

# Report & Financial Statements

For the year ended 31 August 2021

**Pension & Assurance Scheme  
for Lay Employees of the  
Methodist Church**

**Pension Scheme Registry No: 10141231**

**PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF  
THE METHODIST CHURCH**

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# **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

## **TRUSTEE'S REPORT**

**FOR THE YEAR ENDED 31 AUGUST 2021**

### **THE TRUSTEE AND DIRECTORS**

The Trustee submits the report and audited financial statements of the Pension and Assurance Scheme for Lay Employees of the Methodist Church ("the Scheme") for the year ended 31 August 2021.

The Trustee of the Scheme is the Methodist Lay Employees' Pension Trust Limited ("the Trustee Company") which was formed in 1997 for the sole purpose of providing trustee services to the Scheme. The power of appointing and removing the Trustee is vested in the Methodist Council.

The Trustee Board of the Scheme ("the Board") noted that there are certain matters which are of common interest both to themselves and to the Trustee Board of the Methodist Ministers' Pension Scheme ("MMPS") and that there are some common members of the two Trustee Boards. In order to facilitate the effective management of the Trustee Boards it has been resolved that the two Trustee Boards align discussions of any such joint matters as the Board and the MMPS Board jointly agree. It was further resolved that, from September 2019, any joint matters being discussed in their proceedings should consider each scheme independently and be recorded in the minutes for each Board.

There are eight directors of the Trustee Company appointed in accordance with Article 39 of the Articles of Association, updated and signed on 1 September 2021. The Directors generally meet on a quarterly basis to consider the management of the Scheme and more often if Scheme activity requires. There are five Employer-Nominated Directors appointed by the Methodist Council. One of the Directors is an Independent Trustee, namely Capital Cranfield Pension Trustees Ltd who are represented by Mr Richard Hubbard. Mr Richard Hubbard was appointed by the Methodist Council following the retirement of Ms Ingrid Kirby on 31 August 2021. There are currently three Member-Nominated Directors who serve for three years, all of who, retire at the end of their term but may stand for re-election. Mr David Fletcher, Mr Fred King and Ms Anne Fairchild were appointed to serve from 1 September 2021. Mr Stephen Beer resigned on 15 January 2021.

**PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF  
THE METHODIST CHURCH**

**TRUSTEE'S REPORT (continued)**

**TRUSTEE DIRECTORS AND ADVISERS TO THE SCHEME**

**Employer Nominated Directors**

Mr Ronald Calver  
Mr Graham Danbury\* (retired 31/08/2021)  
Ms Anne M Fairchild\* (appointed 01/09/2021)  
Mr Andrew Gibbs (retired 31/08/2021)  
Mr Richard Hubbard (Chair)\* - Representative of  
Capital Cranfield Pension Trustees Limited  
(appointed 01/09/2021)  
Mr Fred King (appointed 01/09/2021)  
Ms Ingrid Kirby – Chair\* - Representative of Capital  
Cranfield Pension Trustees Limited (retired  
31/08/2021)  
Mr Andrew Paul

**Member Nominated Directors**

Mr Stephen Beer (resigned 15/01/2021)  
Mr Christophe Borysiewicz (appointed 01/09/2021)  
Mr David Fletcher (appointed 01/09/2021)  
Mr William Seddon\*

*\* Member of the Joint Investment Committee*

**Secretary to the Trustee / Pensions Manager**

Mrs Meena Tooray

**Actuary**

Ms Debra Smith FIA

**Actuarial Consultant**

BWCI Consulting Limited

**Auditor**

Assure UK (appointed 25/08/2021)  
BDO LLP (resigned 24/08/2021)

**Banker**

HSBC Bank plc

**Investment Consultant**

Lane Clark & Peacock LLP

**Investment Managers**

Epworth Investment Management Limited  
Threadneedle Investments (CI) Limited  
Schroder Real Estate Managers (Jersey) Limited  
BMO Global Asset Management

**Legal Advisers**

Burges Salmon LLP  
Pothecary Witham Weld

**AVC Manager**

Aegon

**Annuity provider**

Legal & General Retail Retirement Income

## **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

### **TRUSTEE'S REPORT (continued)**

#### **SPONSORING AND PARTICIPATING EMPLOYERS**

The principal sponsoring employer for the Scheme is the Methodist Council. The Methodist Council is situated at Methodist Church House, 25 Marylebone Road, London, NW1 5JR.

The participating employers are the Committee of Cliff College, the Guy Chester Centre, the Methodist Ministers' Housing Society, the Methodist Relief and Development Fund (All We Can), the Central Finance Board of the Methodist Church, the Trustees for Methodist Church Purposes, Central Hall Westminster Ltd and Wesley House, Cambridge.

#### **CONTACT FOR ENQUIRIES**

Scheme administration is carried out by the Pension's team of the Methodist Church. Any enquiries either about the Scheme generally or about a member's entitlement to benefits should be addressed to the Pensions Manager at Methodist Church House, 25 Marylebone Road, London, NW1 5JR, or emailed to [pensionshelp@methodistchurch.org.uk](mailto:pensionshelp@methodistchurch.org.uk).

#### **SCHEME CONSTITUTION AND MANAGEMENT**

The Scheme is an occupational pension scheme set up under trust to provide retirement benefits of a defined benefit nature for lay employees of the Methodist Church. The Scheme was established by an interim deed dated 1 September 1960 and, since 31 August 2015, has been governed by the Fifth Definitive Deed and Rules together with subsequent amendments. A Deed of Amendment dated 23 May 2019 closed the Scheme to new entrants and future accrual with effect from 1 June 2019, the Articles of Association were revised on 5 October 2021 and matters referring to historical trustee appointments from 1 June 2019 were unconditionally ratified in all aspects and purposes by a Special Resolution passed on 6 October 2021.

The Scheme is a registered scheme in accordance with section 153 of the Finance Act 2004. The Trustee knows of no reason why this registration may be prejudiced or withdrawn.

Responsibility for setting the investment strategy and for managing the Scheme rests with the Trustee. The persons who acted as directors to the Trustee Company during the year are listed on page 2. The Directors meet quarterly and decisions are passed on a simple majority of those voting.

The Trustee, in conjunction with the MMPS, has set up a Joint Investment Committee to fully consider the investment issues which affect both Schemes and who report back to the Trustee Board. The Joint Investment Committee meets at least once a quarter.

The Trustee has appointed professional advisers and other organisations to support it in delivering the Scheme's objectives. These individuals and organisations are listed on page 2. The Trustee has written agreements in place with each of them.

**PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF  
THE METHODIST CHURCH**

**TRUSTEE'S REPORT (continued)**

**FINANCIAL STATEMENTS AND DEVELOPMENTS OF THE SCHEME**

The annual financial statements and notes to the financial statements are set out on pages 24 to 36. The financial statements have been prepared and audited in accordance with the regulations made under Sections 41(1) and (6) of the Pensions Act 1995.

As a result of net withdrawals from the Scheme from dealings with members of £1,237,394 (2020: net withdrawals of £1,125,619), and a net gain on investments of £14,909,736 (2020: net loss of £2,737,443). The Scheme now has a value of £95,446,226 (2020: £81,773,884).

**MEMBERSHIP AND BENEFITS**

**Membership**

As at 31 August 2021 there were 696 members of the Scheme. These can be broken down as follows:

	<b>Closure Members</b>	<b>Deferred Members</b>	<b>Spouses' Pensions</b>	<b>Pensioner Members</b>	<b>Total</b>
<b>As at 31/08/2020</b>	<b>162</b>	<b>280</b>	<b>17</b>	<b>246</b>	<b>705</b>
Leavers – Ceased employment*	(3)	1	-	2	-
Leavers – annuitants*	-	-	-	(1)	(1)
<b>Restated at 31/08/2020</b>	<b>159</b>	<b>281</b>	<b>17</b>	<b>247</b>	<b>704</b>
New Entrants	-	4	2	17	23
Leavers	(11)	(10)	-	-	(21)
Leavers - annuitants	-	-	-	(5)	(5)
Transfers out	-	(1)	-	-	(1)
Deceased	-	(1)	-	(3)	(4)
<b>As at 31/08/2021</b>	<b>148</b>	<b>273</b>	<b>19</b>	<b>256</b>	<b>696</b>

\* notified / processed after 31/08/2020 year end

Prior to 1 August 1998 the Trustee purchased annuities for members on their retirement with Legal & General Assurance Society Limited. The annuity policies match the pension benefit provided by the Scheme. There are 23 annuitants which have been included in the table above.

# PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH

## TRUSTEE'S REPORT (continued)

### Pension increases

The Trust Deed and Rules of the Scheme provide for increases to pensions in payment to take account of inflation, subject to a cap of:

- 5% pa for pensions accrued before 6 April 2005\*
- 2.5% pa for pensions accrued from 6 April 2005

\*Members who joined the Scheme before 1 December 1997 receive increases at the fixed rate of 5% pa on the part of their pension that relates to service before 1 September 1998.

There is no history of discretionary increases and over the last three years, pension increases have been paid within the limits stated above.

