Can you invest ethically?
We believe you can

Central Finance Board
of the Methodist Church

Annual Report 2008

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.

Can you honour human rights?
We believe you can

The Bible calls for us to seek justice for the vulnerable and oppressed. The CFB responds to this by seeking to align its investments with the values of the Methodist Church. We avoid some companies and encourage those in which we do invest to make social and economic justice a growing influence in the way they operate.

Our approach to human rights means that we stand alongside those who are suffering from injustice and represent their concerns to companies when appropriate. This can mean ‘on the ground’ fact-finding meetings such as happened last year when we were part of a Methodist Church delegation to Jerusalem, Tel Aviv and the West Bank. The primary investment issue was sourcing of products from the Occupied Palestinian Territories. However, much was learned about human rights abuses in the region that will influence our overall engagement process. Sometimes a public statement is the best approach, as occurred in relation to Sudan when we worked with the Church Investors Group on its recent statement.

By taking a high profile on ethical issues the CFB can be a target for activist campaigners. This can both inform and challenge us. Caste discrimination and the labour standards of UK companies operating in India were brought to our attention once again and further work will be carried out in the coming year.

We also focus on specific subjects. Concern for children has always been part of our work, but we have begun to raise its profile with an in-depth review of child related issues that have relevance to the companies in which we invest.

Can you protect the environment?
We believe you can

Biblical teaching and modern theological thinking proclaims humanity's obligation to care for the whole earth and its creatures. The CFB integrates environmental guidelines into the ethical standards used in the management of the Church's investments as an important response to this requirement.

The Methodist Church considers that the mining and energy industries are ethically acceptable, whilst noting the significant environmental impact associated with their activities. Before the CFB decides if a company in these sectors is suitable for investment, we examine its performance in six key areas, including that of sustainable development. Four of the nine mining companies in the FTSE 100 Index have been approved under this approach.

When we become a shareholder we are committed to constructive engagement and take seriously our responsibility to encourage best practice and address specific issues as they arise. We also work with others through active membership of both the Church Investors Group and the Institutional Investors Group on Climate Change, as well as being a signatory of the Carbon Disclosure Project.

Can you reflect a desire for peacemaking through your investments?

We believe you can

All Christians should pursue peacemaking to prevent violent conflict and the suffering it causes. The Methodist Church recognises that the manufacture of weapons, together with the arms trade, can destroy peace and promote war. However, there are occasions when the Church calls for armed intervention by appropriately equipped forces. Although this implies that military related products and services may be necessary, the Methodist Church would be uncomfortable in benefiting financially from the commercial success of such businesses. Consequently, companies with a high exposure in these areas are avoided, with a zero tolerance for certain products such as cluster bombs and nuclear weapons. The CFB looks at whether products are designed specifically for military use and if they are primarily for offensive or defensive purposes.

We recognise that this is an extremely sensitive matter and take great care when considering investment in any company with any type of military related business. We benefit hugely from the advice of the Joint Advisory Committee on the Ethics of Investment as we arrive at decisions on individual companies. You can find our new policy statement, *Investing in Companies with Military Exposure,* together with a background position paper, on the CFB website.

Chairman's statement

Roger Smith
Chairman

Return of risk aversion

Despite signs of growing instability in the financial system, equity markets were on course for a fifth successive year of rising prices as late as November. Investors had at first ignored the possibility that problems associated with highly questionable financial practices in the US housing market would spread and equity prices even recovered rapidly from the collapse of Northern Rock. However, a more serious decline then began and by mid January the FTSE All Share Index was down 18% from its peak. In March this was extended to over 20%. Investors become extremely risk averse, seeking the security of government bonds. Liquidity dried up as commercial banks feared to lend to each other, forcing central banks to intervene. Although some stability has returned, confidence remains fragile.

