

## Methodist Church Investment Committee Annual Report for the year to 31 August 2016

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### 1. INTRODUCTION

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

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

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

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

### 2. MEMBERSHIP OF THE COMMITTEE AND MEETINGS HELD

There are currently 5 members of the IC, including the two Connexional Treasurers as ex-officio members. They are Ted Awty, Andrew Gibbs (Chair), Martin Rees, Geoffrey Wilcox and The Revd Tim Swindell.

In addition Bill Seddon, Chief Executive of the Central Finance Board (CFB) of the Methodist Church and his colleague Christophe Borysiewicz, Maureen Sebanikitta, the Director of Financial Operations and representatives of the Finance Office led by Peter Matovu have normally attended the meetings. Secretarial services, including the minutes, are provided by Deborah Nyamekye.

We continue to seek an additional member for the Committee.

There were 3 meetings of the Committee in the 12 months to 31 August 2016. The number of members (including ex-officio members) attending was as follows: 1. 8th Oct 2015, four; 2. 9th Feb 2016, five; 3. 17th May 2016, four.

### 3. SUPERVISION OF THE MANAGEMENT OF ALL THE ASSETS SUMMARY OF THE INVESTMENTS HELD AT 31 AUGUST 2016

With the implementation of FRS 102, the new accounting standard for Charities, cash held in the CFB Deposit Fund has been taken out of investments and now appears as short term deposits under current assets. Other reclassifications have also been required, and the comparisons made below are with the restated 2015 figures as they appear in the 2016 Accounts.

The statement below, extracted from the Annual Report of the MCiGB, shows that of the £164m in total investments in the balance sheet, £113m (69%) is in CFB Units and £39m (24%) is in Property Investments. The World Mission Fund of the Methodist Church owns, along with four other Christian Charities, all the share capital in William Leech (Investments) Ltd (WLI), valued at £10.0m, 6% of the total.

£98m of the total of £164m is managed by the IC, about 60% of the whole. The rest, principally property, is managed elsewhere within the Church, with the exception of WLI. In the case of WLI, as

a corporate entity, there is a Board of Directors of which five are appointed by the five charities. The Chair of the IC (Andrew Gibbs) is currently the director appointed by the Methodist Church.

### The Methodist Church in Great Britain, at 31 August

#### Investments

	<b>2016</b>	<b>2015</b>	<b>Change</b>
	<b>£million</b>	<b>£million</b>	<b>£million</b>
Investment Properties	39.7	33.5	6.2
CFB Units	113.6	105.2	8.4
William Leech (Investments) Ltd	10.0	9.2	0.8
Other	0.9	2.9	(2.0)
<b>Total</b>	<b>164.2</b>	<b>150.8</b>	<b>13.4</b>
Of which,			
Managed by IC	98	91.0	7
Managed elsewhere	66	59.8	4

Note: There are about 22 major funds (restricted, unrestricted and endowed) and about 37 smaller funds (each of less than £2m) that have investments included in the £98m of investments managed by the IC. Each has its own cash flow and may require separate consideration.

### CHANGES OVER THE YEAR IN THE INVESTMENTS HELD AT 31 AUGUST 2016

Positive property revaluation and rises in stock markets combined to produce an increase of £13.4m, or 8.2%, in the total value of the Investments held by the MCiBG in the year. The outturn in any year is dependent on the vagaries of markets, where values may rise or fall, and also on the Reserves policies adopted by the Methodist Council. Aside from reclassifications, it would seem that the policy generally of reducing reserves led to net disposals of about £1.8m. More detail is given below.

The value of the investment properties increased by £6.2m as a result of new purchases (£1.2m) and of revaluation of £5.0m.

The net change in the value of CFB units was £8.4m, which was a result of purchases of £1.7m, disposals of £4.7m and investment gains of £11.2m. There was also an increase in the value of CFB units due to reclassification of other investments worth £0.2m.

The underlying value of the holding in WLI increased by £0.8m, of which £0.2m was the result of the purchase of new shares in the Company.

The value of other investments, decreased by £2m, due to reclassification to CFB Units (£0.2m) and cash and cash equivalents (£1.8m)

### INTERNAL AUDIT REVIEW

In August 2016 the final version of the internal audit review of Core Financial Systems – Investment management and Income (03.15/16) was issued. The key finding of the internal auditors was of ‘substantial assurance’ of the effectiveness of internal controls (this is the highest level of assurance out of three levels of assurance). There were two recommendations at a ‘housekeeping priority’, the lowest priority level out of 3. The IC will take note of the recommendations made to ensure their implementation in 2016/17.

