

<b>Contact name and details</b>	John Sandford, Chair admin@cfbmethodistchurch.org.uk
---------------------------------	---

### Chair's Report

#### **Review of the year ended 28 February 2019**

*"We are not the Prophet in the wilderness, but more those striving to be faithful where God has placed us: less like Elijah, who denounced Queen Jezebel, and more like Obadiah, who used his position in the royal household to save 100 Prophets"*

*Stephen Beer, Chief Investment Officer of the Central Finance Board of the Methodist Church, Church Times 28 September 2018.*

#### **Introduction**

The Central Finance Board (CFB) is a privileged place where the spiritual and financial worlds come together. We have relied a great deal on the former over the last 12 months as we try to navigate our way through unprecedented change in the government of the United Kingdom and the United States. Our colleagues meet once a week in the offices in Bonhill Street for a prayer group; our bedrock of "Christian investing" has never been so welcome. I summarise below some of the key events of the last year. The Board remains on a sound footing and, through its regulated subsidiary Epworth Investment Management, is reducing its reliance on the Church for investment funds. At the same time, we have become involved in many initiatives within the Church and it is very pleasing to me to see our executives raising their profiles within the wider Church community. I hope that this continues in the year ahead.

#### **Our financial position**

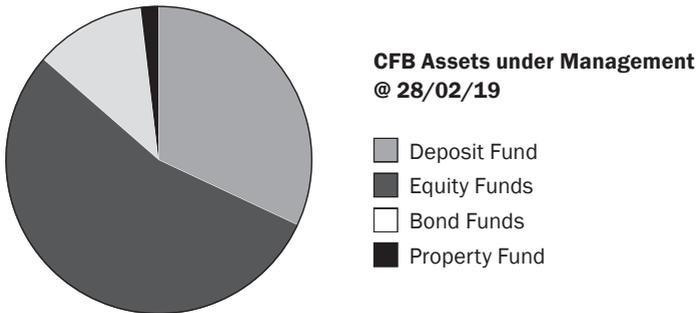
We are now two years into our five-year plan and I am pleased to advise that we are running well ahead of where we expected to be financially. We have been helped by markets that have remained remarkably resilient and by a slower than expected take-up of new costs. This has meant that the reserves we earmarked to finance an overhaul of our operating systems have not yet been spent. For the current year we reported a consolidated loss of £93k, which was inflated by a legacy of £200k. The Council is keen that this legacy should be spent on exceptional projects that will have a broader benefit than our day to day business.

We continue to allocate costs internally to our subsidiary Epworth Investment Management on a comparative assets under management (AUM) basis. With a high cost allocation plus expenses related to business development, Epworth recorded the expected loss of £225k in the current year. To allow for these losses and the increased pressure on Epworth's regulatory capital, the Council agreed a share capital injection of £400k into Epworth at the end of the financial year.

## 30. Central Finance Board of the Methodist Church

### Assets under Management

Despite substantial price volatility in the investment markets, the CFB's assets under management were unchanged at £1.14bn during the year. The following shows how these assets are split between the Deposit Fund and other Funds invested in the stock, bond and property markets:



The CFB Deposit Fund has remained remarkably stable over a number of years at around £370m. This largely represents the liquid assets of Churches, Circuits and Districts. I should give a special mention to Janice Thomson and Paul Berry who have worked tirelessly on this Fund and who are well-known to a number of church treasurers.

The external funds managed by Epworth Investment Management have fallen during the year from £254m to £240m. We have seen some success in acquiring new business but we have also seen some sizeable deposits in the Affirmative Deposit Fund recalled by our clients during the year.

The above chart notes that a substantial portion of the assets managed by the CFB are in equities. Major investors in these Funds are several pension schemes that the CFB has been privileged to advise for a number of years. As I have previously reported, these schemes have been gradually switching funds away from these "risk" assets and reinvesting them into other asset classes not managed by the CFB. We have been warned to expect an acceleration of this process in 2019/2020 with potentially 18% of our current assets under management switching to external managers. The CFB has substantial reserves that in the short term will meet any financial deficit that arises from this potential loss of assets and we have a growth strategy in place to attract more external money. However, the present fees on CFB Funds are substantially lower than comparative open market rates and we may need to review this if our rate of growth does not match the attrition from the pension schemes.