Pension increases are effective from 1 September each year and are considered in conjunction with the July Retail Prices Index. The increases applied as at 1 September 2021 were as follows:

<b>Pensions in relation to service</b>	<b>Increase awarded</b>
Prior to 1 September 1998 for those members joining before 1 December 1997	5.0% (2020: 5.0%)
Prior to 6 April 2005	3.8% (2020: 1.6%)
From 6 April 2005	2.5% (2020: 1.6%)

### Deferred pension increases

The Scheme provides guaranteed increases of not less than the revaluation percentage specified by the Secretary of State in accordance with paragraph 2(1) of Schedule 3 to the Pension Schemes Act 1993 applicable over the period from the date on which the member left pensionable service up to Normal Pension Date. The Trustee agreed in March 2011 that the index used to determine the revaluation percentage is linked to the Consumer Price Index ("CPI") and therefore, statutory increases were awarded to deferred pensions over the year to 31 August 2021.

### Transfers out of the Scheme

Transfer values paid during the year in respect of transfers to other pension schemes were cash equivalents calculated and paid in the manner prescribed by the Scheme Actuary in accordance with the Pensions Schemes Act 1993. The Trustee, with the advice of the Actuary, has decided to make no allowance for discretionary pension increases in the calculation of transfer values because such increases are unlikely to be awarded, given the funding position of the Scheme. No transfers were reduced to less than their cash equivalent value.

### Going concern and COVID-19

The outbreak of the COVID-19 pandemic continues to cause significant disruption to economic activity which has been reflected in global stock market fluctuations and, in turn, the valuation of pension scheme assets.

## PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH

### TRUSTEE'S REPORT (continued)

The Trustee has continued to manage risks associated with movements in investment market prices by constructing a diverse portfolio of investments across various asset classes and markets. The Trustee monitors the ever evolving situation and, as part of the ongoing governance of the Scheme, receives and reviews its procedures and policies. The Trustee is comfortable that the systems of the Employer, in respect of processing member benefits in accordance with the Scheme rules and responding to member queries in a timely manner, has continued to operate uninterrupted.

The Trustee has maintained dialogue with the Principal Employer and receives regular updates on business performance and contributions monthly. The Principal Employer's business has not been substantially affected by the pandemic.

The Trustee is not aware of any plans to wind up the Scheme and it confirms that, to the best of its knowledge, the Scheme will be continuing for at least 12 months from the date of signing this Report and it is therefore appropriate that the financial statements have been prepared on an 'on-going' basis.

### REPORT ON ACTUARIAL LIABILITIES

Under section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. This is assessed at least every 3 years using assumptions agreed between the Trustee and the participating employers and set out in the Statement of Funding Principles, a copy of which is available to Scheme members on request.

The latest full actuarial valuation of the Scheme was carried out at 1 September 2020. This revealed a shortfall of the assets relative to the technical provisions (ie accrued liabilities) of £16,677,000. The results are summarised in the table below:

Date	Actuarial update as at 01/09/2018	Actuarial update as at 01/09/2019	Actuarial valuation as at 01/09/2020
Value of technical provisions* (£'000)	73,428	89,683	93,837
Assets available to meet technical provisions (£'000)	72,533	80,932	77,160
Assets as a percentage of technical provisions	98.8%	90.2%	82.2%
Surplus/Shortfall (£'000)	(895)	(8,751)	(16,677)

*\*This is the Scheme's quoted technical provisions (which excluded the value of the assets and liabilities covered by the Legal & General annuity policies).*

## PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH

### REPORT ON ACTUARIAL LIABILITIES (continued)

The value of the technical provisions is based on pensionable service to the valuation date (or 31 May 2019 if earlier) and assumptions about various factors that will influence the Scheme in the future, such as the levels of investment returns and salary and pension increases, when members will retire and how long members will live.

The method and significant actuarial assumptions used in the calculations are as follows:

#### Method

The actuarial method used in the calculation of the technical provisions is the Projected Unit Method.

#### Significant actuarial assumptions as at 1 September 2020

Discount interest rate:	Bank of England gilt curve plus 1.3% pa for 12 years and plus 0.5% pa thereafter
Future Retail Price Inflation (RPI):	Equal to the Bank of England RPI inflation curve
Future Consumer Price Inflation (CPI):	0.75% pa below the RPI assumption up until 2030, equal to the RPI assumption thereafter
Pensionable earnings increases:	Equal to CPI assumption plus an age-related promotional scale
Pension increases:	As guaranteed in the Rules, based on RPI increases, with some pensions receiving fixed 5% increases
Mortality:	For the period in retirement, standard SAPS S3 series light tables with a scaling factor of 100%, together with allowance for future improvements in line with CMI_2019 Core Projections with an initial addition to CMI improvements of 0.25% and incorporating an annual long term rate of improvement in mortality rates of 1.5% pa
Commutation:	An allowance for members to commute 10% of their pensions for a lump sum
Expenses:	A reserve covering the expected cost of the expenses of running the Scheme over the following six years has been included within the technical provisions at 1 September 2020.

## PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH

### REPORT ON ACTUARIAL LIABILITIES (continued)

#### Recovery plan

As part of the 2020 actuarial valuation, a recovery plan was agreed between the Trustee and the participating employers whereby it was agreed that the shortfall revealed as at 1 September 2020 should be eliminated by contributions to be paid from the Pension Reserve Fund<sup>1</sup> to the Scheme as follows:

- £2,380,000 per annum will be paid to the Scheme each August, starting August 2021<sup>2</sup> up to and including August 2026; and
- Between £0 and £529,000 will be paid to the Scheme each December, starting December 2021 up to and including December 2026. The precise amount payable will be determined by the Scheme Actuary having regard to Scheme experience.

These arrangements were formalised in a schedule of contributions which the Scheme Actuary certified on 29 November 2021. A copy of this certificate is included on page 37 of this annual report. On 30 November 2021 the Scheme's valuation results were submitted to the Pensions Regulator and on 17 January 2022 the Pensions Regulator confirmed receipt of the Scheme's valuation submission and did not have any further questions in respect of the valuation.

The Trustee and the Methodist Council have also agreed a secondary Long Term Funding Objective for the Scheme. Under this agreement, if the Scheme's Long Term Funding Objective funding level falls below 90% then a remedy payment schedule will be put in place (in addition to any recovery plan contributions). The remedy payment schedule will be designed to eliminate any Long Term Funding Objective shortfall over a period of three years but remedy payments will be capped at £15m pa across both the Scheme and the Methodist Ministers' Pension Scheme and will cease once the Scheme's Long Term Funding Objective funding level reaches 90%. Full details will be set out in a Framework Agreement between the Trustee and the Methodist Council.

In addition, to further support the Scheme's funding and investment strategy, the Methodist Council is intending to pledge security worth £685,000 in the form of a charge on properties, and place cash of £415,000 in a restricted fund. It is anticipated that the Trustee would have a right to call on these assets should the Methodist Council default on a remedy payment that falls due following a Long Term Funding Objective assessment. The detailed arrangements are still under discussion but are intended to be formalised in a legal agreement once agreed.

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<sup>1</sup> *The Pension Reserve Fund was set up following a 2009 Conference decision to establish a reserve outside of the Scheme, which can be used to meet future funding needs and other pension related costs. The Trustee of the Scheme considers that the Pension Reserve Fund overall strengthens the Church's financial covenant to the Scheme.*

<sup>2</sup> *in practice, due to the timing of the signing of the revised recovery plan, the core contribution of £650,000 under the 2018 recovery plan was paid in August 2021, and the difference between this and the revised core contribution amount (ie £2,380,000 - £650,000 = £1,730,000) was paid in December 2021. No conditional contribution was required in December 2021.*

## **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

### **REPORT ON ACTUARIAL LIABILITIES (continued)**

#### **Next Actuarial Valuation**

The next triennial valuation will be performed as at 1 September 2023. However, in accordance with statutory requirements, the Trustee will obtain annual actuarial reports which provide updates of the funding position. The next actuarial report is being produced as at 1 September 2021.

#### **Further details**

The Trustee of the Scheme has produced a Summary Funding Statement based on the 2020 valuation results. Copies of the Scheme Actuary's 2020 valuation report and the latest Summary Funding Statement are available on request from the contact for enquiries on page 38.

### **INVESTMENT MANAGEMENT**

#### **Investment strategy**

The broad investment objectives are agreed by the Trustee, having consulted with the Employer. Within the context of these risk and return objectives, the Trustee, taking advice from the Scheme's investment consultants, decides on the overall allocation of assets between the various asset classes, and selects the appropriate managers within each asset class.

In accordance with section 35 of the Pensions Act 1995, a Statement of Investment Principles ("SIP") has been produced by the Trustee following consultation with the Employer. The SIP was reviewed and updated in December 2020 and September 2021. The Trustee reviews the SIP at least once every three years, and after any significant change in investment strategy. The Employer, the appointed Investment Consultant, and the appointed Scheme Actuary are consulted during the review. A copy of the latest SIP is available online at:

<https://www.methodist.org.uk/media/23888/draft-statement-of-investment-principles-paslemc-july-2021-clean-type-set-signed.pdf>

## PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH

### INVESTMENT MANAGEMENT (continued)

The following table details the strategic asset allocation as set out in the SIP. Figures may not sum due to rounding.

