Progress in partnership
Annual Report 2007

Central Finance Board
of the Methodist Church

Mission statement

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 for investors
- to follow a discipline in which the ethical dimension is an integral part of all investment decisions
- to construct investment portfolios which are 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.

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.

Progress in partnership
Highlights

Over the past year the CFB has made significant progress in a number of areas. In some cases this has involved working in partnership with others. In all cases the aim has been to improve the service that we provide as we integrate Christian ethics within an investment process that seeks to provide above average returns.

- Initiatives to improve the stock selection process have resulted in the return on the UK Equity Fund almost matching those of the index despite the continuing headwind from ethical exclusions.
- Managing the CFB Deposit Fund through the Affirmative Deposit Fund, the newly established common deposit fund established with the support of the Charity Commission, will lead to increasing benefits of scale as additional funds are invested through our office.
- The decision to extend our use of external managers for the Overseas Fund has led to the transfer of our US portfolio to the United Methodist Church General Board of Pensions and Health Benefits. Not only does this give CFB investors access to one of the most financially successful funds in the US, it also provides an ethical approach closely aligned to our own.
- The endorsement by the Methodist Conference of the advice of the Joint Advisory Committee on the Ethics of Investment in relation to Nestlé. Our discussions with the company now have more impact as we do so from the position of concerned shareholders.
- Our engagement work with companies has gained a new dimension through the continued development of the Church Investors Group and the growing interest of mainstream investors in social responsibility issues.
- The voting template developed last year has enabled all our UK voting rights to be exercised in line with our overall ethical policy.

Our investment process

We are committed to giving the best possible service to our clients. To ensure we do so we expend a considerable amount of time and effort in refining our investment process. As a result we are concentrating on those areas where we can add most value. Elsewhere we are increasingly working in partnership with others. We are therefore continuing with our hands-on management of deposits, bonds and UK equities within an integrated ethical framework. We also continue to manage actively the asset allocation of the Overseas Fund, but the review and appointment of overseas managers is of growing importance. Our own ethical research remains a high priority but we also benefit from working with others on a number of projects. In addition we have developed a voting template and we now use an external agency to execute the policy on our behalf.

Strategic overview
- Monthly review: CEO & CIO
- Macro economic overview
- Market outlook

Portfolio construction
- Monthly review: CEO & fund managers
- Portfolio structure
- Sector allocation
- Performance & risk
- Overseas managers

Asset allocation
- Monthly review: CEO & fund managers
- Discretionary clients
- Managed funds

Ethics integration
- Monthly review: CEO & investment team
- Review issues
- Commission research
- Recommendation for Council

UK equities
- Weekly: CIO and equity team
- Commission & review research
- Assess investment ideas
- Approved buying list
- Ethical issues

Money & bonds
- Weekly: CIO & fixed interest team
- Dealing strategy
- Term structure & duration
- Commission credit research
- Ethical issues

Active management
- Daily: CIO investment team
- Short term price movements
- Price related research
- Mergers & acquisitions
- Dealing decisions

Ethical research integrated with financial analysis

CFB Team ethics meeting to:
- ensure all the team are familiar with the issues;
- report on recent work;
- prioritise future efforts.

CFB Council
- reviews ethical work;
- sets policy.

Joint Advisory Committee on the Ethics of Investment
- provides CFB with advice on ethical issues;
- reports to the Methodist Conference on CFB compliance with the aims and objectives of the Church.

External services
- EIRIS Services: Ethical database and screening
- PIRC: Corporate governance and voting

Joint Advisory Committee on the Ethics of Investment (JACEI)

Nominated by the Methodist Council

Revd John Howard (Chair) Chair of Wolverhampton & Shrewsbury District
Dr David Clough Tutor in Ethics & Systematic Theology, Durham University
Anthea Cox Co-ordinating Secretary, Public Life & Social Justice
Dr Brian Gennery Senior Clinician
Kumar Jacob Board member, Christian Aid
Gareth Mostyn Corporate executive, Linde AG

Nominated by CFB

Dr Keith Aldred Chair, NCH Superannuation Fund
Alan Emery Former Head of Health & Safety, Rio Tinto plc
Sir Michael Partridge Board member, Methodist Ministers' Pension Trust
Bill Seddon Chief Executive, CFB
Peter Thompson Former Chairman, National Association of Pension Funds

CFB Investment Team

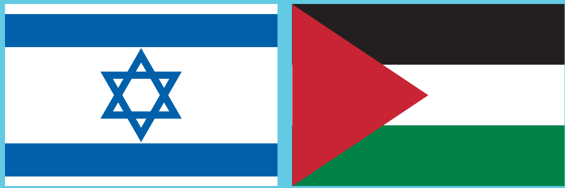
Russell Sparkes Chief Investment Officer and JACEI Secretary
Miles Askew Senior Fund Manager
Stephen Beer Senior Fund Manager
Chris Wigley Senior Fund Manager
Christophe Borysiewicz Assistant Fund Manager
Tendai Hove Trainee Fund Manager
Andrew Hedley Trainee Fund Manager
Bill Lane Client Relationship Manager

Connexional Team

Alison Jackson Team Leader: Joint Public Issues Team
Steve Hucklesby Secretary for International Affairs, Joint Public Issues Team

In partnership with the Connexional Team

The work of JACEI would not be possible without close co-operation between the CFB team and our colleagues from the Joint Public Issues Team. They help us to be aware of and understand the issues that are of most concern to the Methodist Church and assist us in adopting an appropriate response. Whenever possible the Joint Public Issues Team and the CFB send joint delegations to meet with companies and discuss ethical issues. This emphasises that the Church is speaking with a single voice and ensures that senior managers are exposed to the social justice issues involving their company.



Nestlé
At the 2006 Conference, four years of painstaking work on the controversial subject of Nestlé came to a conclusion. The JACEI report containing its advice to the CFB on the company was accepted whilst three Memorials critical of JACEI's advice were declined. A fourth Memorial requesting a mechanism to monitor the company's activities and an annual report to Conference on the ethical issues raised was accepted. Nestlé is no longer a special case and we can now engage with them in the same way as any other company. No longer constrained by the need to focus on the issue of breast milk substitutes we could widen the range of issues for discussion. These include advertising aimed at children, obesity, water resources, fairly traded coffee and working conditions on cocoa plantations. In October a joint CFB/Joint Public Issues Team delegation met with senior management at the company head office where these were among the subjects addressed. JACEI reviewed the information gained from this meeting and confirmed its previous conclusion that, although there were still issues of concern in relation to the marketing of breast milk substitutes, there were insufficient reasons to avoid Nestlé on ethical grounds. The CFB has since become a shareholder.

Israel/Palestine
The question of ensuring that CFB policy in relation to companies operating in this troubled part of the world is in line with the views of the Methodist Church has been a major focus in the past year. There have been calls within churches around the globe for disinvestment from companies who *'support the illegal occupation of Palestinian lands'*. Memorials at successive Methodist Conferences led to JACEI producing a paper, *Guidelines for Constructive Corporate Engagement Related to Israel/Palestine*, for the Methodist Council. A number of ethical concerns and factors were identified that should lead to engagement and could ultimately result in disinvestment. The importance of gaining a better understanding of the political and religious contexts of the region was recognised and the Methodist Church led a fact-finding delegation there in April. Meetings were held with the UN; a variety of NGOs; academic rabbis both from the orthodox and reform wings of Judaism; Israeli business leaders. In addition, during a visit to Bethlehem and the surrounding area, Palestinian Christian organisations and individuals were able to explain the reality of the situation from their perspective. Further work is necessary and with advice from JACEI, the CFB intends to develop generally applicable human rights policies and use them in relation to its company engagement process related to the region.

In partnership with other Churches

Although the CFB looks after more than £1 billion on behalf of Methodism we are a relatively small player in the world of investments. In order to maximise our effectiveness we often work with other Churches.

cig Church Investors Group

UK Churches

The principal way we work ecumenically in the UK is through the Church Investors Group (CIG). Membership has risen to over thirty trustee bodies representing investments of £12 billion. Working together, through CIG, gives British church investors a much louder voice when discussing ethical issues with companies. Engagement falls into three categories:

Presentations: Major companies are asked to explain their corporate responsibility process and answer questions on ethical issues at member meetings. In the past year presentations have been made by Tesco and HSBC.

Delegations: The very nature of their activities means that some companies are under constant scrutiny. Small delegations of members meet with these for detailed discussion. The most recent CIG visit was to Rio Tinto but Shell and BP are other examples of this approach.

Single issues: Company actions sometimes require the voice of Churches to be heard in the boardroom. The decision of British Airways to ban staff from wearing crosses with their uniform was such an example in the past year.

CIG also assists trustees through distributing information on companies, providing training as well as facilitating the sharing of views and concerns.

Overseas Churches

The decision taken a year ago to outsource the management of the Overseas Fund portfolio has meant we have not only needed to find capable investment managers, but also ensure that the ethical dimension was not neglected. The relationships we had built up over a number of years with overseas churches have proved invaluable in both these matters.

The major question we addressed last year was in relation to our US portfolio. We were delighted when our colleagues at the General Board of Pensions of the United Methodist Church invited us to consider the possibility of investing through their Domestic Stock Fund (DSF). This allows access to the investment process of one of the largest and most successful pension fund managers in the US. It also ensures an ethical policy closely aligned to our own with an integrated share voting policy and sufficient resources to do the job properly. In March, following appropriate due diligence, the core CFB US equity portfolio was transferred to the DSF.

For several years we have invested in Australia through funds established by the Sydney Diocese of the Anglican Church. They managed the funds in-house and employed a very similar ethical approach to our own. In the past year they have outsourced the investment management function through low cost index tracker vehicles with an ethical overlay which they continue to control. This has led us into discussion with large service providers over the establishment of similar products in other geographical regions which, through our sister organisation Epworth Investment Management, could be made available to other churches both in the UK and beyond.

Such initiatives allow church organisations such as the CFB to concentrate their efforts, in both financial and ethical matters, where they can be most effective, to benefit from the work done elsewhere by our partners and strengthen the global impact of the Churches in engaging with multi-national companies.

In partnership with other investors

Responsible investment is no longer the preserve of Churches and concerned individuals. Pension funds, insurance companies and other institutional investors are increasingly recognising that they too need to take this matter seriously. A symbol of this change has been the establishment by the United Nations of the Principles for Responsible Investment network. The Principles recognise that environmental, social and corporate governance issues can affect the performance of investment portfolios and are therefore consistent with fiduciary responsibility. In the year since the Principles were established, investors controlling assets worth more than $8 trillion have become signatories. As one of these, the CFB is committed to their adoption and implementation within our investment process.

Institutional Investor Group on Climate Change (IIGCC)
Climate change has become a major public issue and the related risks and potential returns can no longer be ignored by any long term investor. Working with large institutional investors through the Institutional Investor Group on Climate Change which speaks on behalf of £2 trillion assets is the best way for us to approach this huge subject.

In the past year IIGCC has:

- engaged with companies on climate change issues;
- developed a trustee training module on climate change;
- provided climate change briefings for investment analysts;
- lobbied the EC on the Emissions Trading System;
- hosted a major climate change conference in Paris;
- called on institutional investors to support the IIGCC Investor Statement on Climate Change and work together on its implementation.