### Ongoing work on climate change

Much of the work of the ethics team in the CFB this year has focused on climate change and

in particular the role of the major oil companies in this critical challenge to our planet. David Palmer reports on this further in his report but I would like to commend to the Board the extraordinary work that this small team has undertaken.

### **Consultation regarding the future of the lay pension scheme**

We have been consulting with our staff during the year on the future provision of their pension benefits. We are most grateful to the Methodist Conference for agreeing that a deficit in the Pension and Assurance Scheme for Lay Employees of the Methodist Church (PASLEMC) could be met by the Pension Reserve Fund. To avoid the possibility of a future funding deficit in this scheme arising, we have undertaken a period of consultation on possible alternative pensions arrangements. I am very grateful to my colleagues for their patience and support during this time.

### **Council and Board membership**

It gives me great pleasure to report that the Revd Dr Peter Howson, who was elected to the Board last year, has joined the Council of the Central Finance Board. Peter has been a Methodist minister since 1975 and spent much of his ministry as a chaplain in the army.

During the year we co-opted Jennie Austin onto the Council and she was approved as a member of the Board at the Annual General Meeting in April. Jennie has a strong financial background having spent the last ten years as a director in FTSE Russell's asset owner group, serving pension scheme clients throughout Europe. Earlier in her career Jennie worked at the London Stock Exchange and then joined the fund management industry. She brings an in-depth knowledge of indices, alternative investment solutions and markets to assist the Council in our scrutiny of our investment management work.

I regret to advise that Anne Goodman stepped down from the Council at the Annual General Meeting. She has served for over nine years on the Council and has now also retired as chair of the audit committee. Anne has brought commonsense, compassion and technical expertise to Council and I must express my deep gratitude for her dedicated service over such a long period.

The Epworth Board of Directors has seen the retirement of two of our greatest friends this year. Malcolm Hamilton has served on the Board of Epworth since 2011 and John Gibbon since 2015. John was previously a member of the Council of the CFB. We wish them both well and hope that we can build on the tremendous platform that they have given us. In their stead I am pleased to report that Jennie Austin has joined the Epworth Board.

It is a privilege to serve as the Chair of the Central Finance Board. I must thank my fellow Council members and the staff of the CFB for their continued hard work and support during the year.

**John Sandford, Chair**

## 30. Central Finance Board of the Methodist Church

### *Summary statement of change in unit holders' net assets* Year to 28 February 2019

<b>CFB Funds</b>	<b>Net Assets at 28/2/2018</b>	<b>Net Creations/ Cancellations</b>	<b>Change in Net Assets</b>	<b>Net Assets at 28/2/2019</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
<b>UK Equity Fund</b>	397,935	29,158	2,075	429,168
<b>Overseas Fund</b>	191,283	(16,802)	5,758	180,239
<b>Gilt Fund</b>	11,583	(7,191)	210	4,602
<b>Corporate Bond Fund</b>	100,264	2,171	(252)	102,183
<b>Short Fixed Interest Fund</b>	17,854	(1,300)	164	16,718
<b>Inflation Linked Fund</b>	21,141	(2,555)	644	19,230
<b>Property Fund</b>	23,278	647	570	24,495
<b>Deposit Fund</b>	370,600	273	0	370,913
<b>Less: CFB Deposit Fund balances held in other CFB funds</b>	(6,200)	579	0	(5,621)
<b>Total</b>	<b>1,127,738</b>	<b>4,980</b>	<b>9,169</b>	<b>1,141,927</b>

### **Chief Executive Officer's report**

#### **Investment review of the year**

It has been a challenging year for investment markets. Threats to global free trade from the US administration have unsettled equity prices and the UK has been dominated by the lack of any consensus on the terms of our exit from the European Union. At the time of writing this report, three years on from the referendum, there is still no clarity on how and when the UK will leave the European Union.

