

Methodist Church Investment Committee Annual Report for the year to 31 August 2017

Contact Name and Details	Andrew Gibbs, Chair of the investment Committee andrewggibbs4@gmail.com
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1. Introduction

The terms of reference (TOR) of the Investment Committee (IC) require an annual report to the Methodist Council and as necessary to the SRC. This is the third report to have been prepared under the TOR.

The TOR were approved by the Methodist Council (paper MC/13/20) in 2013. Purpose A is to ensure the appropriate investment of the funds of the Methodist Church in Great Britain (MCiGB) reported as 'Investments' in the annual audited accounts of the MCiGB. Purpose B concerned the management of cash flow and the making and realising of investments.

The duties of the IC regarding appropriate investment come in three parts:

1. To supervise the management of all the assets;
2. To manage the assets agreed to be under the direction of the IC;
3. 4 & 5. To liaise with other boards or committees that report to the Methodist Council to ensure that all investment assets are subject to appropriate oversight and day to day management.

2. Membership of the Committee and Meetings Held

There are five continuing members of the IC, including the two Connexional Treasurers as ex-officio members. They are Ted Awty, Andrew Gibbs (Chair), Martin Rees, Tim Swindell and Geoffrey Wilcox. An additional member, Andrew Brown, joined the Committee early in 2018. In addition Bill Seddon and Stephen Beer of the Central Finance Board (CFB) of the Methodist Church and their colleague Christophe Borysiewicz, and representatives of the Finance Office have normally attended the meetings.

There were three meetings of the Committee in the 12 months to 31 August 2017. The number of members (including ex-officio members) attending was as follows:

1. 13 October 2016: four
2. 9 February 2017: three
3. 10 May 2017: four.

3. Supervision of the Management of all the Assets

A) Summary of the Investments held at 31 August 2017

The statement below, taken from the Consolidated Report and Financial Statements of the MCiGB, shows £181m in total investments in the balance sheet. £121m (67%) is in CFB Units and £48m (27%) is in Property Investments. Most of the rest is accounted for by £11m (6%) in William Leech (Investments) Ltd, an endowment of the World Mission Fund.

Table 1.

The Methodist Church in Great Britain, at 31 August Investments

	2017	2016	2015
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	£million	£million	£million
Investment Properties	48.4	39.7	33.5
CFB Units	121.1	115.9	105.2
William Leech (Investments) Ltd	11.0	10.0	9.2
Other	0.9	0.9	2.9
Total	181.4	166.5	150.8

Of which,

Managed by IC (Note 1)	107.4	100	91
Managed elsewhere in MCIgB (Note 2)	<u>63.0</u>	56	51
William Leech (Note 3)	11.0	10	9

Notes:

1. Assets managed by the IC.

There are 10 major funds (restricted, unrestricted and endowed) and 23 smaller funds (each of less than £2m) that are included in the investments managed by the IC. Each has its own cash flow and may require separate consideration.

2. Assets managed elsewhere.

There are a number of separately registered entities whose assets are consolidated in the MCIgB and appear in this table, namely,

	Property, £m	CFB Units, £m	Other, £m	Total, £m
Cliff College	-	0.6	-	0.6
Southlands Methodist Trust	8.2	1.0	-	9.2
All We Can		0.9	-	0.9
Westminster College (Oxford) Trust	11.0	0.7	-	11.7
Methodist International Centre Ltd	0.3	-	-	0.3
ADD Also activities included in 'Connexional Funds'				
The Guy Chester Centre	3.7	1.7	-	5.4
The London Mission Fund	3.0	10.9	0.3	14.2
Methodist International Centre	<u>20.7</u>	<u>-</u>	<u>-</u>	<u>20.7</u>
Assets managed elsewhere	46.9	15.8	0.3	63.0

3. William Leech (Investments) Ltd.

Shares in his building company were given by Sir William Leech equally to five Christian charities as an endowment. The World Mission Fund of the Methodist Church (formerly the Methodist Missionary Society) is one of the beneficiaries. The building company having been sold, most of the assets of the Company now consist of equity and property investments. Some parcels of land in the Newcastle area are also held. The Chair of the IC is a Director of the company and reports annually to the IC on the management of the company.

