Central Finance Board
of the Methodist Church

CFB Annual Report 2015
Working from within

Contents

Mission
Our mission, alongside the church, is to seek practical solutions which combine Christian ethics and investment returns.

We therefore aim…
To provide a high quality investment service seeking above average returns;

To follow a discipline in which the ethical dimension is an integral part of all investment decisions;

To construct investment portfolios consistent with the moral stance and teachings of the Christian faith;

To encourage strategic thinking on the ethics of investment;

To be a Christian witness in the investment community.

For more information…
For detailed reviews of the CFB approach to ethics and investment, see the Joint Advisory Committee on the Ethics of Investment's annual report to the Methodist Conference and the quarterly Socially Responsible Investment Review for CFB clients see the CFB website. www.cfbmethodistchurch.org.uk/ethics

Ethical highlights 2015
Working from within

God can be served from two positions: the prophetic voice denouncing evil from the outside, such as Elijah when Queen Jezebel was killing the prophets; and the insider, guided by faith, working practically to right wrongs, such as Obadiah who used his position in the royal household to save the 100 prophets. Similarly, Church investors can choose alternative approaches. They can prophetically denounce companies through disinvestment and speak out publicly where injustice is evident. Or they can maintain holdings and work with companies for improvement. Both responses are legitimate, but the CFB prefers to start with the 'Ministry of Obadiah'.

We invest considerable time and effort engaging with companies, challenging them when their behaviour falls short of what society expects. Disinvestment remains an option when we see no sign that a company takes engagement seriously or their activities are inconsistent with the stance of the Church. The results are better when the approaches of the prophet and the insider are both in evidence as together we seek to make a difference.

In the following pages we highlight the work we have been doing as we seek to use our influence as shareholders to boost the common good, whilst earning the returns that our clients expect.

Ethical highlights 2015 continued
Working to protect the vulnerable

The Living Wage

The Living Wage has been at the heart of CFB engagement for several years, both directly and in partnership with the Church Investors Group (CIG) and ShareAction. We have seen a growing acceptance that this is not only good for employees, but also leads to stronger, more efficient companies. Sadly not all agree and we have had negative replies from the Restaurant Group and J Sainsbury. However, they have been in the minority and we have had positive responses from British Land, National Grid, Lloyds Bank, Nestlé, Rexam, Smith & Nephew and Vodafone. Perhaps most exciting of all GlaxoSmithKline, which initially refused outright to consider the possibility when it was first suggested by the CIG, has now become an accredited employer.

Gambling

In applying our Gambling Policy, we monitor companies not only in relation to current exposure, but also where that exposure may be growing. Over the past year we were concerned that ITV revenues from partnerships with gambling platforms and the sponsorship of pre-watershed programming by gambling advertisers appeared to be growing and began an engagement. The company provided a comprehensive response confirming that: it holds no gambling licenses; derives less than 3% of revenues from gambling; and goes beyond legal requirements to ensure all activity is responsible and appropriate. We were also impressed at the rigour applied to ensure any advertising meets ITV's stringent requirements.

High interest lenders

Although the CFB does not have a written policy on high interest lending, it has historically avoided investment in companies that charge what appear to be 'usurious' rates of interest. Last year we considered whether a more explicit policy was needed. We reviewed the body of faith-based literature covering the subject, noted that whilst all the major denominations had spoken out against usurious and predatory lending only the Church of England had developed a detailed policy. Our conclusions were that: this is an appropriate area to exclude from possible investment; it is not necessary for the CFB to produce a written policy, but should follow the precedent of previous decisions and the Church of England's policy was a useful point of reference.

Ethical highlights 2015 continued
Working to conserve the planet

Fossil fuels
The campaign for disinvestment from fossil fuel companies has become a major consideration for Church investors. The transition to a low carbon economy will require cleaner fossil fuels. In our view, we should not exclude the companies that provide such products and disinvestment would silence our voice. At the 2014 Methodist Conference there were six memorials on the subject, some seeking a review of the CFB Climate Change Policy and others outright disinvestment. In fact we were already committed to examine the ethical issues associated with all fuels and at our 2015 Annual Meeting announced a third leg of our climate change policy (see www.cfbmethodistchurch.org.uk/ethics/policy-statements). This commits the CFB to engage proactively with companies involved in fossil fuel extraction as we believe that is the best way to influence them and work for change. However, as a last resort we retain the option to disinvest if a company continues to base its business model on the assumption that emissions targets need not be met. Consequently, companies that derive a significant proportion of revenues from tar sands, thermal coal and the exploration for and development of new fossil fuel assets will be avoided as such holdings would be inconsistent with the Methodist position.

Climate change
In the past year, as part of the *Aiming for A* initiative, we co-filed shareholder resolutions encouraging BP and Shell to improve their disclosure and performance with respect to carbon emissions. The boards of both companies took the unprecedented decision to recommend that shareholders support the resolutions. We have been involved with the CIG work that focussed on Carbon Disclosure Project laggards. The 'significant improvement' that resulted has been academically assessed, with a high level of confidence, as being due to the CIG engagement programme, providing strong justification for the engagement approach. In addition to collaborating with others, we also continue to hold companies, such as Shell, to account through regular detailed discussions. We also implemented our electricity generation policy, approved last year. This resulted in new engagements with Centrica, E.ON and SSE, whilst RWE was sold and together with Drax, which was not a holding, excluded from future investment on climate change grounds. The annual independent review of our UK equity portfolio confirms that its carbon footprint is relatively low and declining.

Extractive industries
In many ways the highlight of the year was the 'Ecumenical Reflections' process, an exciting mining industry initiative that sought input from the churches to help develop a model of sustainable mining that unequivocally contributes to the common good. The CFB was asked to assist in planning an ecumenical day of reflection co-hosted by the President of the Methodist Conference and the Archbishop of Canterbury at Lambeth Palace. The day was attended by chief executives of many of the world's largest mining companies, senior Church leaders, theologians and Church investors. This was a prime example of the ethical dividends that we can earn. It would not have been possible without having built up credibility through challenging companies on social justice issues whilst remaining long term investors keen to see good financial returns. As a result, we were able to establish a bridge between the Church and the industry, offering a channel through which the practical responsibilities of running a business could have the light of theological reflection shined.

Ethical highlights 2015 continued
Working to achieve accountability

Animal welfare
In the past year we have become signatories of the Business Benchmark on Farm Animal Welfare, a new initiative that seeks to raise standards in farm animal welfare for companies in food production, processing, and retailing as well as in the hospitality sector. We provided the forward for its 2014 report and have begun to engage with the laggards. As a result, Compass Group and Whitbread told us that they are now engaging with BBFAW with a view to improving disclosure, whilst Hilton Foods, though not covered by the benchmark, indicated that they would seek ways to support the initiative.

Business ethics and tax justice
We led a CIG delegation that met with the Chairman of GlaxoSmithKline, regarding corruption charges in China and the levy of a sizeable fine. He was able to provide more detail on the various enquiries, and assured us that management is focused on restoring trust and integrity. There are over 30 separate enquiries underway within the Group on business culture and practices in various markets We have also been in contact with the Methodist Tax Justice Network on the growing controversy over companies operating in the UK that pay little or no corporation tax.

Human rights engagement
Human trafficking remains a significant area of engagement and another where the voice of the Church has had tangible benefits in encouraging companies to recognise that they may unwittingly be complicit. In the past year we turned our attention to the airline companies and were pleased to learn that both Ryanair and easyJet took the matter very seriously, providing considerable detail on staff training and other preventative methods. BA told us that they introduced new guidance for cabin crew at the beginning of 2015 and that they are looking for appropriate additional training. Following allegations of human rights violations and poverty wages on tea plantations in India we contacted AB Foods and Unilever. Neither of them own or manage tea plantations but were well aware of the challenges and worked closely with the owners on working conditions.