This year of uncertainty came to a head in the December quarter when we saw many equity markets lose more than 10% of their value. We have seen a subsequent recovery, but macro conditions are starting to suggest further challenges ahead as Central Banks indicate a slowdown in their move to increase interest rates as they reflect upon slowing forecasts for economic and inflation growth. The Trump Government has to deal with record levels of budget and trade deficits that will not be helped by a Democrat-controlled Senate that is focused on a presidential election in two years' time.

Despite this difficult environment I am pleased to report that the Church's Funds managed by the CFB have performed relatively well over the last year. We have maintained our investment

## 30. Central Finance Board of the Methodist Church

approach in the UK Equity Fund but have become more concentrated in our favoured stocks. This strategy has seen us produce superior returns. In our Overseas Fund we have seen better performances from our external fund managers, particularly in the Asian markets.

### **CFB Funds: Investment performance to 28. 2.2019** *(All figures annualised and after fees)*

Summary investment performance to 28.2.18

	<b>Fund size</b>		<b>One year</b>	<b>Three years</b>	<b>Five Years</b>	<b>Ten Years</b>
<b>CFB UK Equity Fund</b>	£430.23m	Fund	4.31	9.88	5.17	11.12
		Benchmark	4.09	9.42	4.84	11.31
		Excess return	0.22	0.46	0.33	-0.19
<b>CFB Overseas Equity Fund</b>	£180.28m	Fund	3.73	14.80	11.88	13.84
		Benchmark	2.98	15.61	12.49	14.45
		Excess return	0.75	-0.81	-0.61	-0.61
<b>CFB Gilt Fund</b>	£4.60m	Fund	2.63	2.21	4.58	4.74
		Benchmark	2.54	2.44	4.84	4.9
		Excess return	0.09	-0.23	-0.26	-0.16
<b>CFB Inflation Linked Fund</b>	£19.26m	Fund	2.73	6.68	7.74	8.09
		Benchmark	1.84	6.54	7.97	8.17
		Excess return	0.89	0.14	-0.23	-0.08
<b>CFB Short Fixed Income Fund</b>	£16.723m	Fund	1.74	1.04	2.18	3.05
		Benchmark	2.01	0.89	2.39	3.00
		Excess return	-0.27	0.15	-0.21	0.05
<b>CFB Corporate Bond Fund</b>	102.70m	Fund	2.39	3.56	4.52	6.07
		Benchmark	2.02	3.75	4.72	6.46
		Excess return	0.37	-0.19	-0.20	-0.39

### **Ethical review of the year**

This year's report of the Joint Advisory Committee on the Ethics of Investment (JACEI) to the Conference is dominated by the work that the CFB has undertaken in response to the 2017 Conference motion regarding the extractive industry and the Paris Accord. JACEI reported the methodology that is being used by the CFB to undertake this assessment to the 2018 Conference and, since then, a suite of research reports has been prepared by the CFB. By the time I report to you next year, JACEI will be in a strong position to advise the CFB on whether the large oil and gas majors currently owned by the Church will meet the climate change objectives set by the Conference.

## 30. Central Finance Board of the Methodist Church

We have found limited time to consider other ethical matters but papers were presented to JACEI on policies regarding investment in tobacco companies, how we regard debt issuance by companies and treat pooled investment vehicles where we might be exposed to ethical risk through third-party investment managers. Ongoing work has included the use of water resources, human rights in the supply chain and an increasing focus on the use of plastics.

An active voting policy remains a key element of our engagement with companies and we work with the Church Investors Group to co-ordinate the voting policies of the UK's faith investors. Voting allows us to send messages to the governance meetings of companies on their approach to structural issues such as boardroom diversification, executive rewards and the pay of their most junior staff. Our voting record in the last year was:

### **CFB: Voting record on shareholder resolutions**

Type	For	Oppose	Abstain	% Against or abstain
Auditors	377	7	0	1.82%
Directors	1897	413	17	18.48%
Remuneration	278	399	4	59.18%
Executive Pay Scheme (UK)	10	10	0	50.00%
Shareholder Capital (Europe)	378	78	10	18.88%
Other	1517	100	6	6.53%
<b>TOTAL</b>	<b>4457</b>	<b>1007</b>	<b>37</b>	<b>18.98%</b>

### **Central Finance Board conference on the ethics of investment**

I am pleased to report that a conference on ethics took place in Manchester in November 2018. I must express my thanks to our colleagues at the Trustees for Methodist Church Purposes (TMCP) for their help in organising this. It was a successful day as we covered the outlook for investment markets and discussed some key ethical issues. Lessons were learnt about checking with suppliers on the source of refreshments and that this was a venue still difficult to access for many. For the year ahead my new commitment is to go further and take the CFB Conference on a "road show" with events in several locations in the UK and Ireland.