Other concerned investors
The socially responsible investment sector has grown dramatically in recent years and we often find ourselves having similar concerns to other institutional investors. This has led us to work closely with some of them on particular issues as well as to join groups such as the Ethical Trading Initiative and sign up to the Carbon Disclosure Project and the UN Principles for Responsible Investment.

Mobile telephone technology has developed rapidly and the prospect of children being exposed to pornography and gaming through this medium has been a source of growing concern. Working with both the Church of England and mainstream fund managers, we have been able to highlight the problems with BT and Vodafone and promote the adoption of responsible policies.

Reed Elsevier has been the centre of controversy due to its increasing involvement with exhibitions that promote the arms trade. This worried not only Church investors but also SRI funds and in partnership with one of these we wrote to the company and met with management. In this context it is interesting that the company recently recognised these concerns and announced that it was withdrawing from the business because it was “no longer compatible with Reed Elsevier’s position as a leading publisher of scientific, medical legal and business content”.

In partnership with business

It is our duty as church investors to speak out when we see examples of injustice and to encourage wrongs to be put right. However, as long term investors we are very aware that we are partners with the businesses in which we invest and we also need to encourage companies which make improvements. Developing relationships of mutual trust where our voice has an impact takes time and effort and we continue to work hard to achieve this.

Mining

Rio Tinto and BHP Billiton have for some time been considered acceptable from an ethical perspective and regular meetings take place with both. For example when there were issues in relation to Rio Tinto's partner in West Papua, we were able to discuss the matter with the company. In the past year we have added Anglo American to our list of ethically acceptable mining companies. This involved extensive research and a number of meetings with the company before JACEI was satisfied with the company's response on a number of issues. In the course of this process foundations for another long term relationship of engagement have been laid.

Oil

Our relationships with companies do not always run smoothly and the major oil companies often fall into this category. Our concerns over BP's poor environmental performance in Alaska and safety issues elsewhere have led to a number of meetings with management in the past year. Shareholder resolutions critical of the Royal Dutch Shell operations in Ireland, Nigeria and the Russian Sakhalin oilfield were filed. We were not entirely satisfied with their response and although we did not support the resolutions, which over-simplified very complex issues, we felt it was right to abstain. However, we are continuing to press the company on these matters and a further meeting has been arranged.

Progress in partnership

The past year has been one where significant progress has been made that will, I believe, have a favourable impact on our future activities.

Roger Smith
Chairman

Investment background

For the fourth year in a row I am able to report on a period when security markets have been favourable for investors. Twelve months ago fixed interest yields were at their lowest levels for 50 years and equity returns had been compounding at over 20%pa since the low point of March 2003. The words of caution I expressed then were not without justification. Although the return on the Equity Fund was still a substantial +11.5%, this was not as much as that to which investors had become accustomed, whilst the strength of sterling held back the Overseas Fund return to +3.5%. Fixed Interest yields rose during the year, which limited the returns on the CFB bond funds from breakeven by the Gilt Fund to +2.3% for the Inflation Linked Fund. However, the newly established Property Fund provided the highest return of all the CFB funds with +20.3% in its first full year.

Improved relative performance in UK equities

Ethical exclusions continued to have a significant performance cost for the year, with the ethically adjusted FTSE All Share lagging behind the standard All Share by 0.5%. It was therefore encouraging that the return on the UK Equity Fund was only 0.1% behind the benchmark after the deduction of 0.2% management expenses. This owed much to the improvements that were integrated into our stock selection process twelve months ago.

Overseas outsourcing continues

Although the Overseas Fund lagged 0.4% behind the FTSE All World ex UK Index, it should be noted that tax and expenses reduce its return by 0.8% p.a. However, it was disappointing compared to its composite benchmark. This highlights why last year I stated that we would be seeking external managers for much of the Overseas Fund, whilst retaining control of the asset allocation process through which we have consistently added value for unit holders. Significant changes have now been implemented. The process began with our Pacific and emerging market exposure and continued last year by reinvesting our Japanese portfolio into a low risk Exchange Traded Fund. Perhaps the most exciting development has been in relation to our US portfolio which after our year end was transferred to the Domestic Stock Fund administered by United Methodist Church Board of Pension and Health Benefits. This has given CFB investors access not only to one of the most highly regarded investment vehicles in the US but also to an ethical approach which matches closely with our own. Attention will now turn to seeking an appropriate vehicle for the European portfolio which minimises stock specific risk whilst applying our ethical policy.

Deposit Fund

Another significant development was the decision to work with our sister organisation, Epworth Investment Management, and offer access to our cash management expertise to charities outside the scope of the Methodist Church Funds Act. Consequently, with the support of the Charity Commission, the Affirmative Deposit Fund was launched in November. Although CFB Deposit Fund investors will experience no change in the service we provide, the Fund now invests entirely through the new Affirmative Deposit Fund, which will increasingly provide investors with the benefits of scale, as well as the additional security of having a corporate trustee to monitor the Fund.

The Methodist Conference

It is pleasing to note that the 2006 Methodist Conference overwhelmingly endorsed the advice of the Joint Advisory Committee on the Ethics of Investment (JACEI) in relation to Nestlé. The CFB is now able to engage with the company as a concerned but critical shareholder on ethical issues. The Conference also gave further consideration to the Church's stance on Israel/Palestine. As this is refined it is hoped that the CFB will formulate an appropriate ethical policy to guide it in relation to companies involved in the region. Consequently, our Chief Executive was part of the Methodist Church delegation that visited the Holy Land in April in order to gain a better understanding of the political and religious background.

Working with others

The importance of addressing ethical issues in relation to investment is increasingly being recognised by society as a whole. This has enabled us to work in partnership with others on a number of issues in addition to pursuing our own engagement strategies. The Church Investors Group continues to develop, enabling members to exert more influence with companies than we could as individual denominations. Similarly, our participation with the Institutional Investors Group on Climate Change has helped to maximise our efforts in relation to the environment. It is also instructive that we are now working in collaboration with mainstream fund managers on issues such as armaments and pornography that have in the past been the exclusive preserve of 'ethical' investors.

Gender balance

Another issue raised at the 2006 Conference was that of the CFB's gender balance. We have long wished to have more women members of our Board and Council but have constantly been thwarted by the lack of candidates coming forward. In the past year requests for help were sent to all the Districts and a letter explaining our needs was published in the *Methodist Recorder*. Despite our efforts only four women expressed an interest in serving. These were all well qualified and the CFB will benefit greatly from their appointment to the Board, but the overall response remains a considerable disappointment. If the Church truly desires to have better gender balance in its national committees, it will need to be more proactive in encouraging local members to offer their services at this level.

Council and staff

All investors have cause to be thankful for the talents put at the disposal of the Church by its current Council members. They have worked tirelessly to ensure that the CFB continues to provide the best possible service. I would particularly like to pay tribute to Frank Guaschi who is stepping down after 13 years on the Council. Although we will miss his wise advice we are very fortunate to be able to appoint John Gibbon. John recently retired as a professional fund manager and his expertise in relation to property matters has already been of tremendous assistance.

I am also extremely grateful for the hard work of all our employees. The administrative staff deserves special thanks for being able to maintain a consistently high level of service despite the extra pressure resulting from sudden serious illness to two key members of the team.

The changes we have made in the past year may not have been high profile, but they have reinforced the foundations to ensure that the CFB meets the investment needs of the Methodist Church both now and in the future.

Roger Smith
Chairman
April 2007

Working together

Roger Smith Chairman
Chairman of family investment company, with appointments in the quoted sector with European Motor Holdings plc and Close Brothers AIM VCT plc. Chairman of Harpenden Building Society and Epworth Investment Management. Governor of The University of Hertfordshire.

Richard Reeves Vice Chairman
Chartered Accountant with many years' experience in the areas of governance and compliance as Company Secretary of a public listed company. He retired in 2005 as Company Secretary of Corus Group plc (formerly British Steel plc).

Ted Awty
A Senior Partner of international accounting firm KPMG LLP.
A member of Sir Robert Smith's Committee which produced the Audit Committees Combined Code Guidance Report in 2002.

Peter Cussons
PricewaterhouseCoopers tax partner with considerable international expertise. Chair of International Tax Committee of ICAEW Tax Faculty and Chair of other key groups. Nominated by *International Tax Review* as one of UK's top tax advisors. Has been listed in *Accountancy Age*'s 'Financial Power List'.

John Gibbon
Formerly Managing Director BAE SYSTEMS Pension Funds Investment Management.
A director of ING UK Real Estate Income Trust Ltd and JP Morgan Fleming Japanese Smaller Companies Investment Trust plc; adviser to a number of pension funds and member of the Investors' Committee of the Property Income Trust for Charities.

Javaid Khan
Executive Director of Finance and IT for NCH since 2001. Previously held senior positions in the private sector followed by ten years as Director of Finance and Information for three NHS Health Authorities.

Brian Mansfield
Chartered accountant, Treasurer of Methodist Missionary Society and Strategy Research Committee. Former Managing Director of merchant bank Singer & Friedlander.

Tim Melling
Senior financial professional with wide experience in the commercial world. Currently Finance Director of Georgia-Pacific GB Ltd.

Sir Michael Partridge KCB
Formerly Permanent Secretary of Department of Social Security, non-executive Director of Aviva and The Stationery Office and Chairman (now Pro-Chancellor) of Middlesex University. Currently Director of Harefield Research Foundation, Chairman of Heathfield School and Director of Methodist Ministers' Pension Trust and Epworth Investment Management.

Colin Pearson
A qualified actuary and former Investment Manager with AXA Equity & Law. Director of Methodist Ministers' Pension Trust and Methodist Lay Employees' Pension Trust. A local preacher in the Ashford Circuit.

Revd Graham Thompson
Chair of East Anglia District. Trained in accountancy, member of the Connexional Allowances Committee and about to stand down as a Director of the Methodist Ministers' Pension Fund after nine years service.

Peter Thompson
Actuary and independent pension fund trustee. Former Chairman of National Association of Pension Funds and consultant with Mercer for over twenty years to 2005. Member of Railway Pensions Commission.