Ethical highlights 2015 continued
Working to expand our partnerships

Shareholder stewardship
The CFB is a signatory to the UK Stewardship Code, and its Statement on meeting the Code's seven principles is reviewed annually and published on our website. As a member of the Principles for Responsible Investment we completed the annual assessment questionnaire and our overarching approach to responsible investment was rated in the top band (A+).

Networking
Our main collaboration is through the Church Investors Group, in which we play a major role. It now has 54 members with combined assets of over £15bn and is making an important and growing contribution to the impact of faith-based investment. It runs CDP and FTSE ESG laggard engagement programmes, has a living wage work stream and arranges meetings with individual companies focused on specific issues, as well as developing international partnerships to provide a global voice for Church investors. We are active participants in a number of investor groups as well as signatories of various shareholder initiatives.

Voting model
It has long been our aspiration to have a single proxy voting template for Church investors, executed by a single global provider. As we seek to work more closely with ecumenical partners, this would allow the churches to vote with one voice in areas of material concern such as executive pay or climate change. We were therefore delighted to agree a single approach to voting with the three Church of England national investment bodies and other Church investors. Consequently, ISS, our current European voting service provider, has now been appointed to vote our UK holdings. We expect our voting outcomes to be broadly similar to our past record, taking the same robust approach to excessive pay.

Chair's statement

Many positive achievements

In my first year as Chair, I look back on many positive achievements and some disappointments.

I was delighted that in July the Council re-affirmed our existing mission and purpose as being relevant to the needs of the Methodist Church in general and our clients in particular.

Further progress has been made on our approach to climate change, greatly assisted by the guidance of JACEI.

A significant impact was made on many companies as a result of our engagement on a range of ethical issues as we continue to punch above our weight in this area, often acting through the Church Investors Group.

We have put more of the necessary building blocks in place to achieve our objective of significantly growing the funds managed by Epworth, although in the past year growth itself has been slow.

While unusually all markets rose, most CFB funds did not achieve their benchmark returns after fees, although over the longer term relative performance remains good. Detailed figures can be found on pages 17 to 23.

Ethical pledge

The securities held by all CFB Funds will, to the best of our ability, be in line with the ethical policy of the Methodist Church.

John Sandford
Chair

Performance

Unfortunately, although the absolute returns of our funds were good, only the Deposit Fund exceeded its benchmark (+0.2%) over the year under review. As with many others we were surprised by the strength of bond markets and our portfolios proved too defensive, having shorter durations than that of their benchmarks, leading to our bond funds underperforming by between 0.3% and 0.6%. UK equity stock selection was close to neutral, but fees and dealing costs resulted in the Fund lagging 0.6% behind our proprietary ethical benchmark, although the underperformance was down to just 0.1% when compared to the traditional ethical index. The Overseas Fund also lagged its benchmark by 0.6%, which was more than accounted for by expenses and unrecoverable tax. Asset allocation between geographical regions had a positive impact, but was offset by the underperformance from our US and Japanese portfolios being greater than the outperformance from the Pacific and Europe. The Property Fund benchmark is only calculated on a quarterly basis, but in the calendar year, the CFB fund outperformed by 0.4%.

Fossil fuels: engagement and disinvestment

The CFB has made further significant progress in developing our approach to climate change with the adoption of a new policy on the ethical implications for different fuels. This builds on our general climate change policy and the more specific one relating to the industry that is the largest single contributor to UK carbon emissions, electricity generation. All are based on *Hope in God's Future* a statement adopted by the Methodist Conference in 2011. It made no ethical judgement on any fuel, but rather concentrated on greenhouse gas emissions. Consequently, JACEI advised that it is the emissions associated with any fuel, together with other environmental concerns and human rights issues, that should determine its ethical acceptability. We have concluded that substantial exposure to thermal coal and tar sands would be incompatible with this approach. Similarly, we will avoid companies mainly involved in the exploration for and development of reserves of high emission fuels. In implementing our Policy on electricity generation two companies, Drax and RWE were judged as unacceptable for investment and it is thought likely that others will be added to this list as we implement the fuels policy.

However, whilst disinvestment has a part to play, it is through engagement that we are able to make a real difference. The transition to a low carbon economy will take time and the cleaner fossil fuels are certain to be part of the solution for many years. It would, in our view, be irresponsible for us to avoid the companies that provide such products. To do so would silence our voice, preventing us from applying pressure for them to reduce emissions and plan for a sustainable future. In the past year, as part of the Aiming for A initiative, we co-filed shareholder resolutions encouraging BP and Shell to improve their disclosure and performance related to carbon emissions. As a result of painstaking engagement, the boards of both companies took the unprecedented decision to encourage shareholders to vote in favour of the resolutions. We have been involved with the Church Investors Group work that focussed on Carbon Disclosure Project laggards. The 'significant improvement' seen in almost 60% of the companies approached has been academically assessed, with a 95% confidence level, as being due to the CIG engagement programme, providing strong justification for the engagement approach. In addition to collaborating with others, we also continue to hold companies, such as Shell, to account through regular detailed discussions. Our electricity generation policy also led to new engagements with three companies. Satisfactory responses were obtained from Centrica and E.ON but more work is required with SSE.

Mining and other ethical issues

Although it gains most attention, climate change is only one of the many ethical issues we address. In the past year these have included the living wage, excessive executive remuneration, human trafficking, water risk, tax justice and animal welfare. However, perhaps our most significant work was with the mining industry, as it sought input from the churches to help it develop sustainable business models for the common good. As a result of trust built up over many years, the CFB was asked by Anglo American to help with the process. This led to an ecumenical day of reflection at Lambeth Palace co-hosted by the Methodist President and the Archbishop of Canterbury. It was attended by chief executives and chairmen of the world's largest mining companies, theologians and Church investors. The preparation involved church representatives visiting mines to observe at first hand the environmental and community challenges. As a result theological input is being provided and tools developed to facilitate better engagement between companies and their local communities. This is a continuing process, which it is hoped will lead to mining operations that are not only financially successful but socially sustainable.

A year of transition

… for staff

Throughout the year we have been without our Chief Investment Officer, Russell Sparkes, who remains on long term sick-leave and trainee Severine Itany, who was on maternity leave. Given that we had already identified the need for a larger investment team, staff resources have been very stretched. Stephen Beer has taken the role of acting CIO, whilst in January Mathew Richards joined us as a Senior Fund Manager with responsibility for overseas equities. Two new trainee positions were established and filled by Catherine McNally and Matt Jones. The new team will need time to become established before we can judge whether it is now the optimal size.

… for premises

It is also good to report that a new lease on our Bonhill St offices was signed. Unfortunately, as is often the case with property matters, the process took longer than anticipated and the refurbishment was only completed in March. However, we now have smart modern premises that are fit for purpose, which make the effort worthwhile. I would also like to take the opportunity to thank Bill Seddon and all our staff, not only for the way they coped with the disruption to ensure a seamless continuity in the services we provide during the refurbishment, but also for their hard work and commitment to excellence on a daily basis.

… for Epworth

One result of the disruptions of the last year has been that we have not been able to pursue the development of Epworth Investment Management Ltd as quickly as we may have wished. To facilitate the additional investment required, the CFB has now acquired complete control having bought out the other shareholders last August. A development strategy is now in place but there is an urgent need to recruit someone to lead our marketing effort. During the year, Roger Smith and Colin Pearson stood down from the Board with our grateful thanks for their service and were replaced by John Gibbon and Julian Parker.

