

## 52. Central Finance Board: Chair's Report

|                                 |   |
|---------------------------------|---|
| <b>Contact Name and Details</b> | Roger Smith, Chair<br>admin@cfbmethodistchurch.org.uk |
|---------------------------------|---|

### A retrospective

In what is my 14th and final Chair's Statement, it is only natural that I look back over what markets have done over that whole period as well as the past 12 months. Back in 2000, equities were, much as today, riding high. However markets peaked in August that year and between then and now we have seen the FTSE All Share Index drop almost 50% on two occasions as the global financial system threatened to collapse and the economy slumped. Despite only a partial economic recovery, equity prices have doubled over the past 5 years, with the FTSE All Share Index rising almost 10% in the past 12 months. Consequently, over the entire period I have served as CFB Chair, the UK market has risen by less than 1.5%pa for a total return of 4.9%pa. This compares to 3% growth in the retail price index over the same period and whilst disappointing relative to most other periods, demonstrates the long term attraction of equity investment, providing you can live with the accompanying volatility. The story for interest rates and bonds has been very different. When I became Chair, base rate was at 6% and 10 year gilts were yielding 5.6%. At one point in 2012, the gilt yield was less than 1.5%, but this was clearly an unsustainable level and at the end of February 2014 it had risen to over 2.7%, whilst the base rate is at 0.5% where it has been for five years. The FTSE All Stocks Gilts Index produced a total return of 5.5%pa over the past fourteen years, which most unusually was not only well in excess of inflation, but also exceeded equity returns. The returns on the CFB Deposit Fund have also been in excess of inflation, with an average distribution of 3.5% over the entire period, although the current level of 0.6% demonstrates the income risk of holding long term assets in cash.

### Good year for equities and property

Over the year to 28 February 2014, the UK Equity Fund (+16.6%) provided the best return for CFB investors, some way ahead of the Property Fund (+9.2%), whilst the Overseas Fund (+8.7%) was held back by the strength of sterling. The Corporate Bond Fund (+1.7%) produced the best return of the bond funds, with the Short Fixed Interest (-0.8%), Gilt (-1.6%) and Inflation Linked (-1.7%) funds all in negative territory. As interest rates continued to languish, the return on the Deposit Fund (+0.9%) fell lower. Our equity funds also provided the best figures relative to benchmark. The UK Equity Fund outperformed the FTSE All Share Index by 3.3% and the Index adjusted for simple ethical exclusions by 1.2%, although it lagged the CFB's proprietary ethical index by 0.7%. The Overseas Fund exceeded the FTSE All World ex UK Index by 1.6%. There was also outperformance from the Property (+0.1%), Short Fixed Interest (+0.3%) and Deposit (+0.5%) funds. However, the Inflation Linked (-0.2%), Corporate Bond (-0.5%) and Gilt (-0.8%) funds all lagged behind their benchmarks.

### Income trends

Although we concentrate on total returns when assessing the performance of our funds, we appreciate that the income they generate can be crucial for unit holders. When I became Chair, long term investors seeking higher rates of stable income turned to our bond funds. Today, however, it is equities that are the investment of choice as not only do they produce a higher current yield, but have the possibility of rising distributions. Although the total return on bonds has been higher, the fall in interest rates means that an investor today will be buying Gilt Fund units at a yield of 2.4% rather than 5.8% at the beginning of the period, whilst the comparable figures for the UK Equity Fund are 3.0% and 2.4%. Some protection can still be found in the Corporate Bond Fund on a yield of 3.5%, but as with all our fixed interest funds, distributions have fallen almost every year, whilst despite cuts in 2009 and 2010 the UK Equity Fund distribution is over 50% higher.

### Climate change and other ethical issues

The main focus of our ethical work over the past year has been in relation to climate change and the fossil fuel disinvestment campaign. Perhaps the most significant aspect of which was to supplement our existing Policy with a new statement relating to the electricity generation industry. Other related activities included co-signing a letter calling on the government to include a 2030 decarbonisation target for the electricity sector in the Energy Bill. We played an active role in *Aiming for A*, an initiative encouraging high-impact companies to

achieve an 'A' rating for reducing carbon emissions. It was also pleasing to see that independent analysis shows that our UK Equity Fund continues to have a low and declining carbon footprint.

We remain committed to seeking greater justice on pay, voting against many executive remuneration packages as well as encouraging companies to become Living wage employers. Water scarcity is an increasingly serious issue and we have begun to engage with companies using survey data provided by CDP Water, of which we are signatories. Helped by the Methodist Church Joint Advisory Committee on the Ethics of Investment, we adopted three new policies in the past year. As well as *Electricity Generation* they were on *Gambling* and *Human Rights*. Much of our work is done with and through the increasingly influential Church Investors Group and it is pleasing to note that our Chief Executive, Bill Seddon has been elected to serve as its Chair for the next three years.