Asset class	Strategic allocation (%)
UK equities	24.5
Overseas equities	24.5
UK Property	10.0
<b>Growth assets</b>	<b>59.0</b>
Corporate bonds	6.0
Liability Driven Investment ("LDI") and Cash	35.0
<b>Matching assets</b>	<b>41.0</b>
Total	100.0

The Trustee has implemented a de-risking framework based on a system of triggers to meet its objectives as detailed in its Statement of Investment Principles. This broadly involves increasing the matching assets and decreasing the return seeking assets if certain trigger thresholds are met. Therefore, the actual asset allocation may be expected to shift progressively over time.

Material changes to the investments during the year ended 31 August 2021 are set out below:

- In December 2020, the Trustee decided to reduce the Scheme's strategic allocation to UK equities and increase the strategic allocation to Overseas equities – targeting an equal split between the two.
- The new strategic benchmark was gradually implemented over a series of trade dates, with the final trades taking place in June 2021.
- The Trustee also agreed to de-risk the Scheme's assets in June 2021, following a significant improvement in its funding position. As a result of this the Scheme moved monies out of UK and Overseas equities into LDI, reducing exposures to equity risk, inflation risk and interest rate risk.

#### Departures from the SIP

There were no material departures from the Scheme SIP over the year, any changes to investment strategy have been reflected in an updated version of the Scheme SIP within a reasonable timeframe.

#### Other investments

The Scheme's money purchase AVC investments are invested with Aegon Investment Solutions Limited ("Aegon"). Aegon offer a range of funds for members to choose from.

## **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

### **INVESTMENT MANAGEMENT (continued)**

There is also a legacy annuity policy which relates to benefits. Annuities were issued by Legal and General Retail Retirement Income and are valued by the Scheme Actuary. No collateral is held in relation to these assets and the Trustee no longer purchases annuities to meet Scheme liabilities.

#### **Investment arrangements**

Over the year under review, the investments of the Pension and Assurance Scheme for Lay Employees of the Methodist Church (the "Scheme") were managed by Epworth Investment Management Limited ("Epworth") (investing in funds managed by the Central Finance Board of the Methodist Church ("CFB")), Mayfair Capital, Schroder Real Estate Managers (Jersey) Limited ("Schroder"), Columbia Threadneedle Investments ("Columbia Threadneedle"), BMO Global Asset Management ("BMO") and Aegon Investment Solutions Limited ("Aegon").

The Scheme pays fees to each of the investment managers based on their assets under management. In addition to the annual management charges paid by the Scheme, there may be further expenses incurred in the management of each fund which will be reflected in the fund returns.

The Trustee is aware that indirect transaction costs will be incurred through the bid-offer spread on investments within the Scheme's pooled investment vehicles and charges made within those vehicles.

The overall management of the Trustee's investments is the responsibility of the Trustee. However, the day-to-day management of the Scheme's asset portfolio is the responsibility of the investment managers, who operate within the guidelines of their specific mandates.

The underlying assets are held by custodians who have agreements with the investment manager of the assets. There is no direct relationship between the investment managers' custodians and the Trustee.

#### **Investment principles**

##### **Trustee's policies in relation to voting rights**

The Trustee has examined how rights, including voting rights, attached to investments should be exercised. The Trustee recognises its responsibilities as an owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks and ESG considerations.

The Trustee does not generally monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, considering the long-term financial interests of the beneficiaries. The Trustee will consider such policies from which it will determine whether circumstances require them to monitor or engage with investment managers or other holders of debt or equity. The Trustee understands these reflect the recommendations of the UK

## **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

### **INVESTMENT MANAGEMENT (continued)**

Stewardship Code issued by the Financial Reporting Council. The Trustee is supportive of the recommendations made by the UK Stewardship Code and expects its investment managers to comply with the principles of the UK Stewardship Code (or to explain any non-compliance). All of the Scheme's publicly-held shares are managed by Epworth, and the Trustee is able to engage with Epworth on its voting policies should it have a strong view on a particular issue. The Trustee cannot usually directly influence the policies of the Scheme's other investment managers.

### **Trustee's policies on environmental, social and governance ("ESG") and ethical factors**

The Trustee has considered how environmental, social and governance, and ethical factors should be considered in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee recognises that it has an important influence on the Scheme's approach to ESG, ethics, and other financially material considerations through its investment strategy and manager selection decisions. The Trustee has formulated a Responsible Investment Policy which describes its approach in this area in more detail, with key elements summarised here. The Trustee believes that this Policy is consistent with the views of members and will not be financially detrimental to the Scheme.

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations) as an integral part of their investment processes. The Trustee seeks to appoint managers that have appropriate skills and processes to do this, and regularly reviews how its managers are taking account of these issues in practice.

The Trustee also takes into account some non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

The Trustee believes that Scheme members would support action in respect of these non-financial factors and does not expect taking account of these factors to pose a risk of material financial detriment to the assets of the Scheme. More detail on the non-financial matters which the Trustee takes account of is included in the Trustee's Responsible Investment Policy document. This can be found at the following link:

<https://www.methodist.org.uk/media/24090/paslemc-responsible-investment-policy-draft-may2021v2-final.pdf>

However, responsibility for the selection of individual assets is delegated to the Scheme's investment managers and the Trustee accepts that it may not be possible to find investment funds for all asset classes which considers all factors which the Trustee considers important, or which exclude all investments which the Trustee would prefer to avoid. In this situation the Trustee adopts a pragmatic approach, seeking to find investment funds in which the allocations to such holdings are not material – with analysis being conducted before any new investment. The Trustee has limited influence over managers' investment practices, other than Epworth, but it encourages its managers to improve their practices where appropriate.

The Trustee has considered the nature, disposition, marketability, security and valuation of the Scheme's investments and considers them to be appropriate relative to the reasons for holding each class of investment. Further details about investments are given in the notes to the financial statements.

## **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

### **INVESTMENT MANAGEMENT (continued)**

#### **Trustee's policy on the implementation of asset manager arrangements**

Before investing in any manner, the Trustee obtains and considers written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

During the retention of any investment, the Trustee regularly considers at what intervals the circumstances and nature of the investment make it desirable to obtain such advice from its investment adviser, and obtains and considers such advice accordingly.

The Trustee has signed agreements with the investment managers setting out in detail the terms on which the portfolios are to be managed and investment powers delegated. The investment managers' primary role is the day-to-day investment management of the Scheme's investments. Where appropriate, the managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. The Trustee's policy is not to fix the duration of any mandate in advance, instead it aims to monitor managers on an ongoing basis based on performance and other key indicators (including but not limited to the views of their advisers). If serious concerns arise termination of the mandate will be considered. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well as the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

**PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF  
THE METHODIST CHURCH**

**INVESTMENT MANAGEMENT (continued)**

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates, to enable it to factor such costs into its decisions.

**Investment performance**

The performance of the investment managers is reviewed periodically at the Trustee's meetings. The following table shows the performance of the Scheme and the appointed investment managers over the one and three year periods to 30 September 2021, after the deduction of fees except where indicated.

	1 year to 30/09/21 (%)		3 years to 30/09/21 (% pa)	
<b>Epworth</b>	<b>Fund</b>	<b>Benchmark</b>	<b>Fund</b>	<b>Benchmark</b>
CFB UK Equity Fund	28.1	27.9	4.2	3.1
CFB Overseas Fund	24.1	22.5	12.8	12.3
CFB UK Corporate Bond Fund	-2.4	-0.4	3.4	4.4
CFB Deposit Fund (cash)	0.1	-0.1	0.5	0.2
<i>Epworth overall</i>	<i>22.1</i>	<i>21.5</i>	<i>5.3</i>	<i>4.6</i>
<b>BMO</b>				
Nominal LDI	-30.9	-29.1	11.8	12.6
Real LDI	-2.8	0.4	13.7	15.1
<b>Mayfair Capital</b>				
UK Property	14.9	13.1	4.9	4.0
<b>Threadneedle</b>				
UK Property	13.5	13.1	4.2	4.0
<b>Total Scheme</b>	<b>12.5</b>	<b>12.8</b>	<b>6.9</b>	<b>8.1</b>

Source: Investment managers. LCP.

Please note:

- Overall performance of the Scheme is calculated by compounding the Scheme and benchmark returns contained in the investment reports provided by the Scheme's investment adviser; and
- Benchmark shown for corporate bonds is iBoxx £ Non Gilts Index.

## **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

### **INVESTMENT MANAGEMENT (continued)**

#### **Performance commentary and economic background**

##### **Economic overview**

In response to the COVID-19 crisis, which was declared a pandemic in March 2020, major central banks, including the US Federal Reserve, the Bank of England and the European Central Bank, maintained or further relaxed an extremely accommodative monetary stance in an attempt to cushion the effects of the lockdowns imposed to curb the spread of the virus. Governments have also released unprecedented spending packages; the US government alone has spent more than \$5tn in fiscal stimulus since the early days of the pandemic.