CFB staff

Bill Seddon
Chief Executive

Peter Forward
Chief Financial Officer

Russell Sparkes
Chief Investment Officer

Miles Askew
Senior Fund Manager

Stephen Beer
Senior Fund Manager

Chris Wigley
Senior Fund Manager

Christophe Borysiewicz
Assistant Fund Manager

Andrew Hedley
Trainee Fund Manager

Tendai Hove
Trainee Fund Manager

Bill Lane
Client Relationship Manager

Chris Field
Operations Manager

Harriet Bageya
Accountant

Janice Thomson
Senior Deposit Fund Administrator

Paul Berry
Fund Administrator

Victoria Daniels
Fund Administrator

James Forward
Fund Administrator

Safiya Nelson
Fund Administrator

Nancye Nosworthy
Secretary

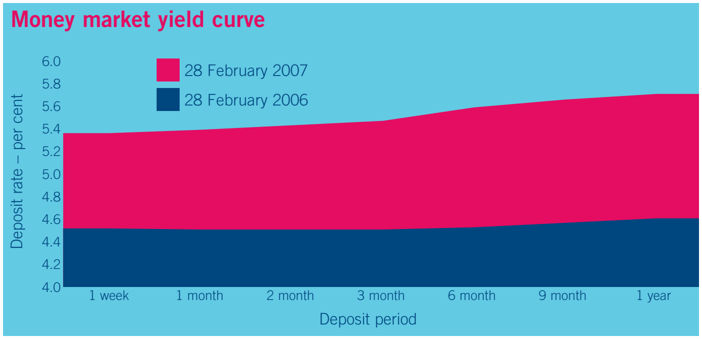
Natalie Zahl
Secretary

Security markets favourable for fourth successive year

- Strong growth in UK economy
- Three base rate rises since August
- Bond prices lower as yields rise steadily
- Another year of double-digit UK equity returns
- Sterling strength holds back overseas equities
- Equities reasonable value, caution over bonds

Bill Seddon
Chief Executive

Market movements and performance
Money Market



- The base rate increased to 5.25%, following 25bp increases in August, November and January.
- 3 month rates moved steadily higher all year opening at 4.51% and closing at 5.48% after trading between 5.49% and 5.58%.
- 12 month rates opened at the low for the year of 4.59% and closed at 5.67% having traded as high as 5.87%.
- The average life of the CFB Deposit Fund was allowed to fall from 77 days at the beginning of March to 73 days in September. By the end of February it had been raised to 85 days, the highest of the year.
- An average rate of interest of 4.8% was paid out in the second half for a return of 4.6% for the whole year. This compared to 1.8% for higher rate bank deposit accounts for the twelve months.

Fixed Income

UK 10 year gilt yield

Source: Bloomberg

- Global bond markets had a mixed year. The 10 year US Treasury yield peaked at 5.25% in June before falling to 4.43% in December. It closed the period under review at 4.56% up 1bp over the year.
- Although gilt prices followed a similar pattern, prices fell much further and 10 year gilt yields rose 61bp to close the year at 4.80% having peaked at 5.01%.
- During the year, the yield curve inversion became steeper as 2 year gilt yields rose 98bp to 5.32% while 30 year gilt yields only rose 41bp to 4.25%.
- The average spread of corporate bond yields over government bonds widened by 2bp over the year to close at 59bp, having ranged between 54 and 64bp.
- In contrast the spread between AAA and BBB rated bonds tightened by 17bp to 67bp to end the year only 2bp from the narrowest point.

Inflation Linked 10 year gilt yield inflation

Source: Bloomberg

- Indexed linked yields also moved higher with the 10 year yield rising from 1.31%, 3bp above the low point, to close the year at 1.74% having peaked at 1.81%.
- However, index-linked securities were the best performing UK bonds with an Index return of +2.4% compared to +0.7% for the iBoxx Non Gilts Index and +0.2% for the FTSE All Stocks Gilts Index.
- The return on all the CFB bond funds was marginally behind that of their respective benchmarks: Inflation Linked (+2.3%); Short Fixed Interest (+1.4%); Managed Fixed Interest (+0.8%); Corporate Bond (+0.6%) and Gilt (+0.0%).

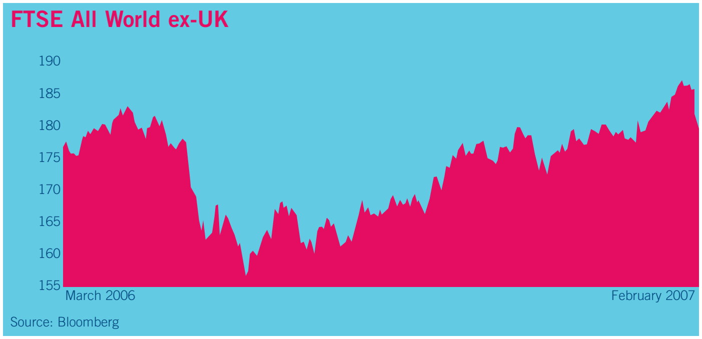
UK Equities and Property

1 year All Share Index

Source: Bloomberg

- Last year the UK equity market experienced its first fall of over 10% since the bear market ended in 2003. However, the setback lasted less than two months and by the middle of June prices were rising once again.
- By the middle of February the FTSE All Share Index was 13% above the level at which it started the year, at which point another sharp fall occurred.
- This resulted in the total return of the All Share Index being limited to +11.6% compared to +10.1% for the FTSE 100 Index and +20.2% for the FTSE 250 Index.
- Over the year the main relative positive contributions were from Telecoms, Utilities and Food Retailers, whilst the main relative negative contributions were from Banks, Oil Producers and Pharmaceuticals.
- Shares excluded on ethical grounds had a very good year, appreciating on average by 13.0% compared to just 7.6% for the rest of the Index.
- In spite of the impact of the ethical policy, the UK Equity Fund return (+11.5%) was only 0.1% behind that of the Index, but well ahead of the Managed Equity Fund (+10.3%), which was held back by overseas exposure.
- The return on the Managed Mixed Fund (+8.5%) was just ahead of its benchmark (+8.4%) whilst the new Property Fund (+ 20.3%) produced the highest return of all the CFB funds in the past year.

Overseas Equities



- Overseas equity markets fell 13% last spring before a strong rally began, but it was not until February that new high ground was reached.
- A sharp fall in the final two weeks ensured that the FTSE World ex UK index rose only 1.7% over the year.
- Much of the relative underperformance of overseas compared to UK equities was due to the strength of sterling against the ¥ (+15%), $ (+12%) and € (+1%).
- Over the year total returns on Europe (+13.8%) and the Pacific ex Japan (+12.4%) stood out. Emerging Markets (+5.5%) matched the performance of the Composite Index but North America (+0.4%) and Japan (-5.1%) lagged well behind.
- The Overseas Fund total return (+3.5%) lagged behind both the FTSE World ex UK (+3.9%) and the Composite Index (+5.9%).

Economic overview

Global

The overall outlook for the global economy continues to be positive. There have been encouraging signs that Japan, the world's second largest economy has picked up with annualised growth in the fourth quarter at 5.5%, much higher than expected. The Japanese recovery is still unbalanced, with exports and capital expenditure rising strongly while consumer spending is still flat. However, the unemployment rate has fallen to 4.0%, its lowest level for nine years, and the authorities are cautiously optimistic that spending will revive. The Chinese economy shows little sign of slowing down in the early part of 2007, with a further increase in its trade surplus. In order to try and cool the economy the government has recently announced the sixth increase in bank reserve requirements since June, as well as administrative measures to restrict speculation in the Shanghai stock market.

The Eurozone is also performing relatively well, having entered 2007 with considerable momentum. This has resulted in the European Central Bank (ECB) revising its forecast for the current year from 2.1% to 2.5%, similar to the 2.7% actually achieved in 2006. Although German retail sales declined sharply in January, this was due to VAT increasing 3% during the month, whilst German industrial production remains strong. In fact business and consumer confidence are running at historically high levels across Europe, although the ECB will not be happy that businesses find it increasingly easy to raise prices. In the second half of last year European growth was heavily dependent upon Germany, as Italy and France, the other two big markets, stagnated. However, they appear to recovering now, so the mix of European growth appears better balanced.

It is well known that US economic statistics are relatively low quality, so it was not a great surprise that fourth quarter US GDP growth was revised down from an annualised rate of 3.5% to 2.2%. The negative revision was due to the December trade deficit and inventory accumulation being worse than expected. However, the revised figure is consistent with the slowdown the US has been experiencing since the spring of 2006. The consensus among economists is that this is just a mid-cycle slowdown and growth should re-accelerate as the housing market downturn comes to an end and the impact of last year's interest rate tightening wears off. Therefore, it was with some concern that investors heard that Alan Greenspan, the highly regarded former Chairman of the US Federal Reserve Board, thought a US recession was overdue, with a one in three chance that it would happen this year. Apparently Mr Greenspan believes that the current US recovery, now in its sixth year, is in danger of running out of steam as corporate profit growth turns negative, leading to a decline in capital investment.

Over the last five years US corporate profit margins have jumped from 6.2% to 13.7%, exceeding the previous peak set in the 1960s. This has been the result of wage increases trailing well behind the overall growth of the economy. However, recently this trend has shown signs of coming to an end with labour costs rising 4.0% in February compared to the previous year. This does not appear to concern the current Federal Reserve Board Chairman Mr Bernanke, who describes this as merely the process of 'real wage normalisation'. He agrees with the consensus that unemployment will remain low, the trade deficit will improve slowly, and housing will gradually recover, with overall US growth this year forecast at 2.5%-3%. In the absence of any major external shock this looks a reasonable forecast.

On the other hand it is worth at least noting that one Federal Reserve Governor, Susan Blies, has expressed concern that the current difficulties in the US sub-prime mortgage market could be just the beginning of a potentially serious development. From 2001 to 2006 the proportion of new US mortgages that were sub-prime, i.e. for people with poor credit histories, increased from 5% to 20%, while a further 10% were 'self-certification' loans where no proof of income is required. If the US economy does indeed face a developing financial crisis relating to mortgage loans, the prospect of a renewed downturn in the housing market leading to recession in 2008 becomes a distinct possibility.

UK

The UK economy entered 2007 strongly, with GDP growth in the fourth quarter accelerating to an annualised rate of 3.2%, the highest figure since 2004. Investment spending led the way with growth in excess of 5.5% last year. Consumer spending has also remained firm with retail sales 3.3% above the figure for January last year. However, manufacturing continues to disappoint with a decline in the January production figure, although it remains 2% up on the year.

As the year progresses it is likely that momentum will fade in response to the monetary tightening that has already occurred, as well as the expected slowdown in global growth. The full impact of the three base rate increases is yet to be felt. Even without a further rise, free household cash flow is estimated to be 2% lower this year than last, which is likely to hold back consumer spending. However, the consensus forecast of 2.6% growth for the year as a whole is only just behind the expected figure of 2.7% for 2006 and close to its long run average. Unfortunately, the unbalanced nature of the economy gives cause for concern. Over the past four years, growth of the median sector has been less than 2%, well below the average figure of 2.7%. The Business Service and Financial sector, which accounts for 30% of the economy, has now become its driving force. It is not surprising that traditional financial services are closely linked to the health of the securities markets, but this appears to be increasingly the case for the law, accountancy and management consultancy. If this is true, the performance of financial markets will in future have a greater impact on the wider economy than ever before.

Worries over the outlook for inflation have dissipated somewhat in the past few weeks as the Bank of England announced its expectation that later in the year CPI Index could drop back below 1.7%, at least temporarily. The fall in gas and electricity prices that has already been announced will certainly help matters and the pressure on food prices seems to be easing, but the key variable will be whether wage growth can be kept under control. At present there are few signs that the employment market is overheating. Average earnings growth, excluding bonuses, fell back to 3.6% in the three months to January and the Treasury has announced a public sector pay increase of just 1.9%. However, it is still too early to be confident that the Monetary Policy Committee will be content with the overall pay round, while continued signs of significant house price inflation are likely to give rise to further concerns.