### **Epworth Investment Management**

It is good to be able to report that total funds under management increased by £55 million last year, although this was all due to increased security prices. Last year I wrote of Epworth's growth potential and its importance in our continuing to provide a high quality, low cost, ethical investment service for Methodism. Funds under management grew by around £30 million to £225 million last year, but it is clear that additional investment is needed for significant growth to occur. It is felt that this will be difficult under the current ownership structure and consequently the CFB has negotiated with the other shareholders to take complete control.

### **Staff and premises**

Last year I indicated the need to increase our staff resources. Consequently we have been joined by Tendai Chigudu, to add to our research capability, and a new trainee Catherine McNally. Our Client Relationship Manager, Bill Lane, retired at the end of the year and has been replaced in the role by an existing employee, Christophe Borysiewicz. Unfortunately, we are currently without the services of two members of staff, trainee fund manager, Severine Itany, and our Chief Investment Officer, Russell Sparkes. This creates a major gap, and although additional staff are being sought, finding individuals with appropriate experience that will fit into the CFB culture is not proving easy. The pressure on our employees has never been greater and I would like to pay tribute to Bill Seddon and all the staff for their commitment and hard work. The lease on our premises has now expired, but we were pleasantly surprised that the City of London was prepared to offer us a new five year lease, with a possible three year extension. Consequently, plans have been drawn up to refurbish our offices, which will take place over the next few months.

### **Farewells and thanks**

I am not the only member of the CFB Council to be saying farewell. Colin Pearson and the Revd Graham Thompson have both completed the maximum term of nine years and are standing down. Their wisdom and experience will be greatly missed. We have one vacancy and we will be seeking individuals to complement what is already a very capable and hard working Council. During the year we were saddened by the sudden death of Mervin Liversidge, who had been a Board member since 2004.

### **Future**

Over the past year I have been working closely with my successor, John Sandford, to ensure a smooth transition. We have already made some changes to CFB governance, replacing the Remuneration and Appointments committees with a Management Committee, to assist the executive in planning future developments.

In the year I took over as Chair, the CFB annual report was entitled *Service and Witness*. Throughout the subsequent years these have been watchwords for all we have attempted to do and as I step down, I am confident that this will remain the case. I leave you in extremely capable hands and wish all concerned with the CFB every success in the future

**Performance Report**  
**Year to 28 February 2014**

**External Assessment**

(Source: Portfolio Evaluation, except where stated)

| Index   | 1 year to 28.02.14<br>% | 5 years to 28.02.14<br>% p.a. | 10 years to 28.02.14<br>%p.a. |
|---|-------------------------|-------------------------------|-------------------------------|
| <b>Equity</b>   |                         |                               |                               |
| <b>CFB UK Equity Fund</b>   | <b>+16.6</b>            | <b>+17.4</b>                  | <b>+8.6</b>                   |
| FTSE All Share Index  | +13.3                   | +17.2                         | +8.8                          |
| CFB proprietary ethical Index   | +17.3                   | +18.2                         | +8.7                          |
| FTSE All Share Index (traditional ethical adjustment)                         | +15.4                   | +17.5                         | +8.3                          |
| <b>CFB Overseas Fund</b>  | <b>+8.7</b>             | <b>+15.8</b>                  | <b>+9.0</b>                   |
| FTSE All World ex U.K Index   | +7.1                    | +16.4                         | +8.7                          |
| <b>CFB Managed Equity Fund<sup>1</sup></b>                                    | <b>+15.3</b>            | <b>+17.2</b>                  | <b>+8.7</b>                   |
| Managed Equity Fund Composite Index   | +12.4                   | +17.6                         | +8.8                          |
| Managed Equity Fund Composite Index (using CFB proprietary UK Index)          | +15.7                   | +17.9                         | n/a                           |
| Managed Equity Fund Composite Index (using traditional UK ethical adjustment) |                         | +14.2                         | +17.4 +8.4                    |
| <b>CFB Managed Mixed Fund<sup>1</sup></b>                                     | <b>+11.4</b>            | <b>+14.2</b>                  | <b>+8.0</b>                   |
| Managed Mixed Composite Index   | +9.0                    | +14.0                         | +8.0                          |
| Managed Mixed Composite Index (using CFB proprietary UK Index)                | +11.3                   | +14.2                         | n/a                           |
| Managed Mixed Composite Index (using traditional UK ethical adjustment)       | +10.3                   | +13.9                         | +7.7                          |
| <b>Fixed Interest</b>   |                         |                               |                               |
| <b>CFB Managed Fixed Interest Fund<sup>1</sup></b>                            | <b>-0.8</b>             | <b>+4.8</b>                   | <b>+5.3</b>                   |
| Managed Fixed Interest Composite  | -0.5                    | +4.7                          | +5.2                          |
| <b>CFB Short Fixed Interest Fund</b>  | <b>-0.8</b>             | <b>+3.9</b>                   | <b>+5.0</b>                   |
| Short Gilt Composite Index (gilt only)  | -1.1                    | +3.6                          | +4.9                          |
| Short Fixed Interest Composite Index  | -0.3                    | +4.5                          | +5.0                          |
| <b>CFB Gilt Fund</b>  | <b>-1.6</b>             | <b>+4.9</b>                   | <b>+5.3</b>                   |
| FTSE All Stock Gilt Index   | -0.8                    | +5.0                          | +5.3                          |
| <b>CFB Corporate Bond Fund<sup>1</sup></b>                                    | <b>+1.7</b>             | <b>+7.6</b>                   | <b>+6.2</b>                   |
| iBoxx Non Gilts Index   | +3.3                    | +9.2                          | +5.5                          |
| Corporate Bond Composite Index  | +2.2                    | +8.2                          | +5.1                          |
| <b>Inflation Linked</b>   |                         |                               |                               |
| <b>CFB Inflation Linked Fund</b>  | <b>-1.7</b>             | <b>+8.4</b>                   | <b>+6.8</b>                   |
| FTSE All Stock Index Linked Index (gilt only)                                 | -1.5                    | +8.4                          | +6.8                          |
| Inflation Linked Composite Index  | -1.3                    | +8.8                          | +6.9                          |
| <b>Property</b>   |                         |                               |                               |
| <b>CFB Property Fund<sup>1,3</sup></b>  | <b>+9.2</b>             | <b>+7.8</b>                   | <b>n/a</b>                    |