Throughout the 12-month period to the end of September 2021, the Bank of England maintained the loose monetary policy introduced in early 2020, and even expanded its Quantitative Easing programme with the commitment to purchase an additional £150bn of government bonds. Over the same period, Chancellor Rishi Sunak announced a number of fiscal initiatives to mitigate the pandemic's effects, including several extensions to the country's job support schemes, as well as an extra £65bn of public funding in 2021, aimed at keeping businesses afloat and jobs open.

The coronavirus outbreak pushed EU-UK trade discussions off centre stage until late 2020. Negotiations reached apparent breaking point on several occasions; nonetheless, Britain and the EU still managed to secure a post-Brexit agreement on 24 December 2020 – just one week before the Brexit transition deadline. Although the deal does not come close to replicating Britain's existing accord with the EU, it avoided a "No-deal Brexit" and set out the future UK-EU relationship on a range of areas – from trade and investment to transport and energy.

The development in late 2020 of several effective vaccines against the virus lifted hopes that the worst of the pandemic might be over soon. The first three quarters of 2021 saw significant progress in vaccination efforts, particularly in developed economies. Nonetheless, with reopening underway, inflation has now overshot central bank targets in several major economies; a phenomenon which could jeopardise the still nascent recovery, particularly if central banks decide they need to respond.

##### **Developed market equities**

Following the pandemic-induced slump in global markets in early 2020 and subsequent lockdowns in major economies, developed market equities rebounded strongly over the 12-month period to 30 September 2021 on the back of the unprecedented government and central bank policy support and positive news regarding vaccines and inoculation efforts.

November's US-election result, the ratification of a \$900bn fiscal stimulus package, as well as positive vaccine news saw US equities finish 2020 strongly. Despite a shaky start, US equities posted strong returns over the first three quarters of 2021, as the country's legislature ratified a further \$1.9tn fiscal stimulus package and posted good progress on COVID-19 vaccinations. Hints at tapering support from the Federal Reserve in the face of rising inflation tempered returns in Q3.

Although many countries such as Germany and France had been compelled to reintroduce lockdown restrictions in the face of rising infection rates towards the end of 2020, news of effective vaccines, a relatively successful inoculation campaign as well as further stimulus saw European equities advance over the period.

## **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

### **INVESTMENT MANAGEMENT (continued)**

UK equities performed strongly over the last quarter of 2020 following November's positive vaccine news and a last-minute UK-EU Brexit deal in late December. The resumption of many company dividend payments, a very successful vaccination programme alongside further fiscal support, helped UK equities outperform overseas peers over Q1 2021. However, a delay in lifting COVID-19 restrictions due to virus mutation worries as well as friction with the EU over the Northern Ireland Protocol meant UK equities underperformed their developed market peers slightly over Q2 2021. Performance was generally muted over Q3 2021 as the Bank of England took a more hawkish tone as inflationary pressures continued to surpass expectations.

In aggregate these factors helped drive very strong performance across the Scheme's equity portfolios over the year.

### **Property**

At the aggregate level, UK property produced strong returns over the year to 30 September 2021. Both rental income and capital values experienced a recovery at the end of 2020 which carried over into the first half of 2021, driven primarily by positive investor sentiment on the back of the UK's successful vaccination campaign and the subsequent easing of restrictions. Performance dispersion among sectors remains high. The industrial sector in particular delivered strong performance over the entire period, with demand for logistics warehousing proving especially strong given the surge in online retailing. By comparison, the retail (aside from retail warehousing) and leisure sectors struggled throughout the period as a result of various social restrictions, causing many businesses to close for prolonged periods.

### **Matching portfolio (bond and LDI assets)**

Over the year to 30 September 2021, nominal UK government bonds posted substantial negative returns, while inflation-linked UK government bonds posted broadly flat returns. Loosening of monetary conditions in November – with the Bank of England expanding its Quantitative Easing programme with the commitment to purchase an additional £150bn of UK government bonds – as well as heightened Brexit uncertainty meant that the asset class produced positive returns over Q4 2020.

Bond yields (which are inversely related to prices) rose sharply in the first quarter of 2021 on the back of the UK's successful vaccination rollout and US fiscal stimulus, both of which fuelled optimism of a swifter than anticipated return to economic normality. However, despite expectations of higher inflation – which became more ingrained over Q2 and Q3 2021 – and bouts of volatility UK government bonds delivered mostly positive returns over the latter half of the period, on the back of dovish central bank rhetoric and continued strong demand. . This trend was reversed in September 2021 as both fixed and inflation-linked government bonds sold off sharply.

Overall, corporate bonds posted modest, negative, returns over the year to 30 September 2021 as the tightening of credit spreads to levels not seen since early 2018 was more than offset by the uptick in bond yields experienced over the first three quarters of 2021. This "spread compression" in part reflected the increasingly positive economic outlook – and thus at the aggregate level, a reduced likelihood of corporate failure – as well as the Bank of England's decision to include corporate debt in its bond-purchasing programme. Overall these trends resulted in negative performance across the Scheme's matching portfolio (made up of corporate bond and LDI assets) over the year to 30 September 2021.

## **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

### **INVESTMENT MANAGEMENT (continued)**

#### **Overall Scheme performance**

Marginal underperformance at the Scheme level, relative to its strategic benchmark performance was driven by underperformance within the matching portfolio (especially the BMO LDI funds relative to their gilt-based benchmark) as well as negative impacts from the Scheme's asset allocation relative to strategic weights and from rebalancing activity. Outperformance from the equity holdings helped to partly offset this. The underperformance of the BMO LDI funds against their gilt-based benchmarks should also be viewed in the context of the risk reduction that these holdings have allowed the Scheme to carry out.

#### **SCHEME GOVERNANCE**

Scheme governance is a key priority for the Trustee Directors who operate practices and procedures to ensure that they meet their statutory duties. The Trustee considers the guidance as laid down by the Pensions Regulator when establishing and developing the governance arrangements. A summary of the main governance arrangements is detailed below.

#### **Business plan**

The Trustee has established a Business Plan which outlines the expected tasks that require completion during the year and at which meeting the items will be discussed. The Trustee receives a copy of the current Business Plan at every Trustee Board meeting.

#### **Trustee meetings**

There were five meetings of the Trustee Board for the Scheme and four meetings of the Joint Investment Committee. Over the Scheme year to 31 August 2021, attendance by the Trustee Directors at the Board meetings was 84% (2020: 69%).

#### **Risk management**

The Trustee maintains a Risk Register which identifies the key risks faced and prioritises them on a combination of potential impact and likelihood of occurrence in line with the guidance issued by the Pensions Regulator. The Risk Register includes a record of the key controls in place and action that could be taken to mitigate the risks identified. The Risk Register is reviewed annually in line with the Business Plan, and at each Trustee meeting during the year.

#### **Conflicts of interest policy**

The Trustee maintains a policy for managing potential conflicts of interest. Any conflict identified is recorded in the minutes of the Trustee meeting. The Scheme Secretary also maintains a register of the Trustee Directors' interests.

#### **Employers' covenants**

The Trustee reviews the strength of the employer covenant on an annual basis. The Trustee used an external adviser to undertake a review of the employer covenant. Pricewaterhousecoopers LLP have been appointed to carry out the review of the employer covenant.

**PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF  
THE METHODIST CHURCH**

**SUMMARY OF CONTRIBUTIONS PAYABLE FOR THE YEAR ENDED 31 AUGUST 2021**

During the year ended 31 August 2021, the contributions payable to the Scheme by the participating employers were as follows:

	<b>£</b>
<b>CONTRIBUTIONS PAYABLE UNDER THE SCHEDULE OF CONTRIBUTIONS</b>	
Employer deficit contributions	1,097,000
	<hr/>
Total contributions payable under the schedule of contributions	1,097,000
	<hr/>
<b>TOTAL CONTRIBUTIONS REPORTED IN THE FINANCIAL STATEMENTS</b>	<b>1,097,000</b>
	<hr/> <hr/>

## **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

### **STATEMENT OF TRUSTEE'S RESPONSIBILITIES**

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the trustee are responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Trustee also have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

This report was approved by the Trustee on 3 March 2022 and signed on its behalf by:

**Richard Hubbard**  
Representing Capital Cranfield Pension Trustees Ltd

**Chair of Trustee Board**

For and on behalf of The Methodist Lay Employees' Pension Trust Limited

## **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

### **INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE PENSION AND ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

#### **Opinion**

We have audited the financial statements of the Pension & Assurance Scheme for Lay Employees of the Methodist Church (the 'Scheme') for the year ended 31 August 2021 which comprise the Fund Account, the Statement of Net Assets and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the Scheme's financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 August 2021, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

#### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon and our auditor's statement about contributions. The Trustee is responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, we do not express any form of assurance conclusion thereon.