Market outlook

Money Markets

Over recent weeks markets have been predicting with increasing conviction that the US Federal Reserve Board will cut the Federal funds rate by the summer. In reality this seems far from certain given that the latest meeting minutes stated that: 'Participants did not yet see a downward trend in core inflation as definitely established'. Indeed evidence of rising wage settlements gives concern over future inflationary trends. However, the Federal Reserve's main objective is to ensure the stability of the US financial system. Consequently, although the sub-prime debt crisis seems to be on a relatively small scale, if it escalates into a more general credit crunch, Mr Bernanke might feel obliged to act. Other central banks have been less accommodating. The Bank of Japan doubled interest rates to 0.5%, while the ECB also increased them by 0.25% to 3.75%, with 4% likely in the summer.

It seems that fundamentally little has changed over the outlook for UK interest rates. The Bank of England's central view is that economic growth will remain firm and inflation will fall towards 1.7% over the next year before moving back toward 2.2% in two years' time. This is based on the assumption of one further increase in the base rate. In the past month the market has moved from an assumption that two further increases were likely to one of questioning whether rates have already peaked and when the first cut should occur. However, although the opportunity to place longer term deposits at particularly favourable rates has diminished, the yield curve remains upward sloping and opportunities to continue placing longer term deposits will be pursued.

Fixed Interest

Government bonds traditionally benefit from a flight to quality when there is turmoil in financial markets, so it is not surprising that when equity prices began to fall in mid February, US bond yields fell sharply. This trend was given further impetus by speculation that the economic slowdown may develop into a recession. Consequently, yields are now approaching levels last seen in early December and could fall further if equity prices continue to slide. However, when calm returns, investors will refocus their attention on the fundamentals, at which point bonds may no longer appear so compelling.

Although global bond markets have followed the US Treasury lead, the moves elsewhere have been comparatively modest, not least because most other central banks appear to be still tightening the monetary screw. UK gilt yields remain well above their low point of late last year but whilst there is some value in the short to medium dates, it is difficult to say the same for longer maturity securities. It was a concern that the latest Treasury auction was poorly received, which does not bode well with almost £60 billion government debt to be issued in the next twelve months. Given the reliance on overseas buyers in recent years, any sustained weakness in sterling would put additional upward pressure on yields. Index linked gilts look particularly poor value but as yet there are few signs that investor appetite is abating.

Average spread of corporate bonds over gilts

Source: Bloomberg

However, the major risk for bonds is the low yield premium of corporate bonds over government stock. Although there has been a very gentle overall expansion since the middle of 2005, this has merely served to disguise the continued downward trend of the differential between high and low credit risks. While debt defaults have been virtually non-existent in recent years, the problems in the US sub-prime market highlight the danger of pursuing yield with little regard for risk. Some sub-prime mortgage loans are used to back collateralised debt instruments (CDOs), which are sold on to institutional investors. It remains to be seen how rising mortgage default rates impact the CDO market, and whether this leads to a general increase in corporate bond spreads over government bonds. A defensive position in corporate bonds appears to be prudent.

Currencies

Dollar Yen cross exchange rate

Source: Bloomberg

In recent years foreign exchange markets have ignored economic fundamentals such as trade deficits and have become dominated by so-called ‘carry trades’. These involve aggressive investors such as hedge funds borrowing in low interest rate currencies in order to invest in higher yielding assets elsewhere. The yen has been the principle victim of this strategy and huge short positions were established. Sterling, on the other hand, with relatively high interest rates, has been a beneficiary. However, the last few weeks have seen growing risk aversion in a variety of security markets, which has led to some investors closing carry trade positions. Consequently, sterling has been weak against most currencies, falling almost 4% on average since January. However, it fell 8% compared to the yen having appreciated by 33% over the past three years. With UK interest rates close to a peak, there is considerable risk of further sterling weakness in general and against the yen in particular.

Overseas Equities

From the low point in June last year to the February peak, the FTSE All World (ex UK) Index rose18%. This move was accompanied by growing signs of investor complacency. Premiums on corporate and emerging market debt were falling, while the VIX index of implied market volatility, which compares the premium on US equity options with the underlying cash market, reached a record low in January. Suddenly, sentiment changed and a wave of selling hit global markets as investors sought to reduce risk.

The catalyst appears to have been a 9% fall in the Shanghai stock market in a single day. This was followed by the VIX index jumping 64% in one day, its biggest ever daily rise; the yen rising 5% against the dollar in a week; the FTSE All World (ex UK) Index falling 5% in two weeks and emerging markets dropping 10% over the same period. It may be premature to assume that the correction has been completed. A pessimist might draw similarities with the autumn of 1998, which was the last time there was a significant rally in the value of the yen following an unwinding of the carry trade. That correction lasted three months and included a moderate rally before completing a fall of 24% as market turmoil led to the collapse of the huge hedge fund, Long Term Capital Management. On the other hand, optimists might compare the current correction with that of spring 2006, which was over in two months with the world index falling 14%. As long as the world economy stays relatively robust, the fundamental case for equities should remain intact and further falls would represent an attractive buying opportunity. The Overseas Fund has in recent months made a significant but, in all probability, temporary switch from the more volatile markets of the Pacific and Europe to the relatively defensive North America. Concern over the prospects for sterling would lead to a modest preference for overseas compared to UK equities.

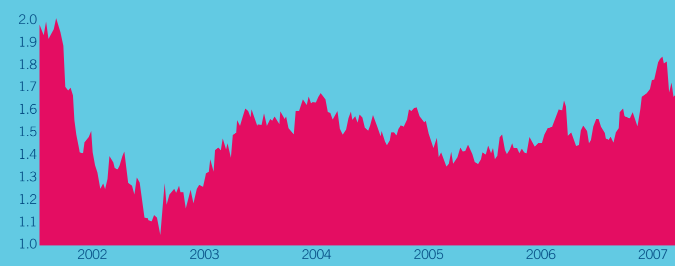
UK relative to World ex-UK

Source: Bloomberg

UK

UK equities have been slightly harder hit than other markets by the recent shake-out, with the FTSE All Share Index 6.6% below its peak by the middle of March. However, this fall has done no more than remove the gains made since October and the market is still above its long term rising trend. The fundamentals of the domestic economy appear to point to nothing worse than a slowdown in its rate of growth. Elsewhere, the US sub-prime debt crisis has the potential to escalate into a more general concern about debt levels, but the Federal Reserve would cut rates if confidence was in danger of collapsing. Current evidence would therefore indicate that the recent setback was an isolated market incident rather than an indication of a more fundamentally negative economic event to come.

10 year gilt yield relative to equity yield



Source: Bloomberg

If the overall economic background is reasonably benign, it is important to judge whether at current levels value is available. On the face of it, there seems little to worry about with equities trading below their long term earnings multiples, yields at reasonably attractive levels and strong corporate balance sheets. However, clouds begin to appear when the data is examined in more detail. Once the very large stocks are excluded, value quickly disappears with the FTSE 100 prospective price earnings ratio rising from an average of twelve to a median of fifteen times, indicating that most companies are at a premium rating relative to historic levels. Similarly, the dividend yield on the highest yielding 20% of the market is at its lowest level for nearly twenty years. Therefore, although the market as a whole looks reasonable value it is difficult to find compelling value in individual stocks. Investors are also comforted that, despite a doubling of equity prices over the past four years, ratings have declined due to earnings growing even faster. However, the return on shareholders' equity is at levels that it has struggled to maintain in previous cycles. In addition, profit downgrades are now occurring and, excluding resource companies, earnings growth is expected to slow from 14% in 2006 to 6% this year. Pessimists also point out that profits, having grown at an unusually fast pace for a number of years, might be expected to revert to trend. In such a scenario, equities could suffer the triple blows of slowing growth, declining margins and falling ratings. At present this would seem over-cautious, but an expectation of more modest rates of return and greater price volatility seems appropriate. Further setbacks would seem to offer the opportunity to increase equity exposure at favourable levels both in absolute terms and relative to bonds.

Unit price and distribution history

Schedule of valuations and distributions – Equity Funds

	UK Equity Fund (Charity)		UK Equity Fund (Pension)		Overseas Fund (Charity)		Overseas Fund (Pension)	
	Valuation p	Annual Distribution p	Valuation p	Annual Distribution p	Valuation p	Annual Distribution p	Valuation p	Annual Distribution p
28 Feb 2003	905.9	36.19	905.9	33.89	151.9	2.63	151.9	2.58
29 Feb 2004	1140.3	34.56	1140.3	33.22	184.6	2.71	184.6	2.69
28 Feb 2005	1262.6	37.26	1262.6	37.26	200.2	2.80	200.2	2.80
28 Feb 2006	1460.5	40.60	1460.5	40.60	251.2	3.71	251.2	3.71
28 Feb 2007	1580.9	44.08	1580.9	44.08	255.9	3.92	255.9	3.92

Schedule of valuations and distributions – Managed Funds

	Managed Equity Fund		Managed Fixed Interest Fund		Managed Mixed Fund		Property Fund	
	Valuation p	Annual Distribution p	Valuation p	Annual Distribution p	Valuation p	Annual Distribution p	Valuation p	Annual Distribution p
28 Feb 2003	1049.6	38.34	170.5	9.17	219.5	9.02	n/a	n/a
29 Feb 2004	1315.5	36.90	164.7	8.49	258.8	8.59	n/a	n/a
28 Feb 2005	1452.9	39.54	164.8	8.03	279.4	8.97	n/a	n/a
28 Feb 2006	1703.7	43.81	169.3	7.90	316.5	9.54	103.9	n/a
28 Feb 2007	1829.2	47.50	163.0	7.59	332.5	10.53	118.8	6.90

Property Fund launched 1 December 2005

Schedule of valuations and distributions – Fixed Interest Funds

	Gilt Fund		Corporate Bond Fund		Short Fixed Interest Fund		Inflation Linked Fund	
	Valuation p	Annual Distribution p	Valuation p	Annual Distribution p	Valuation p	Annual Distribution p	Valuation p	Annual Distribution p
28 Feb 2003	130.9	1.56	38.0	0.56	105.7	5.88	189.8	4.53
29 Feb 2004	125.8	6.05	37.5	2.15	102.0	5.39	194.5	4.72
28 Feb 2005	126.0	5.96	38.3	2.06	101.5	4.97	202.5	4.79
28 Feb 2006	131.3	5.82	119.4	6.02	102.9	4.91	220.3	4.80
28 Feb 2007	125.6	5.68	114.2	5.84	99.6	4.67	220.5	4.75

Gilt Fund formed on 1 December 2002
Corporate Bond Fund formed on 1 December 2002
Corporate Bond Fund units consolidated 1 July 2005

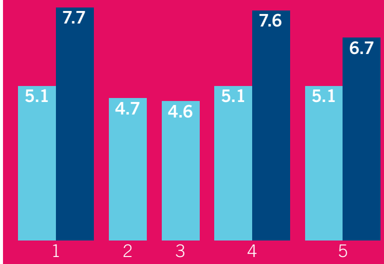
Long term returns: internal assessment

for the periods to 28 February 2007

Equity and Convertibles

1 CFB Managed Mixed Fund (Charity)
2 CFB Managed Equity Fund (Charity)*
3 CFB UK Equity Fund (Charity)*
4 FTSE All Share Index (gross)
5 CFB UK Equity Fund (Pension)*
6 FTSE All Share Index (net)
7 CFB Overseas Fund (Charity)
8 CFB Overseas Fund (Pension)
9 FTSE All World Index (ex UK)
10 FTSE All World Index Regional Composite (10 year data unavailable)