Good year for gilts

Against this background unit holders saw the profits made from equities in the first part of the year disappear, whilst bond losses turned into healthy positive returns. The highest CFB returns were achieved by the Inflation Linked Fund (+9.4%). As investors became increasingly nervous it was not surprising that the less volatile Short Fixed Interest Fund (+7.4%) produced the best returns of our conventional bond funds. Trailing well behind was the Corporate Bond Fund (+1.7%) although our insistence on keeping an extremely high credit quality paid off, with a return 2.7% above that of its benchmark.

Cost of ethics

For eight years, we have been faced with a severe headwind due to our values-driven investment policy. This trend reached a new extreme over the past twelve months. Those stocks that we exclude on ethical grounds rose on average 9% whilst the remaining 88% of the market declined 8%. The result was a total return for the FTSE All Share Index (-2.7%) 1.8 % better than when adjusted for the ethical exclusions. It is therefore extremely pleasing that the CFB UK Equity Fund matched the return of the benchmark before taking account of the ethical impact, beating its investable universe by almost 2%. Over the years the CFB has been adept at avoiding the worst of market declines and this has proved to be the case once again.

Improved overseas returns

The return on the Overseas Fund (+2.2%) was boosted by the weakness of sterling. Outsourcing its fund management is now almost complete with the European portfolio now invested through our own, FSA regulated, Epworth Investment European Fund. This in turn has recently chosen an external manager, whilst retaining control of the ethical policy. There was a much improved relative performance in all regions except Japan and the Fund matched the return of the FTSE All World ex UK Index. Unfortunately, unable to overcome the 1% impact of taxes and expenses, it lagged behind the Composite Index (+3.2%).

Deposit Fund

The Deposit Fund with its combination of competitive interest payments and high quality loan book grew by nearly 6% in the past year. It is an ideal investment vehicle for those who cannot run the risks of fluctuating equity and bond prices. It has now been managed through the Affirmative Deposit Fund for over a year. This fund, established by the Charity Commission, allows us to offer the expertise of our team to other churches and charities to the benefit of all concerned. I am particularly grateful to all the local Methodist treasurers who have helped in promoting the new fund by passing on the good news of the CFB's work and introducing their many non-Methodist charitable contacts. By joining with these new investors, the CFB will be able to continue improving its services and become even more competitive in its offering.

New statement on military exposure

The most significant development in our ethical work was the adoption of a CFB policy statement on investment in companies with military exposure. Although we have always avoided investment in armaments companies, this was the first structural review we had undertaken for twenty years. The new policy builds on latest Methodist thinking on the subject, enables us to assess companies on a consistent basis regarding their military related businesses and provides a statement that can more easily communicate our position.

Council and staff matters

Last year Javaid Khan, executive director of NCH retired and stood down from the Council. He provided much helpful advice from the perspective of a user of our services and will be missed. In his place we welcomed Sue Haworth. She has considerable experience from a career in commercial fund management and we look forward to working with her. There have also been changes to our loyal and hardworking staff. Nancye Nosworthy, who carried out secretarial, receptionist and other administrative duties retired, whilst we welcomed back Janice Thomson after more than a year following her battle with serious ill health.

You may have watched the gyrations of the stock market over recent months with bewilderment and perhaps some concern. It is at times like this that I am particularly grateful for our experienced and level-headed team led by Bill Seddon, who ably assisted by the advice of our knowledgeable Council, steered their way through the current financial turmoil with assurance. In a constantly changing world both Council and staff will continue working on your behalf to develop the service that Methodism requires.

Roger Smith
Chairman
April 2008

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.

CFB Council

Roger Smith
Chairman
Chairman of family investment company, 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. He works with major corporate clients across a range of industries. 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 Large Business and 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
A director of the ING UK Real Estate Income Trust and of the 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. Formerly managing director of BAE Systems Pension Funds Investment Management.

Sue Haworth
A qualified accountant with experience in tax and compliance and until recently was compliance officer and company secretary for Montagu Private Equity.