## **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

### **INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE PENSION AND ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH (continued)**

#### **Other information (continued)**

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### **Responsibilities of the Trustee**

As explained more fully in the Statement of Trustee's Responsibilities set out on page 19, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee intends to wind up the Scheme, or has no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

#### *Capability of the audit in detecting irregularities, including fraud irregularities*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below:

Based on our discussions with the Trustee, we considered the laws and regulations that have a direct impact on the preparation of the financial statements such as Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.

During the engagement team briefing, the outcomes of these discussions and enquiries were shared with the team, as well as consideration as to where and how fraud may occur in the entity. The engagement team remained alert to non-compliance throughout the audit from planning to completion.

## **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

### **INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE PENSION AND ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH (continued)**

#### **Auditor's responsibilities for the audit of the financial statements (continued)**

Audit procedures undertaken in response to the potential risks relating to irregularities (which include fraud and non-compliance with laws and regulations) comprised of:

- enquiries of management and the Trustee as to whether the entity complies with such laws and regulations;
- enquiries with the same concerning any actual or potential litigation or claims and whether they have knowledge of any actual, suspected or alleged fraud;
- inspection of relevant legal correspondence;
- review of Trustee meeting minutes;
- testing the appropriateness of journal entries; and
- the performance of analytical review to identify unexpected movements in account balances which may be indicative of fraud.

No instances of material non-compliance were identified. However, the likelihood of detecting irregularities, including fraud, is limited by the inherent difficulty in detecting irregularities, the effectiveness of the entity's controls, and the nature, timing and extent of the audit procedures performed. Irregularities that result from fraud might be inherently more difficult to detect than irregularities that result from error. As explained above, there is an unavoidable risk that material misstatements may not be detected, even though the audit has been planned and performed in accordance with ISAs (UK).

We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### **Use of the audit report**

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee, as a body, for our audit work, for this report, or for the opinions we have formed.

**Assure UK**  
**Chartered Accountants and Statutory Auditor**  
London

Date: 03/03/2022

## **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

### **INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE PENSION & LIFE ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

We have examined the Summary of Contributions to the Pension & Assurance Scheme for Lay Employees of the Methodist Church for the Scheme year ended 31 August 2021 which is set out on page 18.

In our opinion contributions for the Scheme year ended 31 August 2021 as reported in the Summary of Contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 30 October 2018.

#### **Scope of work on Statement about Contributions**

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the Summary of Contributions on page 18 have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

#### **Respective responsibilities of Trustee and the Auditor**

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a Schedule of Contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a Statement about Contributions paid under the Schedule of Contributions and to report our opinion to you.

#### **Use of the audit report**

This statement is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our work on contributions has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee, as a body, for our work on contributions, for this statement, or for the opinion we have formed.

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#### **Assure UK**

Chartered Accountants and Statutory Auditor  
London

Date: 03/03/2022

**PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF  
THE METHODIST CHURCH**

**FUND ACCOUNT**

**For the year ended 31 August 2021**

	Note	2021 £	2020 £
<b>Contributions and Benefits</b>			
Employer contributions	5	<u>1,097,000</u>	<u>1,097,000</u>
		1,097,000	1,097,000
Benefits paid or payable	6	(1,912,240)	(1,545,242)
Payments to and on account of leavers	7	(30,414)	(277,428)
Administrative expenses	8	<u>(391,740)</u>	<u>(399,949)</u>
		(2,334,394)	(2,222,619)
<b>Net withdrawals from dealing with members</b>		<u>(1,237,394)</u>	<u>(1,125,619)</u>
<b>Returns on investments</b>			
Investment income	9	1,679,284	1,807,231
Change in market value of investments	10	13,614,516	(4,204,759)
Investment management expenses		(384,064)	(339,915)
<b>Net return on investments</b>		<u>14,909,736</u>	<u>(2,737,443)</u>
<b>Net increase/(decrease) in the fund during the year</b>		13,672,342	(3,863,062)
<b>Net assets of the Scheme</b>			
<b>At 1 September</b>		<u>81,773,884</u>	<u>85,636,946</u>
<b>At 31 August</b>		<u>95,446,226</u>	<u>81,773,884</u>

The notes on pages 26 to 36 form an integral part of these financial statements.

**PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF  
THE METHODIST CHURCH**

**STATEMENT OF NET ASSETS  
(available for benefits) at 31 August 2021**

	<b>Note</b>	<b>2021</b> £	<b>2020</b> £
<b>Investment assets</b>	10		
Pooled investment vehicles		82,947,924	70,094,466
AVC investments		1,247,161	892,641
Insurance policies		4,029,905	4,613,521
Accrued interest		209,585	311,369
Cash		6,960,655	5,135,082
<b>Total net investments</b>		<u>95,395,230</u>	<u>81,047,079</u>
<b>Current assets</b>	17	141,347	956,501
<b>Current liabilities</b>	18	(90,351)	(229,696)
<b>Net assets of the Scheme at 31 August</b>		<u>95,446,226</u>	<u>81,773,884</u>

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations, is dealt with in the Report of Actuarial Liabilities on page 6 of the Annual Report and these financial statements should be read in conjunction with this report.

Approved by the Trustee on 3 March 2022 and signed on its behalf by:

**Richard Hubbard** **Chair of Trustee Board**  
Representative of Capital Cranfield Pension Trustees Ltd

For and on behalf of The Methodist Lay Employees' Pension Trust Limited

The notes on pages 26 to 36 form an integral part of these financial statements.

# **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. GENERAL INFORMATION**

The Pension and Assurance Scheme for Lay Employees of Methodist Church (“the Scheme”) is an occupational pension scheme established under trust. The Scheme was established to provide retirement benefits to the Lay Employees of the Methodist Church. The registered address of the Scheme is Methodist Church House, 25 Marylebone Road, London, NW1 5JR.

The Scheme is a defined benefit scheme which closed to new members and future accrual on 31 May 2019.

The Scheme is a registered pension scheme under Chapter 2, Part 4 of the Finance Act 2004. This means that contributions made by the participating employers and by members are normally eligible for tax relief, and income and capital gains earned by the Scheme receive preferential tax treatment.

### **2. STATEMENT OF COMPLIANCE**

The financial statements of the Scheme have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council (“FRS 102”) and the guidance set out in the Statement of Recommended Practice “Financial Reports of Pension Schemes” (Revised 2018) (“the SORP”).

### **3. IDENTIFICATION OF THE FINANCIAL STATEMENTS**

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is included in the Trustee’s Report.

### **4. ACCOUNTING POLICIES**

The principal accounting policies which the Trustee has adopted are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

#### **(a) Valuation of investments**

Investment assets are included in the financial statements at fair value. Investments are stated as follows:

- Epworth state assets at bid price.
- Threadneedle property fund is stated at net asset value (NAV) and Mayfair Capital property fund is stated at bid price.
- The pooled LDI assets are stated at Net Asset Value (NAV).
- Annuity policies are valued by the Scheme Actuary as the amount of the related obligation, determined using the most recent Scheme Funding valuation assumptions updated for market conditions at the reporting date.

#### **(b) Investment income and expenditure**

Investment income is accounted for on an accruals basis applied on a consistent basis.

## **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

### **4. ACCOUNTING POLICIES (continued)**

Dividends are accrued on an ex-div basis. Income from fixed interest securities, index-linked securities, cash and short term deposits and property rental income are all accounted for on an accruals basis. The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, where income is reinvested within the fund without issue of further units, change in market value also includes such income.

Income arising from annuity policies is included in net movement in market value of investment.

There are no direct investment management fees chargeable to the Scheme other than the fees payable to BMO. The Scheme funds are invested in managed pooled investment funds and insurance policies and the underlying investment manager fees are deducted from the net asset value of the pooled investments or policies.

Transaction costs are included in the cost of purchases and deducted from sales proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other duties.

#### **(c) Contributions and benefits**

##### *Member and Employer contributions*

No new contributions, Member or Employer, including AVCs, were paid as the Scheme closed to future accrual on 31 May 2019.

##### *Employer Deficit contributions*

Deficit funding contributions are accounted for on the due dates set out in the schedule of contributions, or on receipt if earlier, with the agreement of the Methodist Council and the Trustee.

##### *Benefits and payments to leavers*

Benefits and payments to leavers are accounted for in the period they fall due for payment.

Where members can choose whether to take their benefits as a full pension or a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.

#### **(d) Transfers to other pension schemes**

Transfer values are accounted for at values calculated in accordance with the advice of the Actuary and accounted for when the benefits become due for payment. Individual transfers are accounted for when the transfer has been agreed by both parties and the receiving scheme has accepted liability for the transfer.

## **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

### **4. ACCOUNTING POLICIES (continued)**

#### **(e) Currency**

The Scheme's functional currency and presentational currency is pounds sterling (GBP). Monetary assets and liabilities in foreign currencies are translated into sterling at the exchange rate ruling at the balance sheet date. Other transactions are translated into sterling at the rate ruling on the date of the transaction.

Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

#### **(f) Additional Voluntary Contributions**

AVCs are accounted for on an accruals basis and the resulting investments are included in the net asset statement.