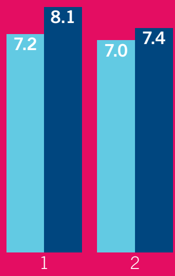
*Figures prior to 01/09/99 relate to CFB Investment Fund



Fixed Interest

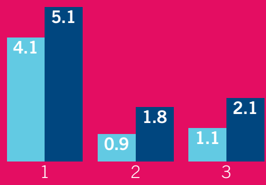
1 CFB Managed Fixed Interest Fund
2 CFB Short Fixed Interest Fund
3 FTSE Short Gilt Index Composite
4 CFB Gilt Fund*
5 FTSE All Stock Gilt Index

*Figures prior to 01/11/02 relate to CFB Long Fixed Interest Fund



Inflation Linked

1 CFB Inflation Linked Fund
2 FTSE All Stock Index Linked Index



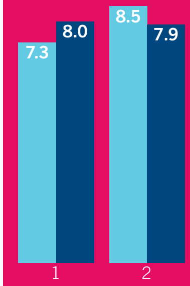
Cash

1 CFB Deposit Fund
2 Higher Rate Bank Deposits (over £2,500)
3 Higher Rate Bank Deposits (over £10,000)

5 years % pa
10 years % pa

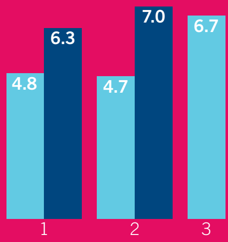
Long term returns: external assessment

for the periods to 31 December 2007



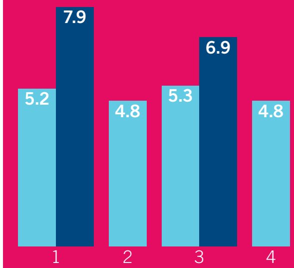
UK Equity and Convertibles

1 CFB
2 FTSE All Share Index



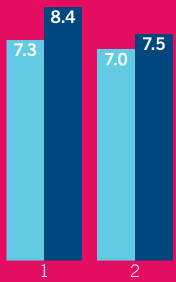
Overseas Equities

1 CFB
2 FTSE All World Index (ex UK)
3 Composite Index (10 year data unavailable)



UK Fixed Interest

1 CFB – Gilt
2 CFB – Short
3 FTSE All Stock Gilt Index
4 Short Fixed Composite (10 year data unavailable)



UK Inflation Linked

1 CFB
2 FTSE All Stock Index Linked Gilt Index

5 years % pa
10 years % pa
Source: Portfolio Evaluation Limited

Managed Equity Fund

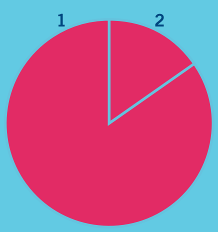
Investment objective

To achieve through holdings in the CFB UK Equity and Overseas funds a total return equal to or in excess of a composite index measuring the constituent asset classes.

Investment parameters

(reviewed annually)

CFB UK Equity Fund	80-90%
CFB Overseas Fund	10-20%
Dealing surcharge	0.30% of unit value



Summary of investments and other assets

as at 28 February 2007

1 UK Equity Fund	84.5%
2 Overseas Fund	15.5%

Managed Fixed Interest Fund

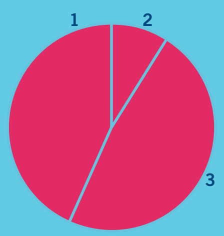
Investment objective

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.

Investment parameters

(reviewed annually)

CFB Gilt Fund	30-50%
CFB Corporate Bond Fund	5-15%
CFB Short Fixed Interest Fund	40-60%
Modified duration	4.6-7.7 years
Dealing surcharge	0.15% of unit value



Summary of investments and other assets

as at 28 February 2007

1 Gilt Fund	43.1%
2 Corporate Bond Fund	9.1%
3 Short Fixed Interest Fund	47.8%

Modified duration of fund 6.2 years

Managed Mixed Fund

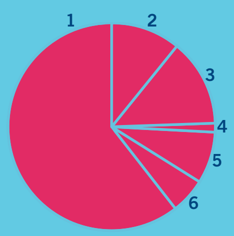
Investment objective

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.

Investment parameters

(reviewed annually)

Equities and Inflation Linked Securities	65-85%
– CFB UK Equity Fund	(50-70)%
– CFB Overseas Fund	(5-15)%
– CFB Inflation Linked Fund	(0-5)%
Fixed Interest Securities	15-35%
– CFB Gilt Fund	(10-20)%
– CFB Corporate Bond Fund	(0-5)%
– Short Fixed Interest Fund	(5-15)%
Property Fund	0-10%
Dealing surcharge	0.30% of unit value



Summary of investments and other assets

as at 28 February 2007

1 UK Equity Fund	60.4%
2 Overseas Fund	11.0%
3 Gilt Fund	13.6%
4 Corporate Bond Fund	1.5%
5 Short Fixed Interest Fund	7.9%
6 Property Fund	5.6%

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.

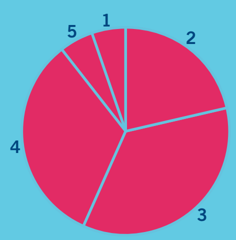
Deposit Fund

Investment objective

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

On call or repayable within 5 business days	Minimum 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 (excluding fixed term arrangements made by specific clients)	150 days



Credit rating breakdown

as at 28 February 2007

1 Aaa	5.1%
2 Aa1	21.5%
3 Aa2	35.2%
4 Aa3	32.8%
5 A1	5.4%

Average life of fund 85 days

Fund description

What is the Deposit Fund?

The CFB Deposit Fund is a common deposit fund designed specifically for Methodist churches and charities. Monies received are pooled together and invested through the Affirmative Deposit Fund for Charities mainly in the London Money Market.

Security

Monies are placed on deposit with banks which meet rigorous criteria based on independent credit ratings and size. We further minimise risk by limiting the proportion of the fund deposited with any single bank.

Who can invest in the Deposit Fund?

All churches and charities in Great Britain responsible to the Methodist Conference are allowed to invest. This would normally include other organisations under the control of the Church Council, eg Sunday school, youth club etc.

What services do we provide?

- Accounts may be opened on any business day.
- Deposits may be made via a local bank, using a CFB paying-in book, or by post.
- Withdrawals to your nominated bank account are processed on day of request (up to £50,000). Notice of up to seven days may be required for larger sums.
- Automatic transfers can be set up to:
  – pay stipends
  – Circuit, District and other Deposit Fund accounts
  – fund local bank accounts
  – receive tax refunds
  – credit income distributions via TMCP.

Dealing and interest

- Dealing date: every business day.
- Interest is earned immediately an account is credited.
- Interest is paid monthly by credit to the account.
- No transaction charges are levied.

More information

For more information about the CFB Deposit Fund and its services, **contact us on 020 7496 3600.**

Model trust money and property schemes

Model trust monies maintained in cash cannot be held directly in the Deposit Fund, but should be forwarded to the Trustees for Methodist Church Purposes (TMCP) in Manchester. You will, however, still benefit from the professional management of the CFB team, as such monies will be invested in the TMCP Trustees Interest Fund, which is itself managed on behalf of TMCP by the CFB. **Further information on this fund can be obtained direct from TMCP on 0161 235 6770.**

Balance sheet
as at 28 February 2007

	2007 £'000s	*2006 £'000s*
Portfolio of investments	**397,667**	**371,002**
Current assets		
Debtors	969	3,627
Bank balances	45	42
	1,014	3,669
Current liabilities		
Creditors	52	49
Undistributed income	(2)	37
	50	86
Net current assets	**964**	**3,583**
Net assets	**398,631**	**374,585**
Represented by:		
Current deposits	300,131	283,085
Term deposits	98,500	91,500
Unitholders' funds	**398,631**	**374,585**

Statement of total return
for the period ended 28 February 2007

	2007 £'000s	*2006 £'000s*
Gross income	18,387	16,652
Expenses	(479)	(451)
Net income & total return for the period	**17,908**	**16,201**
Finance costs: Distributions	(17,947)	(16,267)
Net decrease in undistributed income	**(39)**	**(66)**

Net asset value (NAV)/fund size

Date	*Net asset value £m*
28 February 2003	300.5
29 February 2004	321.7
28 February 2005	337.0
28 February 2006	374.6
28 February 2007	398.6

Income distribution history

Year to February	*Average rate %*	*Average AER %*
2003	3.78	3.85
2004	3.48	3.54
2005	4.37	4.46
2006	4.52	4.61
2007	4.61	4.71

Summary of deposits by maturity

	2007 %	2006 %
Repayable within:		
On call	4.6	5.4
5 business days	14.6	17.3
1 month	16.9	19.7
2 months	19.9	18.9
3 months	23.1	17.5
6 months	3.7	4.0
1 year	14.2	16.7
2 years	3.0	0.5

Notes to the accounts
Year to 28 February 2007

1 Accounting policies
(a) Basis of accounting
The accounts have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the requirements of the Methodist Church Funds Act 1960.

(b) Recognition of income
Interest on bank and building society deposits are accrued on a day-to-day basis. Premiums and discounts arising on the purchase of short dated investments held by the Fund are taken to a Redemption Equalisation account and amortised on a straight line basis from the date of purchase to maturity. This amortisation is taken to Income account.

(c) Management expenses
All administration expenses in relation to the management of the Fund, including audit, legal, safe custody and transaction charges, are recovered by deduction from income before a distribution is declared. No other management charges are levied. Audited financial statements for the CFB Management Account detailing the total costs incurred in the management of all CFB funds are presented to the Board annually.

(d) Distribution policy
All income of the Fund, after deduction of management and other expenses, is distributed to account holders.

(e) Basis of valuation
On 1 November 2006, the Fund ceased investing directly with the Money Market following a decision to invest its entire fund through the Affirmative Deposit Fund for Charities, a Charity Commission-established Common Deposit Fund managed by Epworth Investment Management Limited. All deposits with the Affirmative Deposit Fund for Charities are valued at cost.

2 Taxation
The Fund is exempt from UK income tax and capital gains tax due to its charitable status pursuant to Sections 505 and 506 of the Income and Corporation Taxes Act 1988. Distributions are paid on the basis that all recoverable UK taxation has been reclaimed. Withholding tax is credited to income when it is recovered.