Brian Mansfield
Chartered accountant, director of the Pension and Assurance Scheme for Lay Employees of the Methodist Church. Former Managing Director of merchant bank Singer & Friedlander.

Revd Graham Thompson
Chair of East Anglia District. Trained in accountancy, member of the Connexional Allowances Committee and former Director of the Methodist Ministers' Pension Fund.

Sir Michael Partridge
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.

Tim Melling
A qualified accountant with wide experience in the commercial world and was until recently the Finance Director of Georgia-Pacific GB Ltd. Youth group leader and steward at Hillside Methodist Church in the Chorley Circuit.

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. Former member of Railway Pensions Commission.

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.

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
Fund Manager


Tendai Hove
Assistant Fund Manager


Chris Gooding
Trainee Fund Manager


David Katimbo-Mugwanya
Trainee Fund Manager

Bill Lane
Client Relationship Manager

Chris Field
Operations Manager

Janice Thomson
Senior Deposit Fund Administrator

James Forward
Communications Officer and Senior Fund Administrator

Victoria Daniels
Fund Administrator

Paul Berry
Fund Administrator

Safiya Nelson
Fund Administrator

Ulla Rieck
Secretary

Natalie Zahl
Secretary

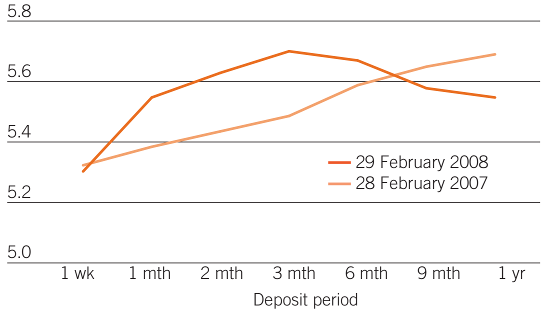
Investment review

Bill Seddon
Chief Executive

Market movements and performance

Money market

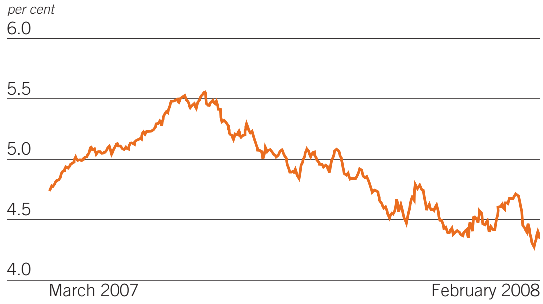
Money market yield curve



- The base rate began and ended the year at 5.25%, with 25 basis points (bp) increases in May and July followed by 25bp decreases in December and February.
- During the year the premium of 3 month deposit rates over the base rate was unusually volatile, opening at +23bp and closing at +42bp with a peak of +115bp in September and a low of -12bp in January.
- Over the year 3 month rates opened at 5.48%, traded between 5.46% and 6.85%, closing at 5.67%.
- 12 month rates opened the year at 5.67% fell to 5.61% before rising to 6.55% and ending at 5.50%.
- The Deposit Fund's average life moved between 79 and 93 days closing at 88 days up 3 days on the year.
- An average rate of interest (aer) of 5.9% was paid out in the second half for a return of 5.7% over the year, compared to 2.6% for higher rate bank deposits.

Fixed income

UK 10 year gilt yield

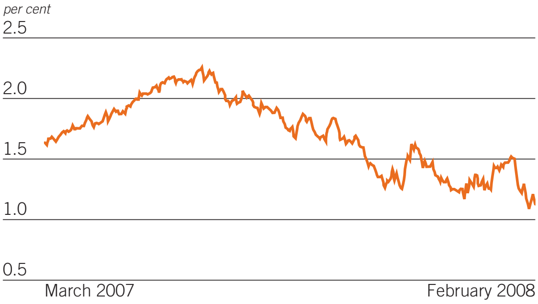


- Global bond markets had a good year. The 10 year US Treasury yield fell 104bp to 3.51% having risen to 5.30% before dropping to a low of 3.44%.
- Gilt prices followed a similar pattern although the rise was less dramatic with the 10 year gilt yield falling 57bp to 4.47% at the end of February having moved between 5.55% and 4.37%.
- However, whilst 2 year yields fell 125bp to 4.07%, 30 year gilt yields rose 14bp to 4.39% as the yield curve changed from a negative to positive slope.