### **Epworth Investment Management**

Our strategic vision for Epworth to reach out into the market for Christian ethical investing in the United Kingdom is making good progress. I advised last year about our intention to launch new Funds for the faith-based Charity investor and I can advise that these should be coming to market in May 2019. This is behind schedule due to delays in the "pre-approval" process at the Charity Commission. Their issues have been resolved and we are now waiting

for the outcome of our application to the FCA. These new funds will significantly improve our offering to the UK Charity market:

- For the first time we will have a Global Equity Fund. Previously this asset class had an insufficient exposure through The Affirmative Equity Fund to meet most investors' needs.
- The fund range will include a "multi-asset" Fund to meet the needs of the smaller charity investor.
- The Funds will all price and deal daily. To date The Affirmative Funds have only priced and dealt every ten days.
- Much of the administration of the Funds will be outsourced to HSBC; allowing Epworth to concentrate on the areas where we add value – Christian ethics and investment returns.

Our long-term strategic investment remains to provide ethical investment solutions for all Christian investors. The path to meeting this objective is not without risk as it requires extensive investment in systems and people. We will therefore continue to be measured in our approach, expanding our market and range of services gradually as our capital base permits.

### **The Affirmative Deposit Fund**

There are two common deposit funds on offer to the charity market in the United Kingdom: The Affirmative Deposit Fund managed by Epworth and the COIF Deposit Fund managed by the Church of England linked managers, CCLA. In January 2019 new European regulations came into force that captured these funds. These "Money Market Fund Regulations (MMFR)" had a substantial impact upon the structure of the funds and how they are invested. We therefore worked very closely with CCLA to influence HM Treasury and the FCA to exempt Common Deposit Funds from these European Regulations. Unfortunately, despite intensive legal engagement, this lobbying was unsuccessful. On the advice of our lawyers, the Board of Directors of Epworth therefore determined to change the investment objective of the Fund to take it outside the scope of MMFR. The Fund now seeks to "to achieve a competitive level of income from cautious investment in a highly liquid portfolio of investments, whilst maintaining the ability of depositing charities to make withdrawals at short notice."

The key element in this new objective is that there is no commitment to preservation of capital and this takes the Fund outside the scope of MMFR. However, in practice we will continue to manage the Fund as it has always been, using term deposits with a wide portfolio of Banks and pricing the Fund at a constant value. CCLA have determined to comply with MMFR and have therefore made substantial changes to the COIF Deposit Fund that will reduce its yield relative to The Affirmative Deposit Fund.

The other main change to The Affirmative Deposit Fund that we are undertaking is a process to change the name to 'Epworth Cash Plus Fund for Charities'. This new name will avoid any suggestion that the fund is a money market fund and allows us to reduce the number of brand names that we are supporting.

## 30. Central Finance Board of the Methodist Church

Clients were advised of the change to the investment objective of the Fund in early January, and I am pleased to report that we did not see any unusual client movements as a result. The next 24 months will be interesting as we will see the returns and market positioning of the Epworth Cash Plus Fund for Charities and the COIF Deposit Fund increasingly diverge.

### **Looking forward to 2019/2020**

We are entering into a critical part of our five-year plan. We have the foundations in place with a new brand, website, investment proposition and key people. Now we have to show that the market does exist in the charity world for a Christian-based ethical investment manager. We have received encouraging feedback to date and the new client pipeline is stronger than we have ever seen before. The key challenge for us is how many of these can we convert into enduring partnerships in the next 12-18 months. This will determine whether or not there is a place for Epworth's Christian approach in the investment market place. Our Chair has reported above that we have not had to use our reserves to finance an overhaul of our systems and investment proposition. However, with further expenses on supporting the new fund launch and the pressure on revenue that the Chair referred to, I do expect 2019/2020 to be a much tougher year financially. In anticipation of this, the 2019/2020 budget reflects a hiring freeze for the year. In a year's time I expect to be reporting on a financial loss; I also hope that I will also be reporting on increasing interest for our Christian ethical offering.