… for Council

In my first year as Chair, it seemed appropriate for us to review how the Council exercises its responsibilities, particularly with Epworth becoming a wholly owned subsidiary. We therefore held a workshop of Council and senior staff. As a result, it was agreed to reduce the number of Council meetings from eleven to six each year supplemented by up to five Management and three Audit committee meetings. During the year Graham Boyd had to step down, which left Council two short of its maximum membership. As a result a search for new members was begun and we are fortunate to have identified three well qualified candidates in Caroline Edwards, Peter Hobbs and Revd. Andy Laird. They have been in attendance at our meetings since January and formally joined the Council at our Annual meeting, when we also said farewell to Revd. Jennifer Potter. We thank Jennifer for her service to the CFB. I was delighted that John Gibbon accepted my invitation to become Vice-chair. It was daunting to follow in the shoes of our previous Chair, Roger Smith, but my task has been made easier by the wisdom and support of all my fellow Council members and I wish to thank them for their efforts on behalf of the Methodist Church.

Looking forward

We have made a number of changes in the past year in order to continue delivering a high quality service for Methodism. However, if we are to continue to realise this ambition we cannot afford to stand still and must invest in our systems and our team. This will have an impact on costs, but needs to be accepted if the CFB is to provide good investment returns consistent with the ethical position of the Methodist Church both now and in the future, a result we remain determined to deliver.

John Sandford
Chair

As presented at the CFB AGM on 28 April 2015.

Investment review

Economic overview

Global

In the latest update to its World Economic Outlook forecasts, the IMF forecast global GDP growth of 3.5% in 2015 and 3.7% in 2016, cutting its forecasts for both years by 0.3% but still forecasting an improvement on the 3.3% growth seen in 2013 and 2014. Both this year and next, the US is expected to have the fastest growth among the G7 leading industrialised economies, with the UK in second place. The IMF raised its forecast for US growth, but cut forecasts for the Eurozone and Japan, where the threat of deflation is most acute. The IMF's biggest growth forecast cuts, however, were for emerging markets including Brazil, China and above all Russia. Brazil is expected to a have second year of growth barely above zero in 2015, weakened by lower prices for its energy exports. Russia, another energy exporter, appears to be entering a deep and possibly lengthy recession as economic sanctions bite and the conflict in Ukraine persists. China's growth remains impressive, but forecast to be 6.3% in 2016 compared to 7.8% in 2013, it is set to moderate as the economy rebalances away from intensive capital investment and towards consumer spending.

Both this year and next, the US is expected to have the fastest growth among the G7 leading industrialised economies, with the UK in second place.

Bill Seddon
Chief Executive

In the OECD group of advanced economies, year-on-year GDP growth was stable at 1.8% in the fourth quarter of 2014. Amongst the major seven advanced economies, the UK enjoyed the fastest growth last year at 2.6%, closely followed by the US. In contrast, GDP contracted in Japan and Italy. Emerging economies continued to expand faster than developed economies, but the gap between their growth rates has narrowed and looks set to narrow further in 2015.

The US unemployment rate continues its downward march, whilst the vacancies rate recently surpassed the 2007 cyclical peak. These indicators suggest that wages, which have started to rise steeply, could continue to move upwards. This in turn has strengthened expectations that the Federal Reserve will raise interest rates, possibly as soon as June. On the other hand, business confidence and leading indicators of business spending have weakened over the past six months and with consumer confidence near its highest level for 15 years, business confidence will need to recover for the pace of economic growth to be maintained. In addition dollar strength will damp down the domestic economy, whilst inflation data looks set to reach new lows, with consumer price inflation turning negative year-on-year following a sharp fall in the CPI in January.

The Eurozone recorded its seventh successive quarter of GDP growth in the final quarter of 2014, although it remains just under 1% pa with unemployment gradually grinding lower. There is also encouragement in the latest ECB bank lending survey, which shows signs of the long-awaited recovery in businesses and household demand. However, it remains to be seen whether the positive effects of quantitative easing will offset the potentially destabilising ripples from the situation in Greece. The tense relationship between Greece and its creditors continues to fester. Since the Syriza government was elected in January, a pattern of brinkmanship has emerged whereby both sides make just enough concessions to avoid an immediate crisis such as bank failures or Greek exit from the Eurozone. Nevertheless, larger concessions will ultimately be needed to avoid a Greek default. Italy's mounting debt burden is also of concern. Not only is its debt-to-GDP ratio similar to the level Greece had at the start of its sovereign debt crisis in 2010, but Italy also forms a much larger share of Eurozone GDP. However, looser monetary policy from the European Central Bank will make the debt load easier to bear, and the ECB's quantitative easing programme reduces the risk of a widespread sovereign debt crisis in the Eurozone for the time being.

Japan exited recession in the final quarter of 2014, recording GDP growth of 0.4% after two quarters in which the economy was shrinking. Although inflation data remain distorted by sales tax increases, labour market data suggest that progress has been made in the fight against deflation. Job vacancies have surpassed their previous cyclical peak in 2007, wage growth has been trending upwards since late 2012, while unemployment at 3.6% is one of the lowest rates in the world.

China, the world's second-largest economy, continues on a path of gradually slowing growth as it rebalances away from extremely high levels of investment and towards increased reliance on consumer spending. Growth is now below 7% and likely to drift lower although remaining well above 5% for the foreseeable future. However, whilst China's economy appears to be in excellent health, with both low unemployment and government debt levels, some analysts argue that official statistics conceal underlying problems. The country's opaque 'shadow banking' sector has seen rapid increases in lending over recent years, which could lead to financial stress if there are widespread defaults. In the longer term, the legacy of the one-child policy is an inexorably rising dependency ratio, with a need to support an increasing proportion of pensioners while the country's GDP per capita remains far below those of developed markets. Low birth rates also present structural challenges for some of China's neighbours including South Korea, Taiwan and Hong Kong, although their GDP per capita has already reached developed-market levels.

India may be about to enter an economic heyday, following the election of a new, business-friendly prime minister last year. The collapse in oil prices has been a large windfall for this energy-importing economy, and has helped to reduce inflation rapidly to a manageable 5%. GDP growth looks set to overtake that of China, supported by long-term advantages including stable democracy, favourable demographics, and a big population of highly educated workers who are fluent in English. However, the country's structural challenges include low rates of female participation in the workforce, and high levels of corruption and illiteracy, problems that the new government will have difficulty in solving.

Some of the largest emerging economies outside Asia, such as Brazil and South Africa, are suffering from the depressed prices of commodities such as oil and gold. Brazil, the second largest of the BRICS economies, entered into recession at the end of 2014 as inflation rose and the currency weakened, trends that seem likely to continue. The central bank has responded by raising interest rates from 11.25% to 12.75%. South Africa is by far the smallest BRICS country in terms of GDP and population, despite a disproportionately large equity market. Unemployment is the country's main economic challenge, with a jobless rate, currently at 24%, that has been above 20% for almost twenty years. Inflation appears to have stabilised at levels close to 5%, but GDP growth has been steadily falling and is now just 1.3%.

United Kingdom

The GDP forecast by the Office for Budgetary Responsibility that accompanied the Budget in March showed small increases to 2.5% for this year and to 2.3% in 2016, which are consistent with recent survey data. The latest PMI surveys showed that the manufacturing and construction sectors accelerated, but while services also expanded, the pace slowed slightly in February. The manufacturing survey showed that growth was being driven by new orders, production of consumer goods and falling fuel prices, with plant and machinery demand virtually unchanged. Service sector companies reported improvements in market conditions with growth driven by new business and the second sharpest employment rise in the survey's history. However, the main driver of growth is likely to remain the services sector with manufacturing and construction output barely above the levels seen in 2011.