Statement of the Council's responsibilities

The Methodist Church Funds Act 1960 requires the Council, for each financial year, to prepare financial statements which give a true and fair view of the state of affairs of the Board's funds and of the return of the Board's funds for that period. In preparing those financial statements, the Council is required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Board will continue in business.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Board's funds and to enable them to ensure that the financial statements comply with the Methodist Church Funds Act 1960. The Council is also responsible for safeguarding the assets of the Board's funds and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved on behalf of Central Finance Board of the Methodist Church
Roger Smith, Chairman
29 March 2007

Independent auditors' report to the members of the Central Finance Board of the Methodist Church

We have audited the financial statements of the Central Finance Board of the Methodist Church for the year ended 28 February 2007 in respect of the Deposit Fund and related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Board's members, as a body. Our audit work has been undertaken so that we might state to the Board's members those matters we are required to state to them in an auditors' 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 Board and the Board's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Council and auditors

As described in the Statement of the Council's Responsibilities the Council is responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Methodist Church Funds Act 1960. We also report to you if, in our opinion, the Board has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This information comprises only the Chairman's Statement and Investment Manager's Report. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Deposit Fund as at 28 February 2007 and of the fund's total returns for the year then ended and have been properly prepared in accordance with the Methodist Church Funds Act 1960.

Mazars LLP

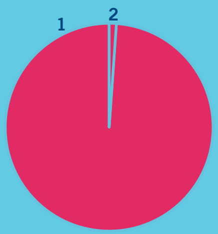
Chartered Accountants and Registered Auditors, 24 Bevis Marks, London EC3A 7NR
27 April 2007

UK Equity Fund

Investment objective
To achieve mainly through a portfolio of UK equities, a total return equal to or in excess of the UK equity market.

Investment parameters
(reviewed annually)

UK equities	94.5-99.5%
Cash	0.5-5.5%
Dealing surcharge	0.30% of unit value



Valuation of UK Equity Fund
as at 28 February 2007

1 Equities	98.7%
2 Cash	1.3%

Summary of investments and other assets
as at 28 February 2007

	Market value £'000s	*CFB %*	*FT-SE All Share %*
Oil & Gas Producers	52,296	14.5	13.4
Oil Equipment & Services	1,433	0.4	0.2
Chemicals	4,048	1.1	0.6
Industrial Metals	–	0.0	0.3
Mining	19,929	5.5	6.5
Construction & Materials	3,295	0.9	0.7
Aerospace	–	0.0	1.9
General Industrials	1,235	0.4	0.4
Forestry Paper	–	0.0	0.0
Electronic & Electrical Equipment	2,779	0.8	0.4
Industrial Engineering	2,927	0.8	0.6
Industrial Transportation	2,569	0.7	0.2
Support Services	10,703	3.0	3.4
Automobiles & Parts	–	0.0	0.1
Beverages	–	0.0	2.5
Food Producers	10,211	2.8	2.2
Household Goods	11,908	3.3	2.1
Personal Goods	–	0.0	0.3
Tobacco	–	0.0	2.5
Healthcare Equipment & Services	2,156	0.6	0.4
Pharmaceuticals & Biotechnology	27,209	7.6	7.3
Food & Drug Retailers	13,113	3.7	3.2
General Retailers	9,329	2.6	2.5
Media	13,702	3.8	3.5
Travel & Leisure	8,376	2.3	3.4
Fixed-Line Telecommunications	6,287	1.7	1.6
Mobile Telecommunications	14,822	4.1	4.1
Electricity	8,257	2.3	1.9
Gas, Water & Multi-Utilities	12,423	3.5	2.7
Banks	63,857	17.7	17.4
Non-Life Insurance	517	0.1	0.8
Life Insurance	16,601	4.6	4.0
Real Estate	11,414	3.2	2.8
General Financial	5,160	1.4	2.6
Equity Investment Instruments	18,746	5.2	2.5
Software & Computer Services	4,035	1.1	0.8
Technology Hardware & Equipment	1,169	0.3	0.2
Total investments	**360,506**	**100.0**	**100.0**
Net current assets	**4,837**		
Total value of fund	**365,343**		

Portfolio valuation
as at 28 February 2007

	Holding 000s	*Market value £'000s*
Oil & Gas Producers		
BG Group	1,095	7,577
BP	3,597	18,758
Cairn Energy	75	1,175
Chevron	101	3,534
Devon Energy	32	1,072
ENI	70	1,094
Premier Oil	55	639
Royal Dutch Shell	1,120	18,447
		52,296
Oil Equipment & Services		
Abbot Group	240	673
Wood Group (John)	285	760
		1,433
Chemicals		
Croda International	170	1,076
Imperial Chemical Industries	285	1,314
Johnson Matthey	75	1,156
Treatt	150	502
		4,048
Mining		
Anglo American	250	6,040
BHP Billiton	610	6,231
Rio Tinto	280	7,658
		19,929
Construction & Materials		
Gleeson (MJ)	145	596
Hanson	220	1,790
Heywood Williams	225	246
Morgan Sindall	55	663
		3,295
General Industrials		
Cookson Group	66	386
Rexam	168	849
		1,235
Electronic & Electrical Equipment		
Andor Technology	360	425
Halma	350	760
Laird Group	45	199
Renishaw	50	388
Spectris	118	1,007
		2,779
Industrial Engineering		
Charter	50	429
Enodis	325	685
IMI	185	944
Spirax-Sarco	90	869
		2,927
Industrial Transportation		
BAA	227	620
Forth Ports	40	844
Wincanton	300	1,105
		2,569

	Holding 000s	*Market value £'000s*
Support Services		
Biffa	160	520
Bunzl	105	692
Capita Group	190	1,229
Electrocomponents	85	225
Experian Group	265	1,576
Inspicio	200	342
Michael Page International	125	601
Premier Farnell	180	325
Speedy Hire	50	562
Spice Holdings	155	773
Travis Perkins	60	1,174
Wolseley	210	2,684
		10,703
Food Producers		
Associated British Foods	105	865
Cadbury Schweppes	585	3,188
Premier Foods	217	670
RHM	175	684
Unilever	353	4,804
		10,211
Household Goods		
Barratt Developments	105	1,236
Bellway	20	296
Berkeley Group	70	1,065
Persimmon	100	1,396
Reckitt Benckiser	205	5,248
Redrow	40	252
Taylor Woodrow	275	1,119
Wilson Bowden	60	1,296
		11,908
Health Care Equipment & Services		
Care UK	130	851
Smith & Nephew	220	1,305
		2,156
Pharmaceuticals & Biotechnology		
AstraZeneca	310	8,878
GlaxoSmithKline	1,195	17,089
Shire Pharmaceuticals	115	1,242
		27,209
Food & Drug Retailers		
Alliance Boots	155	1,223
Greggs	12	543
Morrison (WM) Supermarkets	610	1,810
Sainsbury (J)	260	1,329
Tesco	1,900	8,208
		13,113
General Retailers		
Carphone Warehouse Group	250	743
Home Retail Group	225	951
Inchcape	240	1,254
Kingfisher	460	1,156
Land of Leather Holdings	220	579
Marks & Spencer Group	365	2,458
Next	70	1,429
Topps Tiles	100	283
Smiths News	120	476
		9,329

UK Equity Fund continued

Portfolio valuation
as at 28 February 2007

	Holding 000s	*Market value £'000s*
Media		
Centaur Media	150	216
Daily Mail 'A'	145	1,120
EMI Group	250	600
ITV	900	988
Lion Hudson	108	103
Next Fifteen Communication	550	484
Pearson	235	1,855
Reed Elsevier	380	2,255
Reuters Group	375	1,631
United Business Media	105	744
WPP Group	380	2,808
Yell Group	150	898
		13,702
Travel & Leisure		
Arriva	145	1,041
British Airways	180	966
Carnival	42	1,018
Compass Group	550	1,664
First Choice Holidays	170	429
First Group	200	1,214
Go-Ahead Group	35	831
Whitbread	74	1213
		8,376
Fixed Line Telecommunications		
BT Group	1,820	5,382
Cable & Wireless	550	905
		6,287
Mobile Telecommunications		
Vodafone Group	10,475	14,822
		14,822
Electricity		
International Power	360	1,312
Scottish & Southern Energy	245	3,518
Scottish Power	448	3,427
		8,257
Gas, Water & Multi-Utilities		
Centrica	1,125	4,210
National Grid	740	5,646
Severn Trent	83	1,151
United Utilities	195	1,416
		12,423
Banks		
Barclays	1,315	9,724
Bradford & Bingley	125	547
HBOS	765	8,270
HSBC Holdings	2,215	19,736
Lloyds TSB Group	1,117	6,411
Northern Rock	125	1,417
Royal Bank of Scotland	635	12,757
Standard Chartered	350	4,995
		63,857
Non-Life Insurance		
Admiral Group	50	517
		517
Life Insurance		
Aviva	700	5,722
Legal & General	2,150	3,365
Prudential	790	5,321
Resolution	155	973
Standard Life	405	1,220
		16,601

	Holding 000s	Market value £'000s
Real Estate		
British Land	125	1,874
Brixton	155	757
Great Portland Estate	35	263
Hammerson	120	1,842
Land Securities	117	2,408
Liberty International	85	1,030
Primary Health Properties	215	980
Shaftesbury	135	1,013
Slough Estates	140	1,041
Unite Group	40	206
		11,414
General Financial		
Aberdeen Asset Management	370	708
Amvescap	210	1,262
Icap	335	1,578
Man Group	230	1,262
Rathbone Brothers	30	350
		5,160
Equity Investment Instruments		
August Equity Partners III	20	99
Close Beacon Investment	900	816
Herald Investment Trust	260	1,032
Herald Ventures II	1	363
Herald Ventures	1	558
ishares FTSE 100	460	2,834
ishares FTSE 250	360	3,938
Liontrust First Growth	219	441
Liontrust Intellectual Capital Trust	188	666
Merrill Lynch World Mining Trust	610	2,702
North Atlantic Smaller Companies	200	2,220
Oryx International Growth Fund	300	900
Polar Capital Technology Trust	100	248
Shires Smaller Companies	250	709
TR Property Investment Trust	500	1,220
		18,746
Software & Computer Services		
Alterian	435	574
Aveva Group	125	1,094
Dicom Group	325	774
Northgate Information Solutions	450	368
Sage Group	450	1,155
Touchstone Group	40	70
		4,035
Technology Hardware & Equipment		
Plasmon	597	119
Spirent Communications	700	425
Vislink	655	624
		1,168
Total investments		**360,506**
Net current assets		**4,837**
Total value of Fund		**365,343**

Overseas Fund

Investment objective

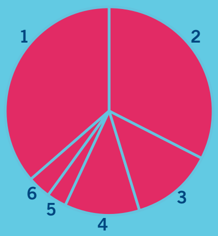
To achieve mainly through a portfolio of overseas equities and inflation linked securities, a total return equal to or in excess of non-UK equity markets.