**David Palmer**  
**Chief Executive**

**Investment Performance External Assessment**

(Source: Portfolio Evaluation, except where stated)

28 February 2019

Index	1 year to 28.02.19 %	5 years to 28.02.19 % p.a.	10 years to 28.05.19 %p.a.
<b>Equity</b>			
<b>CFB UK Equity Fund</b>	<b>+4.3</b>	<b>+5.2</b>	<b>+11.1</b>
FTSE All Share Index	+1.7	+5.0	+11.2
CFB proprietary ethical Index	+4.1	+4.8	+11.3
FTSE All Share Index (traditional ethical adjustment)	+3.4	+4.8	+11.0
<b>CFB Overseas Fund</b>	<b>+3.7</b>	<b>+11.9</b>	<b>+13.8</b>
FTSE All World ex U.K Index	+3.0	+12.5	+14.4
<b>CFB Managed Equity Fund<sup>1</sup></b>	<b>+4.2</b>	<b>+6.3</b>	<b>+11.6</b>
Managed Equity Fund Composite Index	+1.9	+6.1	+11.7
Managed Equity Fund Composite Index (using CFB proprietary UK Index)	+4.0	+6.0	+11.8
Managed Equity Fund Composite Index (using traditional UK ethical adjustment)	+3.4	+5.9	+11.5
<b>CFB Managed Mixed Fund<sup>1,3</sup></b>	<b>-3.0</b>	<b>+6.0</b>	<b>+8.6</b>
Managed Mixed Composite Index <sup>3</sup>	-5.3	+5.3	+8.2
Managed Mixed Composite Index (using CFB proprietary UK Index) <sup>3</sup>	-3.7	+5.3	+8.2
Managed Mixed Composite Index (using traditional UK ethical adjustment) <sup>3</sup>	-4.0	+5.3	+8.0
<b>Fixed Interest</b>			
<b>CFB Managed Fixed Interest Fund<sup>1</sup></b>	<b>+2.2</b>	<b>+3.4</b>	<b>+4.1</b>
Managed Fixed Interest Composite	+2.2	+3.6	+4.2
<b>CFB Short Fixed Interest Fund</b>	<b>+1.7</b>	<b>+2.2</b>	<b>+3.1</b>
Short Gilt Composite Index	+2.0	+2.4	+3.0
<b>CFB Gilt Fund</b>	<b>+2.6</b>	<b>+4.6</b>	<b>+4.7</b>
FTSE All Stock Gilt Index	+2.5	+4.8	+4.9
<b>CFB Corporate Bond Fund<sup>1</sup></b>	<b>+2.4</b>	<b>+4.5</b>	<b>+6.1</b>
Corporate Bond Composite Index	+2.0	+4.7	+6.5
<b>Inflation Linked</b>			
<b>CFB Inflation Linked Fund</b>	<b>+2.7</b>	<b>+7.7</b>	<b>+8.1</b>
FTSE All Stock Index Linked Index (gilt only)	+1.8	+8.0	+8.2
<b>Property</b>			
<b>CFB Property Fund<sup>1,3</sup></b>	<b>+8.6</b>	<b>+11.6</b>	<b>+9.6</b>
IPD All Balanced Funds Index <sup>2,3</sup>	+6.6	+9.7	+7.4
<b>Cash (AERs)</b>			
<b>CFB Deposit Fund<sup>1</sup></b>	<b>+0.6</b>	<b>+0.5</b>	<b>+0.9</b>
1 Week LIBID	+0.5	+0.3	+0.4

<sup>1</sup> Source: CFB <sup>2</sup> Source: IPD <sup>3</sup> Performance to 31 December 2018

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

**30/1. The Conference adopts the Report of the Central Finance Board.**

**30/2. The Conference elects the following persons to the Central Finance Board for the period of one year from 1 September 2019:**

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