Revisions to fourth quarter GDP data showed that it was driven less by household consumption than had been assumed, with a boost from net international trade, with the trade deficit in the three months to January almost half that of the previous quarter as a result of lower oil prices. The household sector is experiencing slightly improved conditions, with house prices firm and mortgage approvals rising for the first time since the summer. Growth in average earnings is now well above inflation, although CPI has been depressed by the fall in the oil price and flat food prices resulting from a supermarket price war. It is estimated that the average household with a mortgage will have 6% more for discretionary spending this year than last.

In its February Inflation Report, the Bank of England forecast a contraction in the Consumer Price Index for a period due to lower energy prices. However, as this effect drops out of the annual figures in the second half of the year, it expects inflation to rebound. The Bank also believes that the lower oil price will result in a higher level of GDP growth than that forecast by the OBR in the short term. It had previously stated that any slide into deflation would be temporary and should not play a major part in the decisions of the Monetary Policy Committee. Consumer expectations of future inflation have been falling and there are now indications that the Bank may be shifting its view, with the Governor, Mark Carney, noting in a recent speech that "while the MPC can be expected to look through one-off shocks, it may be appropriate to take into account persistent external deflationary forces". These forces would include "the combination of continued foreign low inflation and the protracted effects of sterling's strength on the prices facing UK consumers if those forces were to intensify".

The run-up to the General Election generated increased uncertainty, particularly in relation to the possibility of a referendum on the UK's continued membership of the European Union. However, although the major parties' deficit reduction plans differed significantly in terms of the speed and extent of spending cuts, their fiscal targets were broadly similar, in seeking to eliminate borrowing for current spending during the next Parliament.

Investment review continued

Market movements and outlook

Money markets

The base rate has remained unchanged at 0.5% since March 2009.

3 month rates opened the year at the low of 47bp and closed at the high of 52bp.

12 month rates opened the year at 0.80%, peaked at 0.99% in October and closed at 0.90%.

The Deposit Fund's average life began the year at 97 days and ended it at 103 days, having been as high as 109 days in May and as low as 93 days in December.

An average rate of interest of 0.6% (aer) was paid over the past year compared to 0.4% for I week LIBID and 0.1% for higher rate bank deposits.

Fixed income

Global bond prices rose throughout most of the year under review, boosted by concerns over the risk of a Greek exit from the Eurozone, civil war in the Ukraine and a continuation of easy monetary policy.

The yield on 10 year US Treasury yield opened at 2.65%, rising to 2.81% in April and falling to 1.64% in January, before ending February at 1.99%.

Similarly, the 10 year gilt yield began at 2.72%, traded between 2.80% and 1.33% closing at 1.80%.

The German equivalent fell from 1.62% to 0.33% over the same period.

The gradient of the yield curve flattened with the 2 year gilt yield down 6p to 0.43% and the 30 year gilt yield down 102bp to 1.49%.

Index linked prices were also very strong. The 10 year yield opened at -0.41%, rose to -0.38% in March and fell to -1.08% in January before closing at -0.79%.

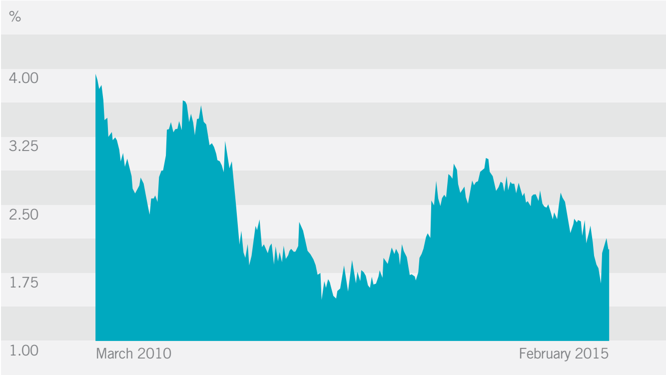
The average premium of corporate bond yields over Government bonds opened at +116bp fell to +103bp in March, rose to +126bp in January and closed close to the low at +104bp.

The spread between AAA and BBB rated bonds opened at +141bp moved between +125bp in June and +160bp in December and closed at +132bp.

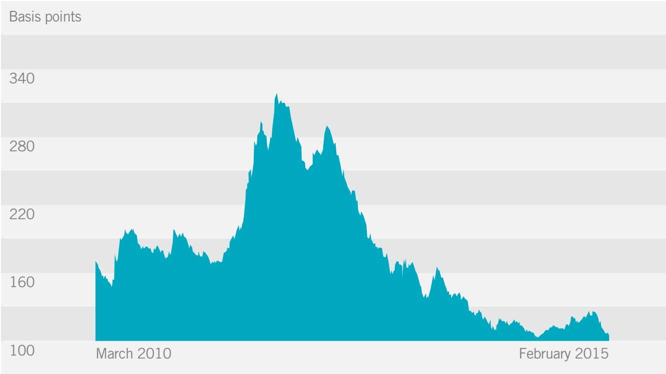
Over the year index linked gilts produced the best returns followed by conventional gilts and corporate bonds. Long dated issues outperformed shorts: over 15 Year Gilts +22.9%; All Stocks Index Linked +16.0%; All Stocks Gilts +11.7%; Non Gilts +11.6%; and Short dated Composite +5.0%.

All CFB fixed interest funds lagged behind their benchmarks over the year: Gilt -0.5%; Short Fixed -0.6%; Corporate Bond -0.6%; Inflation Linked -0.4%; Managed Fixed -0.6%.

10 year US Treasury yield



Yield premium of corporate bonds over gilts



UK equities

The market was in a 5% trading range for much of the year, although it broke lower twice, once in October and the other in December. However, it finished the period under review very strongly, with the All Share Index closing at a new all time high, having risen 2.1% over the year for a total return of +5.6%.

The returns on the largest companies lagged a little behind those of smaller ones: 100 index +5.6%; Mid 250 +6.1%.

Main positive relative contributors to All Share returns over the year were: Tobacco, Life Insurance and Pharmaceuticals.

Main negative relative contributors over the year were: Oil Producers, Mining and Banks.

The return on the CFB proprietary ethically adjusted benchmark (+5.1%) lagged the All Share Index over the year (-0.5%) but was ahead of the traditional ethically adjusted index (+0.5%).

The return on the ethically excluded stocks, which accounted for 13.8% of the Index was +11.5% compared to +4.6% for the rest of the index.

Over the year the UK Equity Fund return (+4.5%) was behind the proprietary ethically adjusted index (+5.1%). The Managed Equity Fund (+6.5%) was 0.5% behind its ethically adjusted benchmark, whilst the Managed Mixed Fund (+8.0%) was just 0.1% behind its ethically adjusted benchmark.

The Property Fund produced an estimated return of 17.5% over the year. The purchase yield as at based on the income declared over the final quarter would have been 6.4%.

Overseas equities

Overseas equities rose steadily through most of the year under review, although with two significant setbacks, the index rising 15.7% for a total return of +18.5.

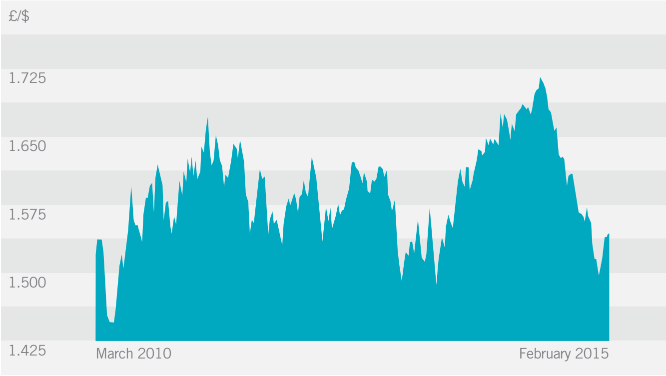
North America (+23.8%) was the best performing region over the year followed by Japan (+19.3%) and Pacific (+18.7%). The Rest of the World (+8.4%) and Europe (+4.5%) both lagged the Index.