Investment parameters

(reviewed semi-annually)

Overseas equities	89-99%
– N America	(30-50)%
– Europe (ex UK)	(24-40)%
– Japan	(7-15)%
– Pacific (ex Japan) & Emerging Markets	(12-22)%
Inflation Linked Securities	0-5%
Cash	1-6%

Dealing surcharge 0.30% of unit value



Summary of investments and other assets

as at 28 February 2007

1 North America	36.2%
2 Europe	32.5%
3 Japan	12.8%
4 Pacific Basin ex-Japan	11.7%
5 Emerging Markets	3.2%
6 Cash	3.6%

Portfolio valuation

as at 28 February 2007

	Holding 000s	*Market value £'000s*
North America		
Canada		
Alcan	8	212
Barrick Gold	17	258
BCE	23	309
Canadian Imperial Bank of Commerce	8	336
Canadian National Railways	6	133
Canadian Natural Resources	15	383
Encana	7	173
Manulife Financial	22	381
Petro Canada	16	292
Precision Drilling	9	102
Royal Bank of Canada	13	316
Thomson Corporation	7	137
Toronto-Dominion Bank	18	548
Transcanada	12	190
		3,770
United States		
3M Company	16	605
Abbott Laboratories	18	502
Accenture	20	364
Adobe Systems	16	320
Aetna	12	271
Agilent Technology	15	243
Air Products	7	267
Alcoa	14	239
Allstate Corporation	15	460
American Express	19	551
American International Group	25	856
Amgen	15	492
Amvescap	75	451
Anadarko Petroleum	12	246
Analog Devices	9	166
Apple	6	259
Applied Materials	27	256
Archer Daniels	15	263
AT&T	41	770
Automatic Data Proc	12	305
Bank of America	44	1,141
Baxter International	10	255
Beazer Homes USA	10	201
Bed Bath & Beyond	15	295
BP Spon ADR	6	188
Bristol-Myers Squibb	18	242
Capital One Financial	6	236
Carnival	10	237
CBS	10	155
Chevron Texaco	20	700
Cisco Systems	53	702
Clear Channel	12	222
Coca-Cola	21	500
Colgate-Palmolive	8	275
Comcast 'A'	21	276

	Holding 000s	Market value £'000s
ConocoPhillips	23	779
Costco Wholesale	7	200
Dell	19	222
Devon Energy	9	285
Du Pont E I de Nemours	10	259
Duke Energy	26	261
Eaton	6	248
Ecolab	8	173
Eli Lilly	11	295
Embarq	2	49
EMC	20	142
Emerson Electric	16	351
Exelon	8	269
Fannie Mae	14	405
Fedex	6	350
FPL Group	18	542
GBC North America Growth	125	944
General Electric Co	86	1,532
Goldman Sachs Group	5	514
Hanesbrands	2	33
Hartford Financial Services	8	386
Hewlett Packard	25	502
Home Depot	16	323
Idearc	1	25
Illinois Tool Works	15	395
Intel	31	314
International Business Machines	11	522
ishares S&P 100 Index	57	1,880
ishares S&P 500 Index	32	2,305
Johnson & Johnson	29	915
JP Morgan Chase & Co	35	882
JP Morgan US Discovery	88	722
Kellogg	14	356
Kimberly-Clark	7	243
Lowe's Companies	23	382
Marriott International	22	538
Marsh & McLennan	12	180
Masco	17	259
Medtronic	16	411
Merck & Co	17	383
Metlife	7	226
Microsoft	50	718
Morgan Stanley	13	497
Motorola	20	189
Nasdaq 100 Trust	30	663
Nordstrom	7	189
Northern Trust	11	338
Occidental Petroleum	12	282
Oracle	45	377
Pepsico	18	580
Pfizer	50	636
PNC Financial Group	7	243
Polar Capital Technology	100	248

	Holding 000s	Market value £'000s
Procter & Gamble	28	897
Qualcomm	15	308
Sara Lee	30	252
Schering-Plough	32	383
Schlumberger	17	545
Energy Select Sector SPDR	19	536
SLM	10	217
Southern	30	548
Spectra Energy	13	170
Sprint Nextel	35	344
St. Jude Medical	13	263
Staples	22	292
Symantec	24	209
Sysco	10	168
Target	18	565
Texas Instruments	21	332
Time Warner	43	446
Tribune Co	15	230
Union Pacific	6	302
Unit	8	200
Unitedhealth Group	9	240
US Bancorp	20	364
Valero Energy	8	235
Verigy	2	22
Verizon Communication	29	553
Wachovia	22	619
Walgreen	12	274
Walt Disney	16	280
Weatherford International	10	205
Wells Fargo	22	389
Weyerhaeuser	9	372
Whole Foods Market	8	195
Yahoo	14	220
		49,648
Total North America		**53,418**
Europe		
Belgium		
Dexia	30	451
Fortis	38	833
KBC Groupe	4	217
		1,501
Switzerland		
ABB	40	341
Adecco 'R'	10	340
Credit Suisse	25	883
Nestle 'R'	6	1,043
Novartis	49	1,389
Roche Holdings GSH	15	1,363
SGS Surveillance	1	230
Swiss Reinsurance	8	347
UBS	41	1,237
Zurich Financial	3	423
		7,596

Overseas Fund continued

Portfolio valuation
as at 28 February 2007

	Holding 000s	*Market value £'000s*
Germany		
Allianz	9	986
BASF	6	311
Bayer	13	380
BMW	16	471
Deutsche Bank	13	837
Deutsche Telekom	65	593
E.ON	11	700
Henkel Kgaa	5	322
Linde	5	239
Metro	5	159
Munich Re	3	283
RWE	10	495
SAP	18	421
Siemens	17	885
Volkswagen	6	385
	2	**7,467**
Denmark		
A. P. Moller-Maersk	60	315
Danske Bank	22	518
		833
Spain		
BBV Argentaria	74	919
BNC Santander	93	878
Iberdrola	26	581
Inditex	11	326
Repsol	30	486
Telefonica	34	1,116
		4,306
Finland		
Nokia	67	746
		746
France		
Accor	7	315
Air Liquide	5	583
AXA	45	975
BNP Paribas	23	1,197
Carrefour	13	442
Danone	6	484
France Telecom	39	534
Gaz De France	10	224
L'Oreal	8	427
Lafarge	4	267
Peugeot	7	241
PPR	4	307
Renault	5	303
Saint Gobain	11	523
Sanofi-Aventis	21	891
Schneider Electric	4	216
Societe Generale	7	601
Sodexho Alliance	8	281
STMicroelectronics	22	217
Suez	33	823
Vivendi	28	563
		10,414

	Holding 000s	Market value £'000s
Ireland		
Allied Irish Banks	15	224
CRH	24	511
		735
Italy		
Autostrade	14	215
Enel	140	745
ENI	77	1,203
Generali	26	559
Intesa Sanpaolo	224	834
Mediaset	35	207
Mediolanum	60	255
Saipem	22	304
Telecom Italia	280	433
Unicredito Italiano	75	354
		5,109
Netherlands		
ABN Amro Holding	49	875
Aegon	32	318
Akzo Nobel	7	220
ASML Holding	13	163
ING Groep Certs	36	787
KPN Kon	64	503
Philips	14	262
Reed Elsevier	34	202
Royal Dutch Shell	39	647
Unilever (UK)	40	544
		4,521
Norway		
DNB Nor	50	345
Norsk Hydro	35	552
Statoil	15	195
		1,092
Sweden		
Atlas Copco	24	356
Ericsson	310	563
Nordea Bank	80	618
Sandvik	33	260
SCA	11	290
Teliasonera	80	342
Volvo	8	294
		2,723
European Composite		
JPMF European Fledgeling	105	817
		817
Total Europe		**47,860**
Japan		
Fidelity Japanese Values	500	385
ETF Ishares MSCI Japan	2,244	16,760
JP Morgan Japanese	630	1,646
		18,791
Total Japan		**18,791**

	Holding 000s	Market value £'000s
Pacific Basin excluding Japan		
Australia		
Glebe Australian Equities Fund	4,455	3,219
		3,219
Hong Kong		
Greater China Fund	50	609
HSBC Holding	50	446
		1,055
South Korea		
Korea Fund	24	413
		413
Singapore		
Singapore Fund	53	467
		467
Taiwan		
Taiwan Fund	60	539
		539
Pacific Basin Composite		
First State Asia Pacific	1,274	1,554
Asia Pacific Fund	1,823	6,922
First State Asia Pacific Leaders	823	1,535
Schroder Asia Pacific	800	1,124
Standard Chartered	30	428
		11,563
Total Pacific Basin excluding Japan		**17,256**
Emerging Markets		
Emerging Markets Composite		
First State Emerging Markets	987	2,726
JPMF Emerging Markets	220	799
JPMF Indian IT	150	428
Mexico Fund	30	601
Merrill Lynch World Mining	50	221
		4,775
Total Emerging Markets		**4,775**
Total investments		**142,100**
Net current assets		**5,320**
Total value of fund		**147,420**

Gilt Fund

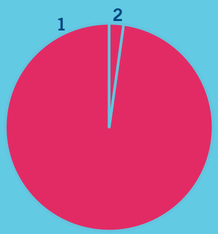
Investment objective

To achieve mainly through a portfolio of 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.

Investment parameters

(reviewed annually)

Government Securities	94-99%
Cash	1-6%
Modified duration	6.3-10.5 years
Dealing surcharge	0.10% of unit value



Summary of investments and other assets

as at 28 February 2007

1 British Government	97.7%
2 Cash	2.3%

Modified duration of fund 8.4 years

Portfolio valuation

as at 28 February 2007

	Holding 000s	*Market value £'000s*
Treasury 5% 2008	3,750	3,736
Treasury 4% 2009	6,250	6,094
Treasury 5¾% 2009	2,000	2,025
Treasury 4¾% 2010	2,500	2,464
Treasury 6¼% 2010	1,750	1,813
Treasury 4¼% 2011	5,000	4,838
Treasury 5% 2012	4,523	4,509
Treasury 5% 2014	3,533	3,549
Treasury 4¾% 2015	3,250	3,225
Treasury 4% 2016	3,250	3,052
Treasury 4¾% 2020	9,250	9,311
Treasury 5% 2025	5,000	5,278
Treasury 4¼% 2027	1,000	971
Treasury 4¼% 2032	5,000	4,936
Treasury 4¼% 2036	5,000	4,994
Treasury 4¾% 2038	1,750	1,909
Treasury 4¼% 2046	2,500	2,563
Treasury 4¼% 2055	1,500	1,571
Total investments		**66,838**
Net current assets		**1,605**
Total value of fund		**68,443**

Corporate Bond Fund

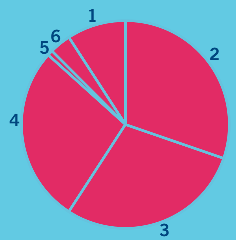
Investment objective

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.