- The average spread of corporate bond yields over government bonds widened sharply, opening at 59bp and closing close to the high at 170bp.
- There was also a huge difference in the performance of AAA and BBB rated bonds with the yield differential widening by 150bp to 217bp.

10 year inflation linked gilt yield

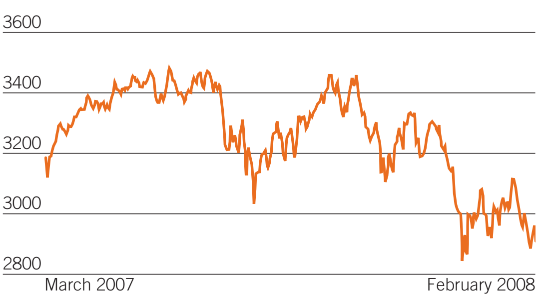
per cent



- Indexed linked gilt prices also rose strongly as the 10 year yield fell 47bp to close at 1.28% having moved between 2.26% and 1.20% over the year.
- Index linked securities were the best performing UK bond class with an index return of +9.8% compared to +5.7% for the FTSE All Stocks Gilts Index and -1.0% for the iBoxx Non Gilts Index. Short dates outperformed longer bonds with a +2.4% return for the Over 15 year Index and +7.7% for the Short Fixed Interest Composite Index.
- The best CFB returns relative to benchmark came from the Corporate Bond Fund (+1.7% versus -1.0%). The Managed Fixed Interest Fund (+6.1%) was 0.1% ahead of its benchmark, but the Short Fixed (+7.4% versus +7.7%), Gilt (+5.6% versus +5.7%) and Inflation Linked (+9.4% versus +9.8%) funds all lagged behind their index.

UK equities

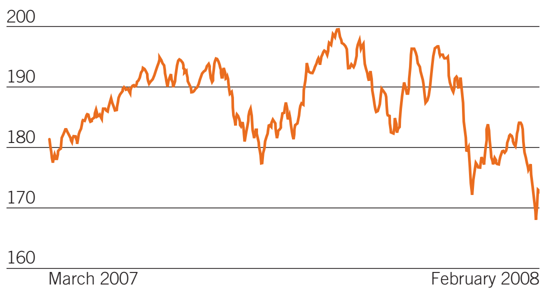
FTSE All Share Index



- The year began well with the FTSE All Share Index, rising 9% by mid-June, but it was only able to hold the level for a month before a rapid decline took the index down by 13% in four weeks.
- Most of the losses were recovered by October. A more serious fall then took the Index 18% from its peak and despite a strong finish it ended 6% lower than it began.
- The FTSE All Share Index return was -2.7% for the year. Larger companies held up better with the FTSE 100 index (-1.3%) outperforming the FTSE Mid 250 index (-7.1%).
- The main relative positive contributions came from Mining, Oil and Mobile Telecoms whilst the main negative contributions were from Pharmaceuticals, Banks and General Retailers.
- The impact of the ethical policy was a massive -180bp over the year, with the ethically excluded stocks appreciating by over 9% whilst the rest of the All Share Index fell almost 8%. Despite this headwind the UK Equity Fund (-2.7%) matched the total return of the Index.
- The Managed Equity Fund (-1.9%) matched its benchmark, the Managed Mixed Fund (-0.2%) lagged its benchmark marginally, whilst half of last year's gains were lost by the Property Fund (-10.7%).