Over the year sterling rose against the € (+13.6%) and the ¥ (+8.2%), but fell against the $ (-7.8%).

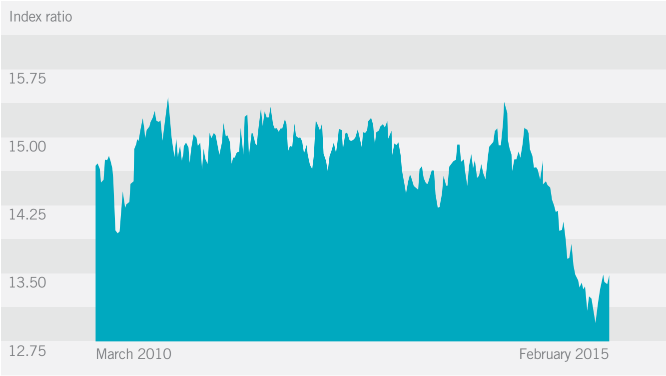
The return on the Overseas Fund (+17.9%) was 0.6% behind its benchmark. This was after all expenses including unrecoverable tax and external fees estimated at 0.65%.

The total return of overseas equities exceeded those of the UK over the year by 12.9%.

Sterling/dollar exchange rate



UK Index vs Overseas Index



Our funds

CFB funds performance 2015

For more detail of our funds performance please go to
www.cfbmethodistchurch.org.uk/2015

Portfolio details

Details of the Fund, including a full list of investment holdings can be found at:

www.cfbmethodistchurch.org.uk/equityfunds/index.html

Valuation dates	Last, 10th and 20th of month
Dealing dates	1st, 11th and 21st of month
Ex distribution dates	28 Feb, 31 May, 31 Aug and 30 Nov
Distribution dates	20 Apr, 20 Jul, 20 Oct and 20 Jan

Risk warning

CFB Funds are designed for long term investors. While we hope that unit values will rise, prices can and do fall. They are not suitable for you to use if you cannot accept the possibility of capital losses.

Managed funds

Performance

To 28 February 2015	1 year %	5 years %pa
CFB Managed Equity Fund	+6.5	+10.6
Managed Equity Fund Composite Index	+7.4	+10.3
Managed Equity Fund Composite Index (ethically adjusted)	+7.0	+10.6
CFB Managed Fixed Interest Fund	+7.7	+5.5
Managed Fixed Interest Composite Index	+8.3	+5.6
CFB Managed Mixed Fund	+8.0	+9.8
Managed Mixed Fund Composite Index	+8.4	+9.4
Managed Mixed Fund Composite Index (ethically adjusted)	+8.1	+9.3

Key facts

As at	28/02/15	28/02/14
Managed Equity Fund		
Fund size	£52.3m	£53.7m
Price per unit	2309.1p	2229.4p
Distributions for year per unit	62.09p	61.54p
Yield (on distribution in past year)	2.7%	2.8%
Managed Fixed Interest Fund		
Fund size	£8.2m	£8.2m
Price per unit	197.7p	187.9p
Distributions for year per unit	4.58p	4.65p
Yield (on distribution in past year)	2.3%	2.4%
Managed Mixed Fund		
Fund size	£23.8m	£22.9m
Price per unit	413.0p	394.9p
Distributions for year per unit	12.84p	11.54p
Yield (on distribution in past year)	3.1%	2.9%

Investment objectives

Managed Equity Fund

Over rolling five year periods, to achieve through holdings in the CFB UK Equity and Overseas funds, a total return equal to or in excess of the composite index measuring the constituent asset classes.

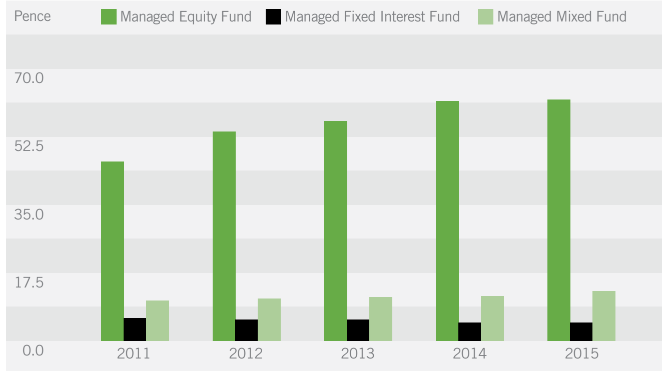
Managed Fixed Interest Fund

Over rolling five year periods, to achieve through holdings in the CFB Gilt, Corporate Bond and Short fixed interest funds, a total return equal to or in excess of the UK Government fixed interest market.

Managed Mixed Fund

Over rolling five year periods, to achieve through holdings in the CFB UK Equity, Overseas, Gilt, Corporate Bond, Short Fixed Interest, Inflation Linked and Property funds, a total return equal to or in excess of a composite index measuring the constituent asset classes.

5 year distribution history



Investment parameters

Managed Equity Fund

CFB UK Equity Fund 80-90%; CFB Overseas Fund 10-20%.

Managed Fixed Interest Fund

CFB Gilt Fund 30-50%; CFB Corporate Bond Fund 5-15%; Short Fixed Interest Fund 40-60%.

Modified duration of 25% up to 5 years Gilts Index; 25% of 5 to 10 years Gilts Index; 40% of All Stocks Gilts Index and 10% Corporate Bond Fund Composite Index +/-1.5 years (as at 28 February 2015: 5.4 to 8.4 years).

Managed Mixed Fund

Fixed Interest 10-30% (of which CFB Gilt Fund 5-15%; CFB Corporate Bond Fund 0-10%; Short Fixed Interest Fund 0-10%); Equities and Inflation Linked 60-80% (of which CFB UK Equity Fund 50-70%; CFB Overseas Fund 5-15% and CFB Inflation Linked Fund 0-5%); CFB Property Fund 0-20%.

Dilution levy

Managed Equity Fund

0.26% of single priced unit value.

Managed Fixed Interest Fund

0.13% of single priced unit value.

Mixed Fund

0.35% of single priced unit value.

Total expense ratio

To avoid double charging no additional expenses are levied on the Managed Funds.

UK Equity Fund

Performance

To 28 February 2015	1 year %	5 years %pa
CFB UK Equity Fund	+4.5	+10.4
Benchmark	+5.6	+10.1
Benchmark (ethically adjusted)	+5.1	+10.5

Key facts

As at	28/02/15	28/02/14
Fund size	£375.9m	£359.4m
Price per unit	1878.1p	1853.3p
Distributions for year per unit	55.52p	55.94p
Yield (on distribution in past year)	3.0%	3.0%

Investment objectives

Over rolling five year periods, to achieve mainly through a portfolio of UK equities, a total return equal to or in excess of the UK equity market.

Investment parameters

UK equities 95-100%; Cash 0-5%.

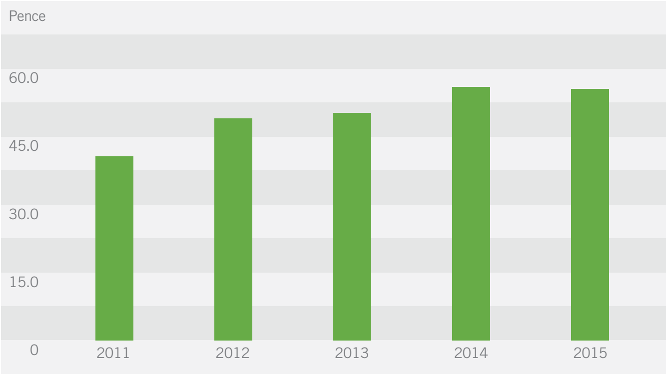
Dilution levy

0.28% of single priced unit value.