#### **(g) Administration expenses**

Administration expenses are accounted for on an accruals basis. For significant consultation projects, the proportion of work completed by the year end is accounted for.

#### **(h) Cash**

Cash at bank not held within the investment portfolio is treated as a current asset.

#### **(i) Critical accounting judgements and estimation uncertainty**

The preparation of the financial statements requires the Trustee to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenues and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Given the nature of the transactions and balances held by the scheme, the Trustee is of the view that there are no critical accounting judgements nor estimation uncertainty.

**PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF  
THE METHODIST CHURCH**

**5. CONTRIBUTIONS**

<u>Employer</u>	<b>2021</b> £	<b>2020</b> £
Deficit funding contributions*	<u><b>1,097,000</b></u>	<u><b>1,097,000</b></u>

Normal contributions ceased when the Scheme closed to future accrual on 31 May 2019.

\*Following the September 2017 valuation it was agreed that the shortfall revealed at 1 September 2017 be eliminated by a yearly payment from the Pension Reserve Fund held by the Employer, of £650,000 commencing August 2018 up to August 2022, plus an amount to be determined by the Scheme Actuary to be received each December, starting December 2018 up to and including December 2022. In line with this, £447,000 was paid in December 2020 and £650,000 in August 2021.

**6. BENEFITS PAID OR PAYABLE**

	<b>2021</b> £	<b>2020</b> £
Pensions payable	1,499,951	1,397,762
Lump sums death benefits	12,233	-
Commencement of pensions and lump sum retirement benefits	<u>400,056</u>	<u>147,480</u>
	<u><b>1,912,240</b></u>	<u><b>1,545,242</b></u>

**7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

	<b>2021</b> £	<b>2020</b> £
Refund of contributions in respect of non-vested leavers	9,942	34,629
Individual transfers out	<u>20,472</u>	<u>242,799</u>
	<u><b>30,414</b></u>	<u><b>277,428</b></u>

**8. ADMINISTRATION EXPENSES**

	<b>2021</b> £	<b>2020</b> £
Management and accountancy	70,750	78,588
Audit fees	8,866	7,250
Actuarial fees	205,687	127,463
Legal fees	(25,286)	33,915
PPF Levy	52,736	59,977
Investment consultancy fees	57,035	58,521
Trustee fees	12,008	12,977
Other	<u>9,944</u>	<u>21,258</u>
	<u><b>391,740</b></u>	<u><b>399,949</b></u>

**PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF  
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**9. INVESTMENT INCOME**

	<b>2021</b>	<b>2020</b>
	<b>£</b>	<b>£</b>
Gains on sale investments	-	22,318
Interest on cash deposits and realised gains on investment	7,692	41,137
Distribution on CFB / Epworth	1,274,818	1,328,826
Distributions on property investments	396,774	414,950
	<u>1,679,284</u>	<u>1,807,231</u>

**10. RECONCILIATION OF INVESTMENTS**

	<b>Value at 01 September 2020</b>	<b>Purchases at cost</b>	<b>Sales proceeds</b>	<b>Change in market value</b>	<b>Value at 31 August 2021</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Pooled investment vehicles	70,094,466	20,420,027	(21,400,036)	13,833,467	82,947,924
AVC investments	892,641	279,227	(289,372)	364,665	1,247,161
Insurance policies	4,613,521	-	-	(583,616)	4,029,905
	<u>75,600,628</u>	<u>20,699,254</u>	<u>(21,689,408)</u>	<u>13,614,516</u>	<u>88,224,990</u>
Accrued interest	311,369				209,585
Cash	5,135,082				6,960,655
<b>Total investments</b>	<u><b>81,047,079</b></u>				<u><b>95,395,230</b></u>

The change in market value of investments during the year comprises all the increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and deducted from sales proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. The amount of indirect costs is not separately provided to the Scheme.

**11. POOLED INVESTMENT VEHICLES**

The Scheme's investment in pooled investment vehicles at the year-end comprised:

	<b>2021</b>	<b>2020</b>
	<b>£</b>	<b>£</b>
Equities	41,774,741	42,329,623
Bonds	4,574,322	3,984,107
LDI	28,645,138	16,332,302
Property	7,953,723	7,448,434
	<u>82,947,924</u>	<u>70,094,466</u>

**PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF  
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**12. AVC INVESTMENTS**

The Trustee holds assets invested separately from the main fund in the form of insurance policies securing additional benefits on a money purchase basis for the members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and movement in the year. The aggregate amounts of investments are as follows:

	<b>2021</b>	<b>2020</b>
	£	£
AEGON	<u>1,247,161</u>	<u>892,641</u>

**13. INSURANCE POLICIES**

The legacy annuity policies relate to benefits due for 23 individuals. Annuities were issued by Legal and General Retail Retirement Income and are valued by the Scheme Actuary. No collateral is held in relation to these assets. The Trustee no longer purchases annuities to meet Scheme liabilities.

**14. FAIR VALUE HIERARCHY**

The fair value of financial instruments has been disclosed using the following fair value hierarchy:

Level 1	The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access as the measurement date.
Level 2	Inputs other than the quoted prices included within Level 1 which are observable (i.e. developed for the asset or liability either directly or indirectly.)
Level 3	Inputs which are unobservable (i.e. for which market data is unavailable) for assets or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

The Scheme's investment assets and liabilities fall within the above hierarchy as follows:

	<b>At 31 August 2021</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	£	£	£	£
Pooled investment vehicles	-	74,994,201	7,953,723	82,947,924
Insurance policies	-	-	4,029,905	4,029,905
AVCs	-	890,164	356,997	1,247,161
Cash	6,960,655	-	-	6,960,655
Other investment balances	<u>209,585</u>	-	-	<u>209,585</u>
	<u>7,170,240</u>	<u>75,884,365</u>	<u>12,340,625</u>	<u>95,395,230</u>

**PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF  
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	<b>At 31 August 2020</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Pooled investment vehicles	-	62,646,032	7,448,434	70,094,466
Insurance policies	-	-	4,613,521	4,613,521
AVCs	-	375,735	516,906	892,641
Cash	5,135,082	-	-	5,135,082
Other investment balances	311,369	-	-	311,369
	<u>5,446,451</u>	<u>63,021,767</u>	<u>12,578,861</u>	<u><b>81,047,079</b></u>

The Epworth Deposit Fund included within the above, holds a very significant allocation to fixed term deposits, which are by their nature relatively illiquid, and do not have valuations from recognised, active, public markets.

**15. INVESTMENT RISKS**

FRS102 requires the disclosure of information in relation to certain investment risks. When deciding how to invest the Scheme's assets, the Trustee considers a wide range of risks, including credit risk and market risk, as defined below:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk defined as follows:

- Currency risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate and inflation rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates or expected inflation rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate and inflation rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determined the Scheme's investment strategy after obtaining written professional advice from its professional investment adviser. The Scheme has exposure to the aforementioned risks because of the investments held to implement the investment strategy. The Trustee manages investment risks, including credit risk and market risk, considering the Scheme's investment objectives and strategy, and the advice of its investment advisers.

Within each investment portfolio, investment objectives and restrictions to manage risk are implemented through the legal agreements in place with the Scheme's investment managers. The Trustee monitors the performance of the strategy and associated risks, and each investment manager against its objectives and restrictions, on a regular basis.

**PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

**15. INVESTMENT RISKS (continued)**

The following table summarises which of the Scheme’s investments have significant exposure to market and indirect credit risks:

	Credit risk	Currency risk	Interest rate risk	Other price risk
CFB UK Equity Fund	○	○	○	●
CFB Overseas Fund	○	●	○	●
CFB Corporate Bond Fund	●	○	●	○
CFB Deposit Fund	●	○	○	○
Schroder’s Mayfair Capital Property Unit Trust	○	○	○	●
Threadneedle Property Unit Trust	○	○	○	●
BMO F&C Dynamic LDI Funds	●	○	●	○

In the above table, the risk noted affects the asset class [●] significantly or [○] hardly/not at all.

Further information on the Trustee’s approach to risk management, credit and market risk is set out below. This does not include annuity policies or AVC investments, as these are not considered significant in relation to the overall investments of the Scheme, or the Trustee Bank Account.

**Credit risk**

The Scheme is subject to credit risk through its investments in pooled investment vehicles. It is directly exposed to credit risk in relation to the solvency of the custodians of those funds.

As at 31 August 2021 around 45% (2020: 34%) of the Scheme’s assets were invested in funds or securities that are significantly exposed to credit risk.

The role of a custodian is to ensure the safe-keeping of the assets and facilitate all transactions entered into by the appointed investment managers. The Trustee is not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments. The pooled investment vehicle’s governing body is responsible for appointing its own custodian for the safe-keeping, monitoring and reconciliation of documentation relating to these securities.

The Scheme’s holdings in pooled investment vehicles are ‘unrated’ from a credit perspective. Direct credit risk arising from pooled investment vehicles is mitigated by: the underlying assets of the pooled arrangements being ring-fenced from the assets of the custodian and the investment manager; the

## **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

### **15. INVESTMENT RISKS (continued)**

regulatory environments in which the pooled fund managers operate; and diversification of the Scheme's investments across a number of pooled funds. The Trustee carries out due diligence

checks on investments into new pooled funds and on an ongoing basis monitors any changes to the operating environment of those pooled funds.