Investment parameters

(reviewed annually)

Debentures & Unsecured Loans	94-99%
Cash	1-6%
Modified duration	5.6-9.3 years
Dealing surcharge	0.35% of unit value



Summary of investments and other assets

as at 28 February 2007

1 Debentures	8.9%
2 Supranational	30.3%
3 Corporate Unsecured – Financial	29.1%
4 Corporate Unsecured – Non-Financial	27.3%
5 Corporate Secured Financial	0.9%
6 Cash	3.5%

Modified duration of fund 7.4 years

Portfolio valuation

as at 28 February 2007

	Holding 000s	*Market value £'000s*
Debentures		
Peel Holdings 9$\frac{7}{8}$% 2011	500	567
Asda Property Holdings 6$\frac{1}{8}$% 2014	500	503
Witan IT 8$\frac{1}{2}$% 2016	250	308
Co-operative Group 7$\frac{5}{8}$% 2018	250	290
Fleming Claverhouse 7% 2020	250	284
Scottish American IT 8% 2022	250	316
Edinburgh IT 7$\frac{3}{4}$% 2022	250	314
Invesco English & Intl 6$\frac{3}{4}$% 2023	350	411
Monks IT 6$\frac{3}{8}$% 2023	500	561
Great Portland Estates 5$\frac{5}{8}$% 2029	500	527
Merchants Trust 5$\frac{7}{8}$% 2029	250	275
Scottish IT 5$\frac{3}{4}$% 2030	500	541
		4,897
Supranational		
Network Rail 4$\frac{7}{8}$% 2009	1,000	988
KFW 5$\frac{5}{8}$% 2009	1,250	1,253
Kreditanst Wiedrauf 4$\frac{3}{4}$% 2010	1,250	1,221
European Investment Bank 4$\frac{1}{4}$% 2010	1,000	960
KFW 5$\frac{3}{8}$% 2011	500	500
European Investment Bank 4$\frac{1}{2}$% 2013	500	480
Kreditanst Wiedrauf 5$\frac{3}{8}$% 2014	1,250	1,258
European Investment Bank 4$\frac{3}{8}$% 2015	250	237
Network Rail 4$\frac{7}{8}$% 2015	1,000	981
Kreditanst Wiedrauf 5$\frac{5}{8}$% 2017	500	520
European Inv Bank 4$\frac{3}{4}$% 2018	500	487
Intl Bk Reconstruction 5.4% 2021	1,250	1,308
European Inv Bank 5$\frac{3}{8}$% 2021	750	782
Network Rail 4$\frac{3}{4}$% 2024	1,250	1,238
Kreditanst Wiedrauf 5$\frac{1}{2}$% 2025	500	540
Intl Bk Reconstruction 4$\frac{7}{8}$% 2028	2,000	2,039
European Inv Bank 5% 2039	1,750	1,911
		16,703
Corporate Unsecured – Financial		
Bradford & Bingley 5$\frac{1}{8}$% 2008	500	494
American Express 5$\frac{5}{8}$% 2009	750	748
Lehman Brothers 5% 2010	500	490
SLM Corporate 5$\frac{3}{8}$% 2010	500	492
HBOS 4$\frac{3}{8}$% 2010	1,000	958
Sun Life of Canada 5$\frac{3}{4}$% 2011	500	500
Mellon Funding 6$\frac{3}{8}$% 2011	750	771
AIG Sunamerica 5$\frac{5}{8}$% 2012	500	501
Merrill Lynch 5$\frac{3}{4}$% 2014	1,000	1,003
Morgan Stanley 5$\frac{1}{8}$% 2015	1,000	960
JP Morgan Chase 35$\frac{3}{8}$% 2016	1,250	1,232
Bank of America 5$\frac{1}{4}$ 2016	1,000	980
Goldman Sachs 6$\frac{1}{8}$% 2017	750	776
Bank of Ireland 4$\frac{7}{8}$% 2018	500	480
Societe Generale 5.4% 2018	500	497
Australia & NZ Bkg 4$\frac{3}{4}$% 2018	500	474
Co-operative Bank 5$\frac{7}{8}$% 2019	250	248
Commerzbank 6$\frac{5}{8}$% 2019	250	272
Northern Rock 6$\frac{3}{8}$% 2019	250	273
Bank of America 5$\frac{1}{2}$% 2019	750	767
Danske Bank 5$\frac{3}{8}$% 2021	500	489
Wachovia Bank 5$\frac{1}{4}$% 2023	500	495
HSBC Holdings 5$\frac{3}{4}$% 2027	500	529
ABN AMRO Bank 6$\frac{3}{8}$% 2028	500	581
Prudential Corp.6$\frac{1}{8}$% 2031	250	271
HSBC Bank 5$\frac{3}{8}$% 2033	750	773
		16,054

Corporate Bond Fund continued

Portfolio valuation
as at 28 February 2007

	Holding 000s	*Market value £'000s*
Corporate Secured – Financial		
HBOS 4$\frac{7}{8}$% 2010	500	491
		491
Corporate Unsecured – Non-Financial		
Angel Trains Finance 5$\frac{1}{4}$% 2008	500	495
RWE Finance 4$\frac{5}{8}$% 2010	500	484
Tesco 6$\frac{5}{8}$% 2010	250	258
ENI Coordination 4$\frac{7}{8}$% 2010	500	487
Deutsche Telekom Intl 6$\frac{1}{4}$% 2010	500	506
National Grid 4$\frac{3}{4}$% 2010	1,000	969
France Telecom 7$\frac{1}{8}$% 2011	500	532
Carrefour 5$\frac{3}{8}$% 2012	1,000	984
Vodafone Group 4$\frac{5}{8}$% 2014	750	695
Deutsche Telekom Intl 4$\frac{7}{8}$% 2014	500	468
Pearson 7% 2014	250	261
GE Capital UK Funding 5$\frac{5}{8}$% 2014	1,500	1,508
Reed Elsevier Investment 5$\frac{5}{8}$% 2016	250	247
St.Gobain 5$\frac{5}{8}$% 2016	250	246
Tele. Emisiones 5$\frac{3}{8}$% 2018	250	240
Tesco 5$\frac{1}{2}$% 2019	1,250	1,255
RWE Finance 5$\frac{5}{8}$% 2023	1,250	1,280
National Grid 5$\frac{7}{8}$% 2024	500	527
France Telecom 5$\frac{1}{4}$% 2025	500	476
Bouygues 5$\frac{1}{2}$% 2026	250	245
United Parcel America 5$\frac{1}{2}$% 2031	1,000	1,075
East Japan Railway 4$\frac{3}{4}$% 2031	250	244
GlaxoSmithKline Cap. 5$\frac{1}{4}$% 2033	1,500	1,557
		15,039
Total investments		**53,184**
Net current assets		**1,925**
Total value of fund		**55,109**

Short Fixed Interest Fund

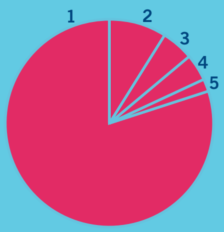
Investment objective

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.

Investment parameters

(reviewed annually)

Government securities	70-89%
Debentures & Unsecured Loans	10-29%
Cash	1-6%
Modified duration	3.1-5.1 years
Dealing surcharge	0.10% of unit value



Summary of investments and other assets

as at 28 February 2007

1 British Government	79.8%
2 Supranational	9.0%
3 Corporate Unsecured – Financial	5.1%
4 Corporate Unsecured – Non-Financial	4.2%
5 Cash	1.9%

Modified duration of fund 4.1 years

Portfolio valuation

as at 28 February 2007

	Holding 000s	*Market value £'000s*
British Government Stock		
Treasury 5% 2008	1,500	1,494
Treasury 4% 2009	3,750	3,656
Treasury 5¾% 2009	1,000	1,012
Treasury 4¾% 2010	3,400	3,352
Treasury 4¼% 2011	2,200	2,129
Treasury 5% 2012	3,750	3,738
Treasury 5% 2014	2,500	2,511
Treasury 4¾% 2015	4,000	3,969
Treasury 4% 2016	1,750	1,644
		23,505
Supranational		
KFW 5⅝% 2009	250	251
Kreditanst Wiedrauf. 4¾% 2010	1,000	977
European Inv Bank 4½% 2013	1,000	960
European Inv Bank 4⅜% 2015	500	473
		2,661
Corporate Unsecured – Financial		
HBOS Treasury Services 4½% 2008	250	245
ASIF III 5⅝% 2009	500	499
Rabobank Nederland 4¾% 2009	250	245
Bank of America 6⅞% 2010	500	517
		1,506
Corporate Unsecured – Non-Financial		
GlaxoSmithKline 4⅞% 2008	500	494
BG Plc 5⅜% 2009	250	247
ENI Coordination 4⅞% 2010	250	244
GE Capital 5⅝% 2014	250	251
		1,236
Total investments		**28,908**
Net current assets		**553**
Total value of fund		**29,461**

Inflation Linked Fund

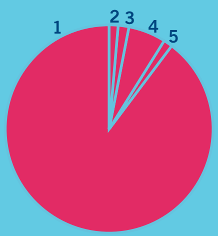
Investment objective

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

(reviewed annually)

Government Securities	80-99%
Debentures & Unsecured Loans	0-19%
Cash	1-6%
Modified duration	8.7-14.4 years
Dealing surcharge	0.25% of unit value



Summary of investments and other assets

as at 28 February 2007

1 British Government	89.5%
2 Supranational	1.6%
3 Corporate Unsecured – Financial	1.6%
4 Corporate Unsecured – Non-Financial	5.7%
5 Cash	1.6%

Modified duration of fund 11.5 years

Portfolio valuation

as at 28 February 2007

	Holding 000s	*Market value £'000s*
British Government Stock		
Treasury 2½% 2009	800	2,032
Treasury 2½% 2011	2,300	6,213
Treasury 2½% 2013	3,600	8,265
Treasury 2½% 2016	4,400	11,383
Treasury 2½% 2020	4,100	10,950
Treasury 2½% 2024	4,450	10,686
Treasury 2% 2035	9,800	13,816
Treasury 1¼% 2055	200	254
		63,599
Supranational		
European Inv Bank 2.6% 2013	500	577
Network Rail 1.9618% 2015	500	570
		1,147
Corporate Unsecured – Financial		
Rabobank Nederland 2.324% 2013	500	543
Nationwide BS 4¼% 2024	250	606
		1,149
Corporate Unsecured – Non-financial		
Anglian Water Services 5½ 2028	850	1,479
BG Transco 4.1875% 2022	500	742
Severn Trent Water 3.86% 2028	500	760
Artesian Finance 3.625% 2032	650	1,037
		4,018
Total investments		**69,913**
Net current assets		**1,132**
Total value of fund		**71,045**

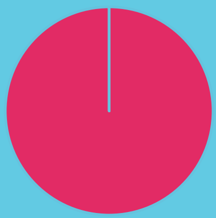
Property Fund

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

Dealing purchases
On first working day of month.

Sales
Quarterly:
1 January
1 April
1 July
1 October

For an information pack, please contact Bill Lane, Client Relationship Manager, on 020 7496 3630 or email bill.lane@cfbmethodistchurch.org.uk



Summary of investments and other assets
as at 28 February 2007

Property Income Fund for Charities	100.0%

Portfolio valuation
as at 28 February 2007

	Market value £'000s
Property Income Fund for Charities	5,199
	5,199
Net current assets	**2**
Total value of fund	**5,201**

Designed and produced by ★★★★★langsford
Illustrations by Louise Fairchild
Printed by Moore

Printed on Chromomat Club which is manufactured using Elementary Chlorine Free (ECF) pulps sourced from renewable and managed forests by companies holding the ISO 14001 environmental certificate.

Central Finance Board
of the Methodist Church

Central Finance Board of the Methodist Church
9 Bonhill Street
London EC2A 4PE

Telephone 020 7496 3600
Fax 020 7496 3631
E-mail: admin@cfbmethodistchurch.org.uk

Trustees for Methodist Church Purposes
Central Buildings Oldham Street Manchester M1 1JQ
Telephone 0161 235 6770 Fax 0161 236 0752