

51. Central Finance Board

Review of the year ended the 28 February 2010

Over the past year a fragile confidence has returned as the financial system has stabilised. The bank rate was cut to 0.5% in March 2009 where it has since remained. Deposit rates have gradually subsided from 2% to 0.5% as the risk premium demanded by investors has evaporated. The stimuli from low interest rates, quantitative easing and a huge public sector deficit have helped drag the economy out of the deepest recession since the war. However, the recovery cannot be described as robust and the country faces years of austerity if public sector debt is to be brought back to acceptable levels.

It was a good year for investors with positive returns in all asset classes and a particularly spectacular recovery in equity prices. The best absolute return came from the UK Equity Fund (+42.8%) but it lagged 3.9% behind its benchmark, the ethically adjusted index, which was a further 0.6% lower than the FTSE All Share Index. CFB performance often lags behind during strongly rising markets and this trend was especially marked last year as low quality cyclical stocks led the way forward. While they may have maximum recovery potential they tend to underperform over the longer term and consequently are underweighted in our portfolios. Similarly the returns on the Overseas (+41.6%), Corporate Bond (+11.2%), Inflation Linked (+11.2%) funds all of which have exposure to corporate equity or debt, underperformed their benchmarks by 9.4%, 3.6% and 0.7% respectively. However, the Short Fixed Interest (+3.7%) and Gilt (+2.8%) funds both outperformed their benchmarks by 1.1% and 0.3% respectively.

Although total returns were positive, distributions on all the funds declined. The virtual disappearance of dividends from bank shares resulted in the payout of the whole UK equity market falling by around a quarter, with a similar decline overseas. This trend is now at an end and dividends are once again beginning to rise. Perhaps the decline in bond fund distributions was more of a surprise but this was an inevitable consequence of the ongoing interest rate decline. Although the Deposit Fund distribution also declined, the success in minimising the impact could be seen in the expansion of the Affirmative Deposit Fund which saw non CFB accounts approach 450 as deposits increased by over 90% in the past year.

The Deposit Fund also added a significant additional service through the introduction of an on-line function. Through the internet, depositors are now able to view their current balances and all activity on their accounts over the previous 18 months. In addition they are able to send instructions to make payments and deliver secure messages to the CFB.

There has also been a great deal of activity in relation to ethics. Policy statements have been adopted on three subjects: Climate Change; Ethical Issues Involving Children; and Prisons. Analysis by two independent bodies enables us to state that the carbon footprint of our UK equity portfolio is lighter than that of the market as a whole. It is also very encouraging to be able to report a major step forward in ecumenical co-operation relating to voting. We revised our UK voting template, which has been adopted by the Church Investors Group as best practice, and signed up to use a European voting template developed on behalf of the Church of England. For the first time we decided to co-file corporate resolutions, which are to be placed before the BP and Royal Dutch Shell AGMs on the subject of their respective oil sands projects. These are part of an increased effort to raise the level of constructive engagement with the companies in which we invest. This is a time consuming activity and we have been fortunate to obtain the services of an experienced ethical consultant, Neville White, to assist us. We have also received considerable media interest through our involvement with the Church Investors Group report, *The Ethics of Executive Remuneration: a Guide for Christian Investors*. This is an important contribution to an issue that has commanded increasing attention over the past year.

Finally, as we look back on the CFB's 50 years of service to the Methodist Church we must pay tribute to the efforts not only of those who share the responsibility today, but of those who had

the courage first to establish the CFB and then to develop it into the respected organisation it has become. Particular mention should be made of Dr John Kellaway who died during the past year and was Chairman during the period when the investment unit was developed. It would also be inappropriate to allow this anniversary to pass without honouring Charles Jacob who set up the unit, established an enviable investment record and persuaded Methodist organisations to put their trust in the CFB. Appreciation should also be extended to the current Council for their selfless efforts in overseeing the work of the unit and for the dedication and professionalism of our staff as they build on the inheritance we have been left. However, it is also important to look forward and we need to encourage those with the requisite skills within Methodism to take up the baton and offer themselves for service on our Council. We are confident that as we look to the future we can continue to integrate the ethical stance of the Methodist Church into a high quality service to provide the investment returns required by our clients.

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

	1 year to 28 February 2010 %	5 years to 28 February 2010 % p.a.	10 years to 28 February 2010 % p.a.
Equity & Convertibles			
CFB Managed Mixed Fund (Charity)	+31.5	+5.4	+3.2
CFB Managed Mixed 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	-	-
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 Index 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	-	-

Independent Assessment
(Cumulative total returns: source Portfolio Evaluation)

	1 year to 31 Dec 2009 %	5 years to 31 Dec 2009 % p.a.	10 years to 31 Dec 2009 % p.a.
CFB UK Equity Fund	+25.4	+5.8	+1.6
Index (FTSE All Share)	+30.1	+6.5	+1.7
Index (FTSE All Share Ethically Adjusted)	+28.6	+5.9	-
 CFB Overseas Fund	 +15.7	 +7.5	 +0.8
Index (FTSE All-World ex UK)	+20.6	+7.8	+1.4
 CFB Gilt Fund	 -0.7	 +4.9	 +5.4
CFB Short Fixed Interest Fund	+2.4	+5.6	n/a
CFB Corporate Bond Fund	+8.8	+5.3	n/a
Index (All Stock Gilts)	-1.2	+5.0	+5.4
Index (Short Fixed Composite)	+1.7	+5.5	n/a
Index (Inflation Linked Composite)*	+9.7	+3.3	n/a
* Figures prior to 01/07/09 relate to iBoxx Non Gilts Index			
 CFB Inflation Linked Fund	 +6.4	 +5.9	 +5.6
Index (All Stock Index Linked Gilts)	+6.5	+6.1	+5.7
 CFB Property Fund	 +9.1	 +0.9	 n/a
Index (IPD All Balanced Funds)	-1.8	+0.0	+5.5

*****Resolutions**

51/1. The Conference adopted the Report of the Central Finance Board.

51/2. The Conference elected the following persons to the Central Finance Board for the period of one year from the 1 September 2010

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

Reasoned Statement for New Nominations

Maureen Ndagire – Methodist Church Director of Financial Operations.