B) Changes in the investments held over the year to 31 August 2017.

There was an increase in the value of the investments held over the year of £14.9 million from £166.5m to £181.4m. This increase occurred after allowing for net disposals of CFB units of £3.2m and was the result of both strong stock market returns (plus £9.2m) and exceptional property revaluations (plus £8.7m). £7m of the revaluation of investment properties related to a new lease with Oxford Brookes University of the Harcourt Hill Campus, belonging to the Westminster College (Oxford) Trust. Investment properties belonging to the London Committee and the Guy Chester Centre were also subject to triennial reviews resulting in an uplift of £1.7m.

C) Make up of the £121.1m held in CFB Units			Table 2
	Assets managed by the IC	Assets managed elsewhere	Total
Fund	£m	£m	£m
Managed LT MC	73.5	-	73.5
Managed MT MC	29.6	-	29.6
Managed Mixed	-	0.1	0.1
Managed Equity	0.5	10.9	11.4
Managed Fixed interest	1.6	2.1	3.7
Corporate Bond	-	1.5	1.5
Property	<u>0.1</u>	<u>1.2</u>	<u>1.3</u>
Total	105.3	15.8	121.1

D) Overview of the year

The increase in the value of total investments in the year to 31 August 2017 was very strong and is unlikely to be repeated. The 27% of the total held in direct property investments consists largely of legacy assets, such as the Harcourt Hill Campus, which are not necessarily readily realisable and whose value is linked closely to the individual circumstances of each site and set of buildings, including the terms of the leases under which they are let. Returns on such investments, as 2017 shows, can be 'lumpy', and have the merit of not being closely correlated with the return on stock market investments. In future, changes in the percentage of the whole held in property investments will probably be more a function of the performance of the 67% of the total held in CFB Units than of the properties themselves.

Turning to the CFB Units (67% of the whole), the Council's reserve policies for a number of the Restricted and Designated Funds under its control led to net disposals over the year, with the overall value nevertheless rising on account of strong equity markets (both in the UK and overseas), where most of the CFB Units are invested.

The value of the William Leech Endowment (6% of the whole) can be expected to move in line with the overall total of the CFB units, as it is also invested principally in UK and overseas equities. It is hoped that it will at some point in the future benefit from an uplift in the value of its land holdings.

4. Management of all the Assets agreed to be under the management of the Investment Committee

A) Day to day management is with the CFB

With the exception of direct property and other investments (see below) of £2.1m, all investments currently agreed to be under the management of the IC are held in the CFB Funds. At 31 August 2017 these investments were valued at a total of £105.3 million and were held on behalf of 33 separate funds or designations in 40 separate CFB accounts. They represent 58% of all investments in the MCiGB Accounts. In 2016, the comparable total was £100m, which includes the assets of the Superannuation Scheme for Lay Mission Partners which were put under the charge of the Investment Committee in the year.

The direct properties consist of a warehouse in Peterborough (£1.25m), houses since sold on the Wirral (£0.15m) and a share in the Methodist Ministers' Housing Association properties (£0.1m). The other investments of £0.6m are Methodist Chapel Aid Debentures (£0.5m) and investment in the Churches' Mutual Credit Union (£0.1m).

B) Reserves policies and Asset allocation

Each of the major funds managed by the IC has a Reserves Policy. These policies may vary from time to time and changes are approved by the Methodist Council, in line, for example, with forecasts contained in the connexional budget.

The IC ensures that the asset allocation for each fund takes account of the applicable Reserves Policy and of the classification of each fund, as between permanent endowment, restricted funds and unrestricted funds, and any designations they may have.

With the exception of the Superannuation Scheme for Lay Mission Partners of the Methodist Church (SSLMP), the investments managed by the IC are now held in two newly created Funds of the Central Finance Board of the Methodist Church (CFB), the Long Term Fund and the Medium Term Fund, which were established for the purpose in July 2016.

The Long Term Fund is used for funds with permanent capital or where no call to realise any capital within ten years is expected.

The Medium Term Fund is for funds where it is possible that there will be calls on the capital, but most will remain invested for between five and ten years.

