and the highest quality non-government bonds.

Although the past year has been one of the most challenging for investors in living memory, it is some consolation that the low risk strategy followed by the Central Finance Board (CFB) resulted in most of our funds producing better returns than their respective benchmarks. The return on the Corporate Bond Fund is particularly noteworthy with a total return of +4.9% compared to -5.4% for the iBoxx Non Gilts Index as the policy of avoiding lower quality issues at the expense of a lower running yield paid off spectacularly well. The Gilt (+8.8% versus +8.4%) and Inflation Linked (-2.8% versus -3.3%) funds also outperformed their respective indices

although the Short Fixed Interest Fund (+11.0%) failed to match its benchmark by just 0.1%.

The weakness in sterling resulted in overseas outperforming UK equities significantly, but in both areas CFB returns continued to show resilience in declining markets. The decision to outsource the management of our overseas portfolios, whilst retaining the asset allocation function, meant that they had another relatively successful year with the Overseas Fund return of -23.5% being 3.2% better than that of the Index. Ethical exclusions helped relative performance in the UK equity market, with the CFB Fund (-31.4%) outperforming the ethically adjusted index by 0.9% and the FTSE All Share Index by a further 0.7%.

It was a year in which investors began to question whether it was appropriate to concentrate on maximising short term returns with no thought for the long term viability of a company and the importance of an underlying moral compass to guide management in the direction a business is developed. This was particularly apparent in what was previously thought of as very low risk bank deposits. When the Icelandic banks collapsed and UK clearers seemed on the brink of following their example, many charities realised how exposed they were to possible defaults. The CFB Deposit Fund was served well by its rigorous approach in selecting the banks to which it lent money. Even so, criteria were tightened on several occasions as we wrestled with the challenge of balancing risk and return, whilst taking advantage of a steepening

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of the yield curve to lock in higher rates for longer. This has resulted in the rate of interest being paid to our investors declining more slowly than would have been experienced elsewhere. Indeed the Affirmative Deposit Fund, which allows us to make our expertise available to non-Methodist charities, has grown rapidly in the past year, up £50 million to £470 million with 10% now deposited in around 300 non-Methodist accounts out of a total of 8,500.

Last year we adopted a written policy on investment in companies with military exposure, which we have now extended to include contractors providing military security and services. An important theological paper is to be presented to the Conference that it is hoped will form the basis of the Methodist Church's position on climate change. In the light of this a position paper on how the subject relates to investment has been drafted and it

is hoped that the CFB will soon be able to adopt a policy that reflects the Methodist Church stance.

In troubled times it is vital to have access to wisdom and experience and we are very grateful for this provision through our Council. It is therefore with regret that two members are standing down. Both Mr Brian Mansfield, formerly Treasurer of the Methodist Missionary Society and Managing Director of the merchant bank, Singer and Friedlander and Mr Tim Melling, with his wide experience as a finance director in the commercial world, will be sorely missed.

Finally, our thanks must go to the CFB staff, led by Mr Bill Seddon, who have been able to demonstrate a calm and considered approach that has given confidence to our clients that the CFB can be trusted to be wise stewards of their Methodist assets through even the most testing of times.

**Investment Performance
Internal Assessment**

(Total returns of audited unit values)

	1 year to 28 February 2009 %	5 years to 28 February 2009 % p.a.	10 years to 28 February 2009 % p.a.
Equity & Convertibles			
CFB Managed Mixed Fund (Charity)	-30.1	+0.8	-0.4
CFB Managed Equity Fund (Charity) *	-32.0	+0.7	-0.4
CFB UK Equity Fund (Charity) *	-31.4	+0.3	-0.6
FTSE All Share Index (Gross)	-33.0	+0.5	-0.5
FTSE 100 Index (Gross)	-31.8	+0.5	-
CFB UK Equity Fund (Pension) *	-31.4	+0.3	-0.7
FTSE All Share Index (Net)	-33.0	+0.5	-0.7
FTSE 100 Index (Net)	-31.8	+0.5	-1.6
<i>*Figures prior to 01/09/99 relate to CFB Investment Fund</i>			
FTSE All Share Index Ethically Adjusted	-	-	-
CFB Overseas Fund (Charity)	-23.5	+2.6	+0.2
CFB Overseas Fund (Pension)	-23.5	+2.6	+0.2
FTSE All World Index(ex U.K)	-26.7	+1.6	+0.1
Fixed Interest			
CFB Managed Fixed Interest Fund	+9.5	+5.8	+5.4
Managed Fixed Interest Composite	+8.3	+5.6	+5.3
CFB Short Fixed Interest Fund	+11.0	+6.1	-
FTSE Short Gilt Index Composite	+11.1	+6.2	-
CFB Gilt Fund*	+8.8	+5.7	+5.1
FTSE All Stock Gilt Index	+8.4	+5.7	+5.2
CFB Corporate Bond Fund	+4.9	+4.8	-
iBoxx Non Gilts Index	-5.4	+2.0	-
<i>*Figures prior to 01/11/02 relate to CFB Long Fixed Interest Fund</i>			
Inflation Linked			
CFB Inflation Linked Fund	-2.8	+5.2	+5.0
FTSE All Stock Index Linked Index	-2.6	+5.3	+5.0
FTSE Inflation Linked Index Composite	-3.3	+5.0	-
Property			
CFB Property Fund	-34.3	-	-
IPD All Balanced Funds Index	-	-	-
Cash (AERs)			
CFB Deposit Fund	+5.1	+4.9	+4.8
Higher Rate Bank Deposits (over £10,000)	+1.6	+1.9	+1.
1 Week LIBID (less CFB expenses)	+3.9	-	-

Independent Assessment

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

	1 year to 31 Dec 2008 %	5 years to 31 Dec 2008 % p.a.	10 years to 31 Dec 2008 % p.a.
CFB UK Equity Fund	-27.3	+3.3	+1.1
Index (FTSE All Share)	-29.9	+3.5	+1.3
Index (FTSE All Share Ethically Adjusted)	-	-	-
CFB Overseas Fund	-15.9	+5.9	+2.1
Index (FTSE All-World ex UK)	-18.6	+5.3	+2.0
CFB Gilt Fund	+12.8	+6.4	+5.3
CFB Short Fixed Interest Fund	+12.3	+6.2	n/a
CFB Corporate Bond Fund	+4.8	+5.0	n/a
Index (All Stock Gilts)	+12.8	+6.6	+5.3
Index (Short Fixed Composite)	+12.4	+6.3	n/a
Index (iBoxx Non Gilts)	-4.1	+2.7	n/a
CFB Inflation Linked Fund	+2.4	+6.3	+5.5
Index (All Stock Index Linked Gilts)	+3.7	+6.5	+5.5
CFB Property Fund	-35.3	n/a	n/a
Index (IPD All Balanced Funds)	-23.9	+3.8	+7.2

*****RESOLUTIONS**

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

40/2. The Conference elected the following persons to the Central Finance Board for the period of one year from the 1 September 2009.

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

Reasoned Statement for New Nominations

Alan Groves is a Governor of Newcastle College and Chair of their Audit Committee, a former Finance Director of Northern Electric plc, and a former Vice Chair of the Universal Building Society.