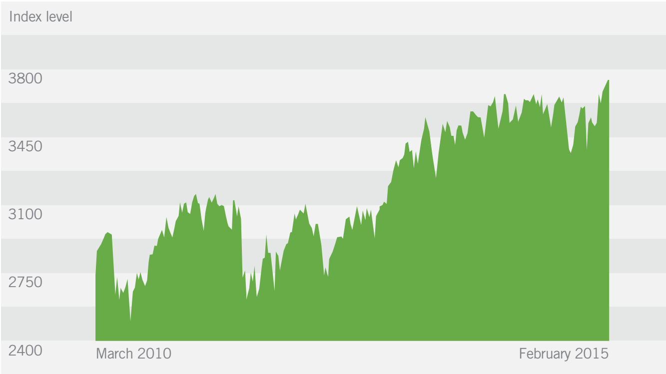
Total expense ratio

Deducted from distributions before payment 0.28% (including transaction costs).

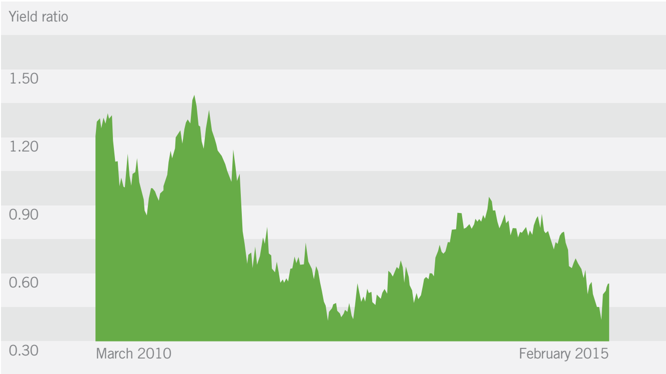
5 year distribution history



UK Equity Index



10 year gilt yield relative to UK Equity Index yield



Overseas Fund

Performance

To 28 February 2015	1 year %	5 years %pa
CFB Overseas Fund	+17.9	+11.7
Benchmark	+18.5	+11.1

Key facts

As at	28/02/15	28/02/14
Fund size	£163.0m	£160.0m
Price per unit	434.5p	373.4p
Distributions for year per unit	5.44p	5.09p
Yield (on distribution in past year)	1.4%	1.4%

Investment objectives

Over rolling five year periods, to achieve mainly through a portfolio of overseas equities and inflation linked securities, a total return equal to or in excess of non-UK equity markets.

Investment parameters

Overseas equities 90-100%; Inflation Linked securities 0-5%; Cash 0-5%.

Regional exposure (as benchmark): North America (currently 58.2%) +/-5%; Europe ex UK (currently 17.4%) +/-5%; Japan (currently 8.9%) +/-5%; Pacific ex Japan (currently 12.6%) +/-5%; Rest of World (currently 3.0%) +/-5%.

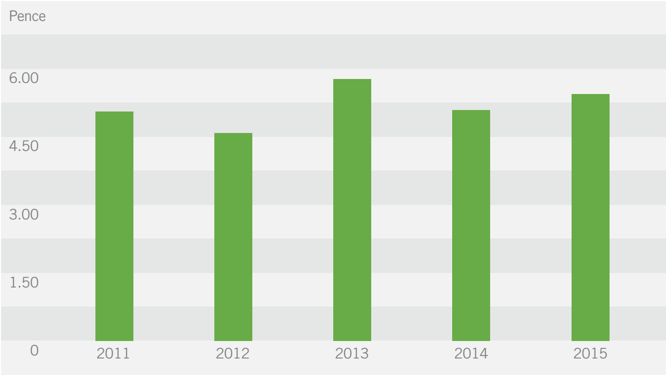
Dilution levy

0.12% of single priced unit value.

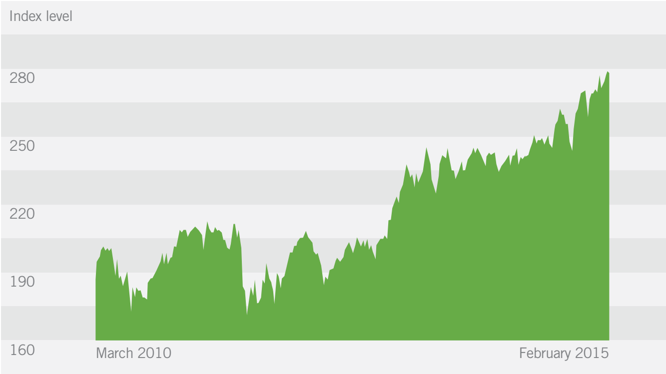
Total expense ratio

Deducted from distributions before payment 0.67% (of which CFB expenses and transaction costs 0.20%, external managers and trustee charges 0.47%).

5 year distribution history



Benchmark



Bond funds

Performance

To 28 February 2015	1 year %	5 years %pa
CFB Gilt Fund	+11.2	+6.6
Benchmark	+11.7	+6.8
CFB Short Fixed Interest Fund	+4.4	+4.1
Benchmark (gilt only)	+5.0	+4.1
Benchmark (incl corp bonds)	+5.3	+4.5
CFB Corporate Bond Fund	+11.0	+7.6
Benchmark	+11.4	+7.6
CFB Inflation Linked Fund	+15.7	+9.5
Benchmark	+16.0	+9.4

Key facts

As at	28/02/15	28/02/14
Gilt Fund		
Fund size	£35.7m	£37.0m
Price per unit	157.4p	144.9p
Distributions for year per unit	3.47p	3.54p
Yield (on distribution in past year)	2.2%	2.4%
Short Fixed Interest Fund		
Fund size	£9.2m	£8.1m
Price per unit	116.8p	114.3p
Distributions for year per unit	2.47p	2.62p
Yield (on distribution in past year)	2.0%	2.2%
Corporate Bond Fund		
Fund size	£93.9m	£88.1m
Price per unit	137.7p	128.2p
Distributions for year per unit	4.38p	4.53p
Yield (on distribution in past year)	3.1%	3.5%
Inflation Linked Fund		
Fund size	£30.1m	£30.2m
Price per unit	363.1p	317.1p
Distributions for year per unit	3.09p	3.28p
Yield (on distribution in past year)	0.8%	1.0%

Investment objectives

Gilt Fund

Over rolling five year periods, to achieve mainly through a portfolio of long-dated sterling denominated UK Government securities with an income yield close to the redemption yield prevailing on UK Government securities, a total return equal to or in excess of the UK Government fixed interest market.

Short Fixed Interest Fund

Over rolling five year periods, to achieve mainly through a portfolio of short-dated sterling denominated fixed interest securities with an income yield close to the redemption yield prevailing on short-dated UK Government securities, a total return equal to or in excess of the short-dated UK Government fixed interest market.

Corporate Bond Fund

Over rolling five year periods, to achieve mainly through a portfolio of sterling denominated corporate and sub-sovereign fixed interest securities, a total return equal to or in excess of the UK corporate bond market.

Inflation Linked Fund

Over rolling five year periods, to achieve mainly through a portfolio of sterling denominated securities linked to the Retail Price Index or similar measure of inflation, a total return equal to or in excess of the UK Government Index Linked market.

Investment parameters

Gilt Fund

Government securities 95-100%; Cash 0-5%.

Modified duration of benchmark +/-1.5 years (as at 28 February 2015: 8.5 to 11.5 years).