Some funds are invested either 100% in the Long Term Fund or 100% in the Medium Term Fund. Some, however, depending on their circumstances, hold an appropriate combination of both Funds.

The SSLMP has a portfolio of about £2.2 million invested in other CFB Funds, determined with the advice of actuaries.

[The background to the introduction of the two new funds: For some time the IC had sought an improved way of supervising and managing the investments for which it was responsible, given the large number of individual funds. The CFB proposed to introduce two new Funds, intended for the assets managed by the IC but open to others. The new Funds would be 'Funds of Funds,' investing in the units of the specialist CFB Funds at no extra cost to unit holders. The creation of these Funds would substantially simplify changes in asset allocation for all applicable funds of the Church and all associated administration would be substantially reduced or eliminated. The IC welcomed this solution which was recommended by the Director of Financial Operations. The TMCP continues its role as Custodian Trustee. The two new Funds began in July 2016, ahead of the year end and the transition was achieved without problems.]

The asset allocation of each Fund at 31 August is shown in the appendix to this report. As at 31 August 2017, of the total (excluding SSLMC) of £103.0m under management by the IC, 71% was held in the Long Term Fund, and 29% in the Medium Term Fund.

At each of its meetings, the IC reviews the performance of the two Funds, and, with the advice of the CFB, determines their future asset allocation. The introduction of the new Funds substantially facilitates the implementation of decisions that may be taken from time to time in the light of current and prospective market conditions, and it is to be hoped that there will be consequent long term improvement to overall performance.

C) Performance against benchmark

Performance for the year to 31 August 2017 and since inception of the Funds is shown below.

Table 3

Annual performance against benchmark of the two Funds.

	1 year to 31.08.17 % p.a.
Managed Long-Term Methodist Council Fund	+12.7
CFB Proprietary Ethical Benchmark	+12.7

Managed Medium-Term Methodist Council Fund	+6.9
CFB Proprietary Ethical Benchmark	+5.9

D) Overview

The IC considers that the introduction of the new CFB Funds has led to significant savings of time and of operating cost. Despite the smooth operation of the new CFB Funds and their satisfactory performance to date, it is too early yet to make a judgment on any additional lasting benefit from the extra flexibility for asset allocation that the new structure provides.

The IC considers that it is able, with the timely provision of accurate management information and the support of the CFB, to carry out properly its management of the assets agreed to be under its direction.

4. To liaise with other boards or committees that report to the Methodist Council, etc.

The process of producing the Report and Accounts of the MCiGB requires the consolidation of the accounts of a number of self-accounting entities which take responsibility for their own investments. Detailed in note 2 to Table 1, is a total of £63.0m (or 35% of the whole) that is managed elsewhere within the MCiGB. £15.8m of the total of £63.0m is invested in CFB units and £46.9m in investment property.

There is some assurance from the Accounts that are duly consolidated in the MCiGB Accounts that these assets are being appropriately managed. As a result of more stringent reporting requirements, the accounting information being gathered for the MCiGB Accounts is increasing in scope and detail and is presented in some detail.

There is, however, no system in place to enable timely and effective liaison and oversight of the investments managed elsewhere by the IC as required in its TOR.

Based on what is known, the following conclusions can be drawn:

- i) there are some investment properties that have been held for a long time, and it is not clear how much this is due to intent rather than inertia, noting that inertia can be rewarding, especially if the property concerned is in London;
- ii) the CFB units will have received appropriate and professional care on a day to day basis from the CFB, but it is not clear that the reserves policies adopted (if any) have led to consideration of the appropriateness of the underlying assets held.

5. Recommendation regarding the performance (both financial and ethical) and the continuing use of the CFB funds

The context for this recommendation is that Charity Trustees have a duty to obtain the best financial return, considering the risks taken, from their investments for the benefit of the Charity's beneficiaries. They need to balance the interests of current beneficiaries with those of future beneficiaries. Finally, they may take account of ethical considerations associated with the purpose and principles of the Charity.

In the case of the Investments in the MCiGB accounts there is a need to keep under review the service provided by its own fund manager, namely, the CFB.