|   |             |             |             |
|---|-------------|-------------|-------------|
| IPD All Balanced Funds Index <sup>2,3</sup> | +9.1        | +5.0        | +4.2        |
| <b>Cash (AERs)</b>                          |             |             |             |
| <b>CFB Deposit Fund<sup>1</sup></b>         | <b>+0.9</b> | <b>+1.2</b> | <b>+3.0</b> |
| Higher Rate Bank Deposits (over £10,000)    | +0.1        | +0.1        | +1.0        |
| 1 Week LIBID                                | +0.4        | +0.4        | n/a         |

<sup>1</sup> Source: CFB

<sup>2</sup> Source: IPD

<sup>3</sup> Performance to 31 December 2013

**Summary statement of change in unit holders' net assets  
Year to 28 February 2014**

| CFB Funds  | Net Assets at<br>28/2/2013 | Net Creations/<br>Cancellations | Change in<br>Net assets | Net Assets at<br>28/02/2014 |
|--|----------------------------|---------------------------------|-------------------------|-----------------------------|
|  | £'000s                     | £'000s                          | £'000s                  | £'000s                      |
| <b>UK Equity Fund</b>  | 345,625                    | (30,162)                        | 43,985                  | 359,448                     |
| <b>Overseas Fund</b>   | 161,160                    | (12,957)                        | 11,796                  | 159,999                     |
| <b>Gilt Fund</b>   | 33,242                     | 5,117                           | (1,354)                 | 37,005                      |
| <b>Corporate Bond Fund</b>   | 88,154                     | 1,531                           | (1,606)                 | 88,079                      |
| <b>Short Fixed Interest Fund</b>                                       | 9,950                      | (1,620)                         | (265)                   | 8,065                       |
| <b>Inflation Linked Fund</b>   | 26,496                     | 4,302                           | (619)                   | 30,179                      |
| <b>Property Fund</b>   | 13,049                     | 1,807                           | 338                     | 15,194                      |
| <b>Deposit Fund</b>  | 335,860                    | 18,464                          | 0                       | 354,324                     |
| <b>Less: CFB Deposit Fund<br/>balances held in other CFB<br/>funds</b> | (3,469)                    | (3,195)                         |                         | (6,664)                     |
| <b>Total</b>   | <b>1,010,067</b>           | <b>(16,713)</b>                 | <b>52,275</b>           | <b>1,045,629</b>            |

**\*\*\*RESOLUTIONS**

**52/1. The Conference adopted the Report of the Central Finance Board.**

**52/2. The Conference elected the following persons to the Central Finance Board for the period of one year from 1 September 2014:**

Dr Keith Aldred, Amanda Amor, Ruby Beech, Graham Boyd, Ronald Calver, Peter Cussons, Christopher Daws, Ralph Dransfield, John Gibbon, Anne Goodman, Hazel Griffiths, Alan Groves, Frank Guaschi, Sue Haworth, Theophilus Mensah, Nick Moore, the Revd Leslie Newton, John O'Brien, Sir Michael Partridge, Alan Pimlott, the Revd Jennifer Potter, John Reynolds, John Sandford, Maureen Sebanakitta, Gordon Slater, Andrew Slim, Eleanor Smith, the Revd Kenneth E Street, Anthea Sully, Paula Thomas, Geoffrey Wilcox, Michael Willett, Terry Wynn, Garry Young.

### **Reasoned Statements**

Mrs Amanda Amor                      Methodist Church Pensions Manager

The Revd Leslie Newton              Chartered Accountant and Methodist Presbyter who has served in the  
Barnsley Circuit and the Bramhall and Wythenshawe Circuit