Overseas equities

FTSE All World ex-UK



- Over the past year market volatility resulted in four moves in the FTSE World ex UK Index of 10% or more. At the peak it was up over 11% and at its low it was down almost 4%, but a late final rally saw the Index end the year at virtually the same level it had been at the beginning of March 2007.
- Although Sterling was relatively stable against the $ (+1.4%) it fell sharply against the € (-11.7%), and ¥ (-11.1%). This weakness resulted in the FTSE World ex UK Index outperforming the FTSE All Share Index by 4.9% over the year.
- In the year under review the Pacific (+25.6%) was the star regional performer. Europe (+5.5%) trailed far behind whilst both North America (-2.9%) and Japan (-13.6%) were in negative territory.
- The total return of the Overseas Fund (+2.2%), matched the FTSE World ex UK Index but, unable to overcome tax, external expenses and CFB costs (-1.0%) plus the impact of ethics, lagged behind the Composite Index (+3.2%).

Economic overview

Global

Although the state of the US economy has appeared to deteriorate in recent months, optimists have pointed to relatively robust labour market data as failing to confirm the diagnosis of recession. Unfortunately, the February payroll data were much weaker than expected, with 63,000 overall job losses compared to anticipated creation of 30,000 new jobs. Combined with other indicators such as a sharp drop in the Conference Board's index of consumer confidence and the continued housing market slump, it seems likely that the US economy is now in a recession. However, as the service sector appears to be holding up relatively well and exports are booming, any contraction in the economy may not be too severe.

The Federal Reserve recently announced that the US authorities "will do whatever it takes to avert a serious recession like Japan in the 1990s". This is a statement that ought to be taken seriously. The current financial crisis is reminiscent of the one which occurred in the late 1980s when over 1,000 US savings and loan institutions (S&Ls) collapsed. The result was a slump in the housing market and the economy fell into recession in the third quarter of 1990. However, prompt action by the authorities led to a robust recovery beginning late in 1991. Thus while the current economic outlook in the US does look gloomy it would be unwise to rule out the possibility of a recovery taking place later in the year.

Outside the US the OECD has reported that growth appears to be slowing everywhere apart from the commodity driven economies of Russia and Brazil. Japanese fourth quarter growth was actually stronger than expected at an annualised rate of 3.5%, but stagnant consumption and falling capital expenditure indicate that it may have also entered recession. At present the Eurozone appears to be holding up relatively well, but this is highly dependent upon a buoyant German economy, which is still experiencing rising exports and falling unemployment. On the other hand the Spanish and Irish economies are suffering from the collapse of speculative housing bubbles, while Italy is also close to recession.

It now seems clear that Pacific and emerging markets have not 'decoupled' from the US and that export growth is slowing resulting in slower economic expansion than for several years. For example, last year the Chinese economy grew by 11.4%, but most commentators expect a slowdown to around 10% this year as the slack from weaker exports is only partly offset by soaring retail sales. In fact the main problem for the majority of Pacific and emerging countries at the moment is not growth but inflation. Most are big importers of both food and energy and they have been badly affected by surging commodity prices.

UK

Following the longest period without a change of Chancellor since the days of Gladstone, Mr Darling's first Budget might have been expected to generate some excitement. However, with significant changes for the coming year having been announced twelve months ago by Mr Brown and the Government's enthusiasm for leaking anything of interest prior to Parliamentary statements, it was unsurprising that the latest Budget was a virtual non-event. Perhaps the main significance of this political set-piece was to hear the latest Treasury forecasts. The Chancellor announced a 0.25% reduction in expected growth rates in both 2008 and 2009 to 2% and 2½% respectively. However, the Treasury figures remain significantly above the market consensus for both years. Despite this optimism, the convention of using a GDP estimate 0.25% below the central assumption to calculate the fiscal balance means that the increase in the estimated borrowing requirement from £36 billion in the Pre-Budget Report to £43 billion looks plausible. The net effect of the tax changes is to increase the forecast borrowing requirement in the coming year but reducing it over the following two years ensuring that the 'Golden Rule' is met, albeit by the narrowest of margins. However, with an economic slowdown underway a postponement of the necessary fiscal belt-tightening can hardly be described as a shock. Perhaps the biggest surprise in the Budget was the announcement that the refinancing of Northern Rock would result in gilt issuance rising from £60 billion this year to £80 billion in 2008/9.