#### **4. MANAGEMENT OF ALL THE ASSETS AGREED TO BE UNDER THE MANAGEMENT OF THE IC SUMMARY OF THE INVESTMENTS HELD AT 31 AUGUST 2016**

**The Methodist Church in Great Britain, at 31 August,**

	<b>2016</b>
	<b>£million</b>
Investment Properties	-
CFB Units	98
William Leech (Investments) Ltd (WLI)	-
Other	-
<b>Total</b>	<b>98</b>

All investments currently agreed to be under the management of the IC are held in the CFB Funds. In 2017, the IC is considering with the Connexional Team how best to approach the supervision of the holding in WLI.

#### **RESERVES POLICIES AND ASSET ALLOCATION**

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

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

The bulk of the investments managed by the IC are now held in two newly created Funds of the Central Finance Board of the Methodist Church (CFB), the Long Term Fund and the Medium Term Fund, which were established for the purpose in July 2016.

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

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

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

#### **THE BACKGROUND TO THE INTRODUCTION BY THE CFB OF TWO NEW FUNDS FOR THE IC**

For some time the IC had sought an improved way of supervising and managing the investments for which it was responsible, given the large number of individual funds. The CFB proposed to introduce two new Funds, intended for the assets managed by the IC but open to others. The new Funds would be 'Funds of Funds,' investing in the units of the specialist CFB Funds (see below) at no extra cost to unit holders. The creation of these Funds would substantially simplify changes in asset allocation for all applicable funds of the Church and all associated administration would be substantially reduced or eliminated.

The IC welcomed this solution which was recommended by the Director of Financial Operations. The TMCP continues its role as Custodian Trustee. The two new Funds are managed by the CFB, and have holdings in other CFB Funds.

The two new Funds began in July 2016, ahead of the year end and the transition was achieved without problems.

The IC wishes to record its appreciation of the work carried by everybody involved, at the CFB, at TMCP and in the Finance Office in the successful introduction of the new Funds.

The asset allocation of each Fund at 31 August 2016 is shown below:

#### **Managed Long Term Methodist Council Fund**

	Value	%	Parameters %	Benchmark Neutral %
UK Equity Fund	22,504,556	35.7	30 - 40	35
Overseas Fund	23,225,763	36.8	30 - 40	35
<b>Equities</b>	<b>45,730,319</b>	<b>72.4</b>	<b>60 - 80</b>	<b>70</b>
Gilt Fund	103	0.0	0 - 15	5
Corporate Bond Fund	3,941,767	6.2	0 - 15	5
<b>Long bonds</b>	<b>3,941,870</b>	<b>6.2</b>	<b>5 - 15</b>	<b>10</b>
<b>Inflation Linked Fund</b>	<b>1,281,200</b>	<b>2.0</b>	<b>0 - 10</b>	<b>5</b>
<b>Property Fund</b>	<b>12,169,542</b>	<b>19.3</b>	<b>10 - 20</b>	<b>15</b>
<b>Total</b>	<b>63,122,931</b>	<b>100.0</b>		<b>100</b>

#### **Managed Medium Term Methodist Council Fund**

	Value	%	Parameters %	Benchmark Neutral %
UK Equity Fund	7,359,263	20.9	15 - 25	20
Overseas Fund	7,848,816	22.3	15 - 25	20
<b>Equities</b>	<b>15,208,079</b>	<b>43.3</b>	<b>30 - 50</b>	<b>40</b>
Gilt Fund	529,204	1.5	0 - 35	15
Corporate Bond Fund	8,815,269	25.1	0 - 35	15
<b>Long bonds</b>	<b>9,344,474</b>	<b>26.6</b>	<b>25 - 25</b>	<b>30</b>
<b>Short Fixed Fund</b>	<b>8,937,313</b>	<b>25.4</b>	<b>20 - 30</b>	<b>25</b>
<b>Property Fund</b>	<b>1,653,532</b>	<b>4.7</b>	<b>0 - 10</b>	<b>5</b>
<b>Total</b>	<b>35,143,398</b>	<b>100.0</b>		<b>100</b>

As at 31 August 2016, of the total of £98m under management by the IC, 64% was held in the Long Term Fund, and 36% in the Medium Term Fund.

At each of its meetings, the IC reviews the performance of the two Funds, and, with the advice of the CFB, determines their future asset allocation. The introduction of the new Funds substantially

facilitates the implementation of decisions that may be taken from time to time in the light of current and prospective market conditions, and it is to be hoped that there will be consequent long term improvement to overall performance.

In future the IC shall be able to comment on the annual performance against benchmark of the two Funds.