Short Fixed Interest Fund

Government securities 70-90%; Debentures and unsecured loans 10-30%; Cash 0-5%.

Modified duration of benchmark +/-1.5 years (as at 28 February 2015: 2.6 to 5.6 years).

Corporate Bond Fund

Credit ratings AAA and AA 55-85%; Other investment grade or secured issues 15-45%; Cash 0-5%.

Modified duration of benchmark +/-1.5 years (as at 28 February 2015: 6.8 to 9.8 years).

Inflation Linked Fund

Government securities 80-100%; Debentures and unsecured loans 0-20%; Cash 0-5%.

Modified duration of benchmark +/-1.5 years (as at 28 February 2015: 18.9 to 21.9 years).

Dilution levy

Gilt Fund
0.05% of single priced unit value.

Short Fixed Interest Fund
0.10% of single priced unit value.

Corporate Bond Fund
0.55% of single priced unit value.

Inflation Linked Fund
0.20% of single priced unit value.

Total expense ratio

Deducted from distributions before payment.

Gilt Fund
0.15% (including transaction costs and custody).

Short Fixed Interest Fund
0.15% (including transaction costs and custody).

Corporate Bond Fund
0.33% (CFB 0.25%; other expenses 0.08%).

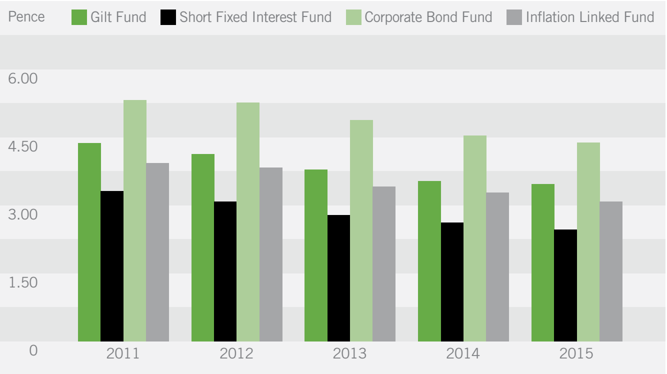
Inflation Linked Fund
0.20% (including transaction costs and custody).

Investment details

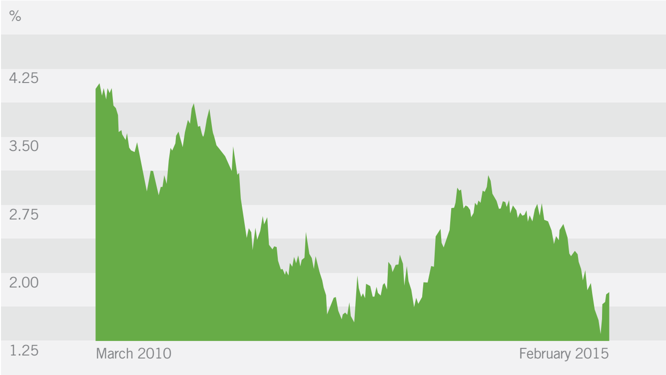
The Corporate Bond Fund invests entirely through the Affirmative Corporate Bond Fund for Charities, a Charity Commission established Common Investment Fund managed by the CFB's subsidiary, Epworth Investment Management Ltd. Details can be found at:

www.epworthinvestment.co.uk/affirmativecorporate/index.php

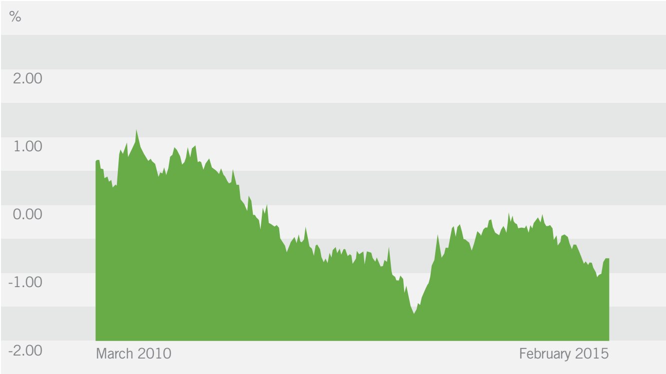
5 year distribution history



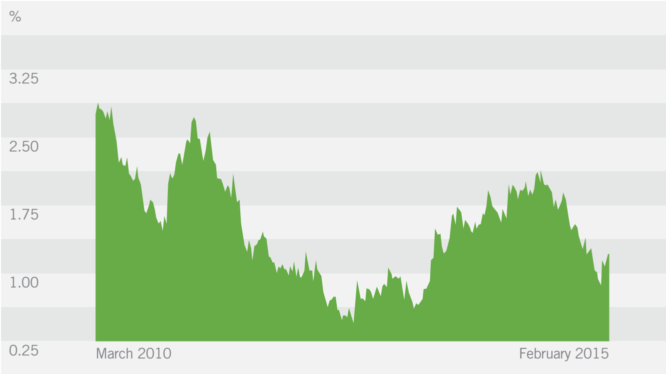
10 year gilt yield



10 year inflation linked gilt yield



5 year gilt yield



Deposit Fund

Performance

To 28 February 2015	1 year %	5 years %pa
CFB Deposit Fund	+0.6	+1.0
Bank deposits over £10,000	+0.1	+0.1
1 week LIBID less CFB expenses	+0.4	+0.4

Key facts

As at	28/02/15	28/02/14
Fund size	£360.1m	£354.3m
Average annual equivalent rate	0.58%	0.88%
Current rate (aer)	0.51%	0.70%

Investment objectives

To obtain the higher rates of interest usually available in the London Money Market whilst maintaining the ability to make withdrawals at short notice and with minimal risk of capital loss.

Investment parameters

Minimum on call or repayable within 5 business days: 10%.

Maximum period of redemption (other than floating rate securities): 24 months.

Maximum period between coupon changes on floating rate securities: 6 months.

Maximum average life of Fund (excluding fixed term arrangements): 150 days.

Portfolio details

The Fund invests entirely through the Affirmative Deposit Fund for Charities, a Charity Commission established Common Deposit Fund managed by the CFB's subsidiary, Epworth Investment Management Ltd.

Details of the Affirmative Deposit Fund can be found at:

www.affirmativedepositfund.org.uk

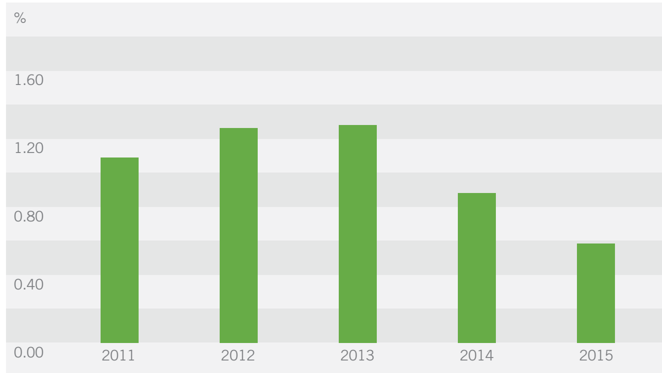
Dealing dates	Every business day
Access	Immediate
Interest accrual	Daily
Distribution dates	Last day of every month

Total expense ratio

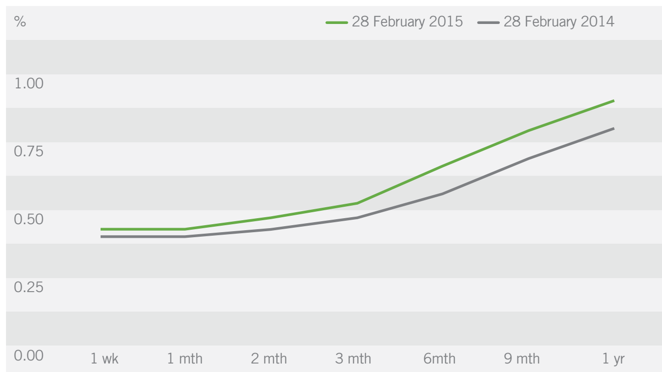
0.24% (CFB 0.21%; other expenses 0.03%).