The CFB reports regularly on its performance to the IC and to a group of major investors. An independent assessor, Portfolio Evaluation, provides a comparative and analytical report. Over recent years performance across the CFB Funds has been satisfactory. There has recently been an increase in fund management fees, which are 'ad valorem', so that we pay the same percentage rate on our £100m as a local church or circuit pays on a holding of £1,000 worth of units or less. Charging a flat percentage rate is the normal basis of

operation for collective investment schemes, and larger customers therefore subsidise the smaller ones. The charges that we pay are still at or below comparable Common Investment Fund charges and continue to represent good value compared to active investment management houses. The charge made by TMCP for its services, which is an additional charge and is also 'ad valorem' (a flat percentage rate), is also reviewed from time to time. Again, some element of cross subsidisation occurs as a result of the basis of the charge.

The Methodist Conference has established the Joint Advisory Committee on the Ethics of Investment (JACEI), which reports to it annually on the operation of the CFB and its ethical investment policies. The IC takes comfort from reading the latest JACEI report that JACEI is content with the way in which the CFB Funds are operated.

Accordingly, the IC agreed to recommend the continuing use of the CFB Funds for its investments.

6. The management of cash flow and the making and realisation of investments

During the year the IC received regular reports concerning the cash flow requirements of the Church. As a number of Funds had investments in excess of reserves required under their Reserves Policies, the IC authorised a number of sales of investments. The total sales and purchases of CFB Units in the period were as shown below:

Movement in CFB investments in the year to 31 August

Table 4

	2017		
	MCiGB	Connexional Funds	
	£m	£m	
CFB Units Additions	5.1	5.0	-
Disposals	(8.2)	(8.2)	

Change in cash and cash equivalents in the year ended 31 August

Table 5

	2017	
	MCiGB	Connexional Funds
At the beginning	21.9	17.9
Change	8.9	5.6
At the end	30.8	23.5

There was an exceptionally high level of cash in MCiGB at the beginning and end of the year, which will have reduced in the course of the current year. Considering the average of income and expenditure for the whole year of £47m (MCiGB), it may be unnecessary to hold as much as half that amount (£23.5m) at any one point in the year. The interest earned on cash balances held at short or no notice is very low, and is only likely to rise a little in the immediate future.

The high cash balance may be a consequence of a prudent approach to the future net draw down of cash, in part as a result of the planned reduction in Restricted and Unrestricted Funds. This view is supported by the figure of £3m for net disposals of investments by the IC for each of the last two years. It would mean that, everything else being equal, the Church's cash balances should fall in coming years.

Grant commitments and the complexity of managing a number of bank accounts may also be reasons for the holding of high cash balances in some funds.

It is considered by the IC that there should be investigation of the merits and disadvantages of holding overall lower cash balances in the Accounts of the MCiGB.

*****RESOLUTION**

87/1. The Council receives the report.

APPENDIX

Table 6

Managed Long Term Methodist Council Fund

	2017	2016	Parameters	Benchmark
	%	%	%	Neutral %
UK Equity Fund	35.4	35.7	30 - 40	35
Overseas Fund	36.8	36.8	30 - 40	35
				70
Equities	72.2	72.4	60 - 80	
Gilt Fund	0.0	0.0	0 - 15	5
Corporate Bond Fund	9.4	6.2	0 - 15	5
Long bonds	9.4	6.2	5 - 15	10
Inflation Linked Fund	2.3	2.0	0 - 10	5
Property Fund	16.1	19.3	10 - 20	15
Total	100.0	100.0		100

Total value of units managed by the IC £73.2m
 Total value of the Fund £73.2m

Table 7

Managed Medium Term Methodist Council Fund

	2017	2016	Parameters	Benchmark
	%	%	%	Neutral %
UK Equity Fund	20.3	20.9	15 - 25	20
Overseas Fund	22.1	22.3	15 - 25	20
Equities	42.4	43.3	30 - 50	40
Gilt Fund	0.0	1.5	0 - 35	15
Corporate Bond Fund	15.9	25.1	0 - 35	15
Long bonds	15.9	26.6	25 - 25	30
Short Fixed Fund	30.8	25.4	20 - 30	25
Property Fund	10.8	4.7	0 - 10	5
Total	100.0	100.0		100

Total value of units managed by the IC £29.8m
 Total value of the Fund £29.8m