The Scheme is indirectly exposed to credit risks arising from the underlying investments held by the pooled funds, for example where they invest in bonds and derivative instruments. The indirect exposure to credit risk arises from the Scheme's investments in the CFB UK Corporate Bond Fund, BMO Real Dynamic LDI Fund, BMO Nominal Dynamic LDI Fund and CFB Deposit Fund. The amount invested in each of these mandates is shown in the Statement of Net Assets.

The managers of the pooled funds that invest in fixed income manage credit risk by having a diversified exposure to issuers, conducting thorough research on the probability of default of those issuers, and having only a limited exposure to securities rated below investment grade. The magnitude of credit risk within each fund will vary over time, as the manager changes the underlying investments in line with its views on markets, asset classes and specific securities.

#### **Currency risk**

As the Scheme's liabilities are denominated in Sterling, any non-Sterling currency exposure within the assets presents additional currency risk.

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate.

Furthermore, the Trustee manages the amount of currency risk by investing in pooled funds that hedge some or all of their currency exposure, or implement separate currency hedging arrangements.

As at 31 August 2021 around 23% (2020: 11%) of the Scheme's assets were invested in funds or securities that are significantly exposed to currency risk.

All of the Scheme's pooled funds are accessed via a Sterling share class. Therefore the Scheme is not subject to direct currency risk. The Scheme's assets that are exposed to indirect currency risk are the CFB Overseas Fund, which invest in non-Sterling investments that are not currency hedged. The amount invested in each of these mandates is shown in the Statement of Net Assets.

The exposure to foreign currencies within the pooled funds will vary over time as the manager changes the underlying investments, but is not expected to be a material driver of returns over the longer term. Decisions about the exposure to foreign currencies within the pooled funds held are at the discretion of the appointed fund managers.

## PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH

### 15. INVESTMENT RISKS (continued)

#### Interest rate and inflation risk

Interest rate risk and inflation risk is a material risk for the Scheme given that movements in interest rates and inflation are a material influence on the value of the liabilities assessed in present day terms. Some of the Scheme's assets are subject to interest rate risk (both nominal and real interest rates). However, the overall interest rate exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities. The net effect will be to reduce the volatility of the funding level, and therefore the Trustee believes that it is appropriate to have exposure to interest rate risk in this manner.

The only assets the Scheme invests in with material exposure to changes in interest rates are the CFB UK Corporate Bond Fund, BMO Real Dynamic LDI Fund and BMO Nominal Dynamic LDI Fund. The amount invested in each of these mandates is shown in the Statement of Net Assets.

As at 31 August 2021 around 37% (2020: 27%) of the Scheme's assets were invested in funds or securities that are significantly exposed to interest rate and/or inflation risk.

#### Other price risk

The Scheme's assets are exposed to risks of market prices other than currencies and interest rates, such as the pooled funds that hold equities being subject to movements in equity prices.

As at 31 August 2021 around 55% (2020: 66%) of the Scheme's assets were invested in funds or securities that are significantly exposed to other price risk.

The Trustee monitors this risk on a regular basis, looking at the performance of the Scheme as a whole as well as each individual portfolio. The Trustee believes that the Scheme's assets are adequately diversified between different asset classes and within each asset class to manage this risk.

### 16. CONCENTRATION OF INVESTMENTS

The investments at the year-end which are more than 5% of the total value of the net assets of the Scheme comprise:

	2021		2020	
	£	%	£	%
UK Equity Fund	20,762,797	22	33,892,248	41
LDI Funds (BMO)	28,645,138	30	16,332,304	20
Corporate Bond Fund	4,574,322	5	3,984,107	5
Overseas Fund	21,011,944	22	8,439,373	10
Insurance policies	4,029,905	5	4,613,521	6
Threadneedle	4,867,072	5	4,542,924	6
Cash	6,960,655	7	5,135,082	6

## PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH

### 17. CURRENT ASSETS

	2021 £	2020 £
Cash at bank	141,347	130,073
Sundry debtors	-	826,428
	<u>141,347</u>	<u>956,501</u>

### 18. CURRENT LIABILITIES

	2021 £	2020 £
Accruals	88,347	126,714
Sundry creditors	954	100,955
PAYE Control	1,050	2,027
	<u>90,351</u>	<u>229,696</u>

### 19. EMPLOYER-RELATED INVESTMENTS

There were no employer-related investments during the year.

### 20. RELATED PARTY TRANSACTIONS

During the year, the Scheme paid £22,755 (2020: £26,530) to the Methodist Church Fund (MCF), for accountancy, rent and service charges. In addition, the Scheme paid £47,995 (2020: £47,642) to the MMPS for staff and overhead costs incurred in the running the Scheme. The MMPS meets the whole cost and the Scheme reimburses it during the course of the year.

Capital Cranfield Pension Trustees Limited who was represented by Ms Ingrid Kirby, are remunerated under the terms of the agreement signed on 9 August 2016. During the year fees of £12,008 (2020: £12,936) were paid to Capital Cranfield Pension Trustees Limited. Other Directors of the Trustee Board were not remunerated.

There are 3 Member Nominated Directors (MNDs) who serve for a period of 3 years and who can be re-elected. Mr Stephen Beer resigned on 15 January 2021. Mr David Fletcher was appointed to continue to serve from 1 September 2021. Mr Christophe Borysiewicz was appointed to represent the Closure Members of the Scheme from 1 September 2021.

The Scheme held investments in several funds managed by Epworth, a subsidiary of the CFB. Mr Stephen Beer, who was a Director of the Trustee Company during the year, was also Chief Investment Officer of the CFB to whom Epworth allocates money for investment. Christophe Borysiewicz was Head of Investment Management at the CFB. Stephen Beer resigned on 15 January 2021 and Christophe Borysiewicz resigned from the CFB on 16 October 2021.

During the year Epworth levied management and administration charges to the Epworth Investment and Deposit Funds.

**PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF  
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**ACTUARIAL CERTIFICATE OF THE SCHEDULE OF CONTRIBUTIONS**

**Name of scheme: Pension and Assurance Scheme for Lay Employees of the Methodist Church**

**Adequacy of rates of contributions**

I certify that, in my opinion, the rates of the contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 1 September 2020 to be met by the end of the period specified in the recovery plan agreed on 26 November 2021.

**Adherence to Statement of Funding Principles**

I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles agreed on 26 November 2021.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

<b>Signature</b>	Debra Smith	<b>Date</b>	29 November 2021
<b>Name</b>	Debra Smith (Scheme Actuary)	<b>Qualification</b>	Fellow of the Institute and Faculty of Actuaries
<b>Address</b>	PO Box 68 Albert House South Esplanade St Peter Port Guernsey GY1 3BY	<b>Name of Employer</b>	BWCI Consulting Limited

## **PENSION & ASSURANCE SCHEME FOR LAY EMPLOYEES OF THE METHODIST CHURCH**

### **HELP AND ADVICE**

Any queries about the Scheme generally, or about individual's entitlement to benefit, or any request for further information about the Scheme, should be addressed to the Pensions Manager at:

Methodist Church House  
25 Marylebone Road  
London  
NW1 5JR

Tel: 020 7486 5287

Email: [pensionshelp@methodistchurch.org.uk](mailto:pensionshelp@methodistchurch.org.uk)

### **MONEY HELPER (previously The Pensions Advisory Service)**

Money Helper is available to assist members and beneficiaries of the Scheme in connection with difficulties that they have failed to resolve with the trustee or the Scheme administrators. Money Helper can also provide free information and guidance on pensions. It is an independent non-profit organisation with volunteer advisers who are experts in pensions matters. Members can contact a Money Helper as follows:-

Tel: 0800 011 3797

Website: [www.moneyhelper.org.uk](http://www.moneyhelper.org.uk)

### **THE PENSIONS OMBUDSMAN**

Should Money Helper be unable to resolve the dispute, the member or Money Helper may refer it to the Pensions Ombudsman, who has been appointed to investigate and determine any complaint or dispute of fact or law in relation to an Occupational Pension Scheme. The Pensions Ombudsman is completely independent, acts as an impartial adjudicator, and there is no charge for the service and can be contacted at:

Pensions Ombudsman Service  
10 S Colonnade  
London  
E14 4PU

Tel: 0800 917 4487

Email: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)

Website: [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

### **PENSION TRACING**

A pension tracing service is carried out by the Department for Work and Pensions. This service can be contacted as follows:

The Pension Service 9  
Mail Handling Site A  
Wolverhampton  
WV98 1LU

Tel: 0800 731 0193

Website: [www.gov.uk/find-pension-contact-details](http://www.gov.uk/find-pension-contact-details)

**APPENDIX I: IMPLEMENTATION STATEMENT**

## *Implementation Statement, covering 1 September 2020 to 31 August 2021*

The Trustee of the Pension and Assurance Scheme for Lay Employees of the Methodist Church (the “Scheme”) is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed the voting and engagement policies in its Statement of Investment Principles (“SIP”) during the year. This is provided in Section 1 below.