## **5. TO LIAISE WITH OTHER BOARDS OR COMMITTEES THAT REPORT TO THE METHODIST COUNCIL, ETC.**

Stated in the Summary of all investments in section 3 is a total of £66 million (or 40% of the whole) that is managed elsewhere. The process of producing the Report and Accounts of the MCiGB requires the consolidation of the accounts of a number of self-accounting entities which take responsibility for their own investments. These account for most of the investments managed elsewhere.

To date, and as reported last year, the IC has not been supplied with the information to undertake these responsibilities, or to form a judgment on their appropriateness of the investments. Up to now, the introduction of FRS 102 has imposed considerable strain on the work of the Finance Office, which should now lessen. It is to be hoped that, having streamlined the operation of the investments for which we are directly responsible, we shall be able, in future, to provide the Methodist Council with some assurance that all their assets continue to be well managed.

The Superannuation Scheme for Lay Mission Partners is an example of the process of clarification of responsibility that is taking place. In the absence of a trustee board of its own, it has, until recently, been under the management of the PASLEMC Board. The Scheme has assets of about £2.3m and corresponding liabilities in respect of 45 members. It was closed to new entrants in 2002. Although it is not a registered pension scheme, it has been treated as a regulated scheme for valuation purposes. A triennial actuarial review is being carried out this year as at 1 January 2017, and the IC has been asked to take responsibility for managing the assets of the Scheme. A resolution to this effect is to be presented to the Methodist Council.

## **6. RECOMMENDATION REGARDING THE PERFORMANCE (BOTH FINANCIAL AND ETHICAL) AND THE CONTINUING USE OF THE CFB FUNDS**

The context for this recommendation is that Charity Trustees have a duty to obtain the best financial return, considering the risks taken, from their investments for the benefit of the Charity's beneficiaries. They need to balance the interests of current beneficiaries with those of future beneficiaries. Finally, they may take account of ethical considerations associated with the purpose and principles of the Charity. In the case of the Methodist Church there is a need to keep under scrutiny the service provided by its own fund manager, namely, the CFB.

The CFB reports regularly on its performance to the IC and to a group of major investors. An independent assessor, Portfolio Evaluation, provides a comparative and analytical report. Over recent years performance across the CFB Funds has been satisfactory. There has recently been an increase in fund management fees, which are 'ad valorem', so that we pay in percentage terms the same amount on £91m as a local church or circuit holding £0.001m worth of units. Charging a flat percentage rate is the normal basis of operation for collective investment schemes. The charges that we pay are still at or below comparable Common Investment Fund charges and continue to represent good value compared to active investment management houses. The charge made by TMCP for its services, which is an additional charge and is also 'ad valorem' (a flat percentage rate), is also reviewed from time to time.

The Methodist Conference has established the Joint Advisory Committee on Ethical Investment (JACEI), which reports to it annually on the operation of the CFB and its ethical investment policies.

The IC takes comfort from reading the latest JACEI report that JACEI is content with the way in which the CFB Funds are operated.

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

## **7. THE MANAGEMENT OF CASH FLOW AND THE MAKING AND REALISATION OF INVESTMENTS**

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

Table of movement in CFB investments in the year to 31 August 2016.

	<b>MCiGB £m</b>	<b>Connexional Funds £m</b>
CFB Units Additions	1.7	1.6
Transfers	(0.2)	-
Disposals	(4.7)	(4.6)
Change in Cash and cash equivalents In the year ended 31 August 2016		
At the beginning of reporting period	20.9	17.9
Change	1.0	-
At the end	21.9	17.9

The high level of cash in both the consolidated (MCiGB) and the Connexional Funds Accounts at the beginning and end of the year, contrasts with the very small net movements in total cash during the year. Taking the average of income and expenditure for the year of £44.9m, it would seem that it may be unnecessary to hold so much cash throughout the year. The interest earned on cash balances held at short or no notice is very low, and is unlikely to rise much, if at all, in the immediate future.

Balanced against the view that too much cash is held at present may be projections showing sustained net draw down of cash over, say, the next five years, being the result of the planned reduction in Restricted and Unrestricted Funds. This view is supported by the figure of £3.0m for net disposals of investments by the IC for the year. It would mean that, everything else being equal, the Church's cash balances should fall in coming years.

The existence of grant commitments and the complexity of managing a number of bank accounts may also explain the prudential holding of relatively high cash balances in some funds.

It is considered by the IC that there may be benefit from further investigation of the merits and disadvantages of holding relatively high cash balances in the Accounts of the MCiGB.

### **\*\*\*RESOLUTION**

**65/1. The Council receives the report.**