The Deposit Fund's average life began the year at 97 days, moved within a range of a low of 93 days in December 2014 and a high of 109 days in May 2014 before ending the year at 104 days.

5 year distribution history



Money market deposit rates



Property Fund

Performance

To 28 February 2015	1 year %	5 years %pa
CFB Property Fund	+17.6	+9.1

The comparative index, IPD All Balanced Funds Index is only produced quarterly and therefore no comparative figures for the CFB year are available.

Key facts

As at	28/02/15	28/02/14
Fund size	£18.1m	£15.2m
Price per unit:		
Sell	64.4p	58.8p
Buy	66.4p	60.6p
Distributions for year per unit	4.40p	4.13p
Yield (on distribution and current buying price)	6.7%	6.8%

Investment objectives

To provide capital growth linked to the value of commercial property and to provide a high and growing yield.

Investment parameters

100% invested through the Property Income Trust for Charities.

Portfolio details

Details of the Property Income Trust for Charities can be found at:

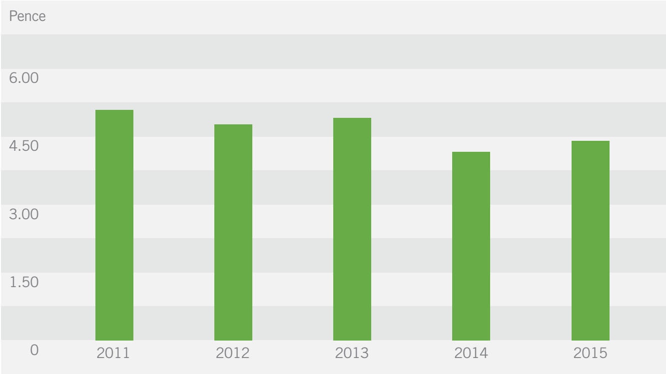
www.pitch-fund.co.uk

Valuation dates	Last day of month
Dealing dates	Purchases on 1st day of each month Sales on 1st day of calendar quarter.

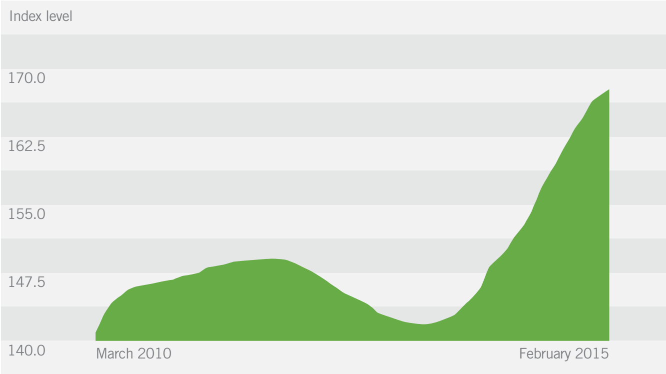
Total expense ratio

To avoid double charging no additional expenses are levied.

5 year distribution history



IPD monthly UK property index



Additional risk warning

The CFB Property Fund is not suitable for investors who might wish to realise their investment at short notice. Units can only be sold on the first working day of each calendar quarter and in extreme circumstances the illiquid nature of the underlying property assets of the Fund may result in unit redemptions being suspended for unspecified periods.

Investors should be aware that the Property Income Trust for Charities, in which the CFB Property Fund invests, is permitted to borrow up to a maximum of 50% loan to value and that the gearing effect of such borrowing significantly increases the risks of investing in the Fund. In adverse conditions capital losses and reductions in income payable to unitholders will be greater than for similar investments held through non-geared funds.

CFB Council

John Sandford

Chair
A Chartered Accountant and former Audit Partner with KPMG's Manchester office, with considerable experience of the pensions sector, internal controls and corporate governance.

John Gibbon

Vice Chair
Adviser to a number of pension funds and member of the Investors' Committee of the Property Income Trust for Charities.

Caroline Edwards

A Chartered Management Accountant who operates as an independent programme manager specialising in finance and shared service centre transformation.

Anne Goodman

Chief Executive of Trustees for Methodist Church Purposes. Articled with Hodgson Impey, then specialised in personal tax at Ernst & Young. Subsequently partner in local practice, dedicated to small businesses and director within charity sector.

Sue Haworth

A qualified accountant with experience in tax and compliance. Previously compliance officer and company secretary for Montagu Private Equity, and CFO for Advantage Capital Limited. Chair of the Audit Committee.

Peter Hobbs

A semi retired senior executive in the insurance sector with experience in investment strategy and performance.

Revd Andy Laird

A CIPFA qualified accountant who has worked across the private and public sector and also a Methodist Minister since 2003 presently stationed in Leamington Spa.

Nick Moore

Head of Support Services for the Methodist Church's Connexional Team. His career was previously in the packaging industry, working in export and UK sales and business resources planning and forecasting. Part of the leadership team of Banbury Community Church in Oxfordshire.

Revd Leslie Newton

Graduated in Accountancy and Law from the University of Manchester, before qualifying as a Chartered Accountant with KPMG. He became a Methodist Minister in 1997 and has served in the Barnsley Circuit and the Bramhall and Wythenshawe Circuit. He became Superintendent of the York Circuit in September 2014.

John Reynolds

Non-executive director of Northern Powergrid and the Water Industry Commission for Scotland. He has had an extensive investment banking career including equity research, corporate finance and principal investment. He served as Chair of the Church of England Ethical Investment Advisory Group for six years.

Terry Wynn

A former member of the European Parliament and President of its Budget Committee. Currently a trustee of both the Trustees for Methodist Church Purposes and Action for Children. Also a Methodist Local Preacher.

Garry Young

A professional economist with strong focus on economic policy, currently working for the Bank of England. Former winner of The Independent's Golden Guru award. Methodist Local Preacher in the Blackheath & Lewisham Circuit.

Committees and advisors

Council members
John Sandford MA FCA (Chair)
John Gibbon (Vice Chair)

Caroline Edwards ACMA
Anne Goodman BSc (Econ)
Sue Haworth FCCA ATII
Peter Hobbs
Revd Andy Laird CPFA
Nick Moore
Revd Leslie Newton MA BA
John Reynolds OBE MA FEI FIET
Terry Wynn
Garry Young BSc (Econ) MSc PhD

Audit Committee
Sue Haworth (Chair)
Revd Andy Laird
Anne Goodman
John Sandford

Management Committee
John Sandford (Chair)
John Gibbon
Revd Leslie Newton
John Reynolds
Garry Young

CFB appointees to Joint Advisory Committee on the Ethics of Investment
Keith Aldred
Alan Emery
Revd Jennifer Potter (to 28 April 2015)
John Reynolds
Bill Seddon
Terry Wynn (from 28 April 2015)

Senior officers
Chief Executive **Bill Seddon** BSc (Econ) ASIP
Chief Financial Officer **Marina Phillips** MSc DChA FCA MCSI
Acting Chief Investment Officer **Stephen Beer** BA ASIP*
Senior Fund Manager **Miles Askew** BA MSc ASIP
Senior Fund Manager **Matthew Richards** MA CFA
Relationship Manager **Christophe Borysiewicz** BA MA CFA

*Chief Investment Officer Russell Sparkes is presently away from the Central Finance Board on extended sick leave.

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