The Statement is also required to include a description of the voting behaviour during the year by, and on behalf of, trustee (including the most significant votes cast by trustee or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 3 below.

### **1. Introduction – Last review of the voting and engagement policies**

The SIP was formally reviewed and updated in December 2020 to reflect:

- changes to the Scheme’s equity portfolio, reducing the allocation to UK equities, and increasing the allocation to overseas equities with the aim of transitioning to a 50:50 split.

A further update to the SIP was made in September 2021 (this falling outside the date range of the statement but being relevant to investment arrangements for part of the period) to reflect:

- a de-risking of the Scheme’s investment strategy, including targeting higher levels of interest rate and inflation hedging and a lower allocation to equity assets.

As part of the SIP updates the employer was consulted and raised no objections to the changes.

The Trustee has, in its opinion, followed the Scheme’s voting and engagement policies during the year, by continuing to delegate to its investment managers the exercise of rights and engagement activities in relation to investments, as well as seeking to appoint managers that have strong stewardship policies and processes. The Trustee took steps to review the Scheme’s new and existing managers and funds over the period, as described in Section 2 (Voting and engagement) below.

Where possible the Trustee seeks to appoint fund managers which manage assets in a manner consistent with its policies on responsible investment and its investment beliefs. The Trustee’s policies on responsible investment are set out in its Responsible Investment Policy document, last updated in May 2021.

### **2. Voting and engagement**

As part of its advice on the selection and ongoing review of the investment managers, the Scheme’s investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers’ approaches to voting and engagement.

When managers Columbia Threadneedle and Epworth Investment Management Limited (“Epworth”) presented to the Trustee during the year, the Trustee asked several questions about the managers’ voting, engagement and responsible investment practices and were satisfied with the answers they received. The Trustee also reviewed reports from their managers on voting and engagement activities undertaken on their behalf.

The Methodist Church Joint Advisory Committee on the Ethics of Investment (“JACEI”) performed an independent review of the Epworth investments which lie in funds managed by the Central Finance Board of the Methodist Church (“CFB”), covering their voting and engagement activities. This review confirmed that “The Committee judges that the CFB (Epworth) has managed the funds under its control in support of an ethical stance which is in accordance with the aims of the Methodist Church”.

In response to requests from Conference, the JACEI have, with help from Epworth, worked on a framework to address concerns about companies which are deemed to have business plans which were inconsistent with the 2015 Paris Agreement on climate change. In late April 2021, JACEI advised CFB/Epworth that no companies in the oil & gas sector made sufficient progress during the year to show that they were fully aligned with the targets set by the Paris Agreement. Epworth further confirmed it disinvested its last remaining oil & gas holdings as a result. The Trustee therefore considered whether amendments were required to its Responsible Investment Policy. Ultimately it concluded that there was no need to amend the policy as it already explicitly addressed climate related risks.

The Trustee has also sought to confirm that the Scheme's investment managers intend to sign up to the revised UK Stewardship Code which sets out standards for stewardship of assets, including voting and engagement practices. Epworth and Mayfair Capital signed up to the revised code in the first batch of signatories, confirmed in 2021. Both BMO and Columbia Threadneedle intend to apply for admission to the list of signatories in 2022.

### **3. Description of voting behaviour during the year**

All the Trustee's holdings in listed equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the year.

In this section we have sought to include voting data on the Scheme's funds that hold equities as follows:

- CFB UK Equity Fund; and
- CFB Overseas Equity Fund

The Trustee has sought to obtain the relevant voting data for Sections 3.2 and 3.3, from the investment manager listed above, Epworth / CFB.

In addition to the above, the Trustee contacted the Scheme's other asset managers that don't hold listed equities, to ask if any of the assets held by the Scheme had voting opportunities over the period. However, the property, corporate bond and LDI managers confirmed that no such opportunities were available.

#### **3.1 Description of the voting processes**

Epworth:

- Epworth votes according to a template it agrees each year, and helps construct, as members of the Church Investors Group (CIG). This policy is available to clients and it reports on its implementation regularly to the Scheme.
- Epworth votes in line with the Church Investors Group policy on voting. This is implemented by Institutional Shareholder Services (ISS).
- Epworth utilises ISS to enact the Church Investors Policy on its behalf.

### 3.2 Summary of voting behaviour over the year

A summary of voting behaviour over the period is provided in the table below.

	CFB UK Equity Fund	CFB Overseas (Equity) Fund
<b>Manager name</b>	Epworth Investment Management Limited	Epworth Investment Management Limited
<b>Total size of fund at end of reporting period</b>	£248m	£198m
<b>Value of Scheme assets at end of reporting period</b>	£21m	£21m
<b>Number of holdings at end of reporting period</b>	67	228
<b>Number of meetings eligible to vote</b>	86	230
<b>Number of resolutions eligible to vote</b>	1,430	3,392
<b>% of resolutions voted</b>	99%	97%
<b>Of the resolutions on which voted, % voted with management</b>	87%	78%
<b>Of the resolutions on which voted, % voted against management</b>	13%	22%
<b>Of the meetings in which the manager voted, % with at least one vote against management</b>	72%	79%

### 3.3 Most significant votes over the year

Commentary on the most significant votes over the period is set out below. Epworth has interpreted “most significant votes” to mean votes pertaining to the companies with the largest position in the funds, and a high governance risk score from ISS. Alternatively, they are votes pertaining to companies where Epworth / CFB has co-filed a resolution or has a particular interest in a resolution.

### 3.3.1 CFB UK Equity Fund

CFB UK Equity Fund										
	Vote 1	Vote 2	Vote 3	Vote 4	Vote 5	Vote 6	Vote 7	Vote 8	Vote 9	Vote 10
<b>Company name</b>	AstraZeneca	Howden Joinery	Standard Chartered	BT Group	Rio Tinto	Lloyds Banking Group	Ocado Group	Berkeley Group	Just Eat Takeaway	Hilton Food Group
<b>Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)</b>	5.74%	1.37%	0.71%	0.83%	3.68%	1.92%	0.50%	1.18%	1.67%	1.36%
<b>Date of Vote</b>	7 May 2021	6 May 2021	12 May 2021	15 July 2021	9 April 2021	20 May 2021	13 May 2021	4 September 2020	7 October 2020	21 May 2021
<b>Summary of the resolution</b>	Elect Euan Ashley as Director	Re-elect Andrew Crips as Director	Re-elect Jose Vinals as Director	Re-elect Sir Ian Cheshire as Director	Re-elect Simon McKeon as Director	Authorise EU political donations and expenditure	Authorise UK political donations and expenditure	Approve Remuneration Report	Approve Remuneration Report	Re-elect Robert Watson as Director
<b>How you voted</b>	Abstain	Against								
<b>Where you voted against management, did you communicate your intent to the company ahead of the vote?</b>	The CFB sends letter to all members of the FTSE 350 outlining its voting intentions on an annual basis.									
<b>Rationale for the voting decision</b>	Concerns over director time commitments	Concerns over audit independence	Concerns over gender diversity at board level	One of the directors responsible for oversight of remuneration, which does not meet CIG policy	Concerns over level of political donations		Did not meet the criteria in the CIG policy on good practice		Concerns over gender diversity at both board and sub-board level	

### 3.3.2 CFB Overseas Equity Fund

CFB Overseas Equity Fund											
	Vote 1	Vote 2	Vote 3	Vote 4	Vote 5	Vote 6	Vote 7	Vote 8	Vote 9	Vote 10	
<b>Company name</b>	Facebook	Partners Group	Netflix	Infotel	Zebra Technologies	Alphabet	Amazon	Allegion	General Electric	Johnson & Johnson	
<b>Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)</b>	1.08%	1.30%	0.29%	0.80%	1.36%	0.97%	1.87%	1.66%	0.17%	0.61%	
<b>Date of Vote</b>	26 May 2021	12 May 2021	3 June 2021	19 May 2021	12 May 2021	2 June 2021	26 May 2021	3 June 2021	4 May 2021	22 April 2021	
<b>Summary of the resolution</b>	Require Independent Board Chair	Approve remuneration report	Advisory vote on exec officers compensation	Approve remuneration policy	Advisory vote on exec officers compensation	Elect Ann Mather as Director	Elect Jeffrey Bezos as Director	Elect David D Petratis as Director	Elect Thomas Horton as Director	Elect Ronald A. Williams as Director	
<b>How you voted</b>	For	Against									
<b>Where you voted against management, did you communicate your intent to the company ahead of the vote?</b>	The CFB sends letter to all holdings in the Global fund outlining its voting intentions on an annual basis.										
<b>Rationale for the voting decision</b>	Separation of roles is considered best practice and supported by CIG guidelines	Did not meet the criteria as set out in the CIG policy on good practice				Concerns over audit independence	Concerns over tax transparency	Chair and CEO with no intention to separate	Responsible for oversight of remuneration which does not meet CIG policy		