The Chancellor made great play of his belief that the UK economy is better placed than most to withstand the global slowdown. However, there are grounds for suspecting that his optimism may prove to be misplaced. Data is now being released that provides clear evidence that the slowdown has begun. Real income began to fall in the fourth quarter which held back household spending to just 0.2%, well below the overall GDP growth of 0.6%, while business investment fell by 0.5%. There was better news on the trade front but this was due to weak imports rather than export strength. Of most concern was that inventory accumulation was responsible for the bulk of growth for the second successive quarter. It is entirely possible that the impact of stock building will be revised lower, but assuming that the trend is broadly correct it would indicate that the risk to growth is firmly on the downside. In the face of weak consumer demand led by the housing downturn there is a high probability that business will cut production to reduce the inventory overhang. It is also likely that the general lack of confidence will result in the impact of rapid monetary growth being offset by falling velocity of circulation as banks refrain from lending and the personal savings rate rises.

The scope for further action in cutting interest rates should also be curtailed by disappointing inflation data and expectations that in the coming months retailers will be raising prices at the fastest rate for ten years. However, it is possible that in the face of a more rapid economic slowdown than officially expected, greater risks with inflation will be taken by the Bank of England than the current rhetoric would imply. After all, allowing prices to rise is a classic way to reduce excess debt to manageable levels. The most likely outcome for the economy is a relatively short period of weakness before a recovery begins whilst disappointing inflation trends risk becoming established once again.

Market outlook

Money markets

In recent weeks there has been renewed turmoil in global money markets with the premium of interbank rates over official lending rates rising steadily. In response to what it called 'a rapid deterioration' in the market the US Federal Reserve announced five major initiatives in little more than a week. One increased its package of one month emergency funding for banks from $60bn to $200bn. The second provided a separate $200bn measure allowing primary bond dealers to use AAA backed mortgage backed securities as collateral. Third, it gave JP Morgan a $30bn funding package in order to persuade it to take over the troubled investment bank Bear Stearns. Fourth, it reduced the discount rate by 25bp to 3.25%. Finally it cut the Federal funds rate by 0.75% to 2.25% at its scheduled March meeting. On the other hand, at the recent European Central Bank meeting rates were kept at 4% as concern was expressed over Eurozone inflation, which at 3.3% is well above the 2% target. However, with the strength of the euro providing some monetary restraint, the risk of an increase in rates has diminished although hopes for a reduction seem distant.

The Bank of England may have been less active in providing liquidity than other central banks, but it has participated in co-ordinated action to ensure stability of the financial system. Despite concerns over inflation it is also probable that the Monetary Policy Committee will cut base rate at its April meeting as part of a trend that, if the futures market is to be believed, will take the rate down by 100bp over the next twelve months. However, lack of liquidity has seen the premium of three month money market rates over base rate rise towards 70bp. This seems to be an opportunity to lock in higher yields for longer, although the yield curve falls rapidly beyond six months.

Fixed interest

Global bond markets have been highly volatile in recent months with the yield on the ten year US Treasury currently at 3.4%, a five year low, as concerns over the global credit and solvency crisis have grown. However, with headline and core US inflation at 4.0% and 2.3% respectively, government bonds appear to offer little value. The steepening of the US yield curve would seem to indicate that investors increasingly see inflation as a long term problem, with the ten year yield now standing 200bp above that of two year notes and thirty year yields a further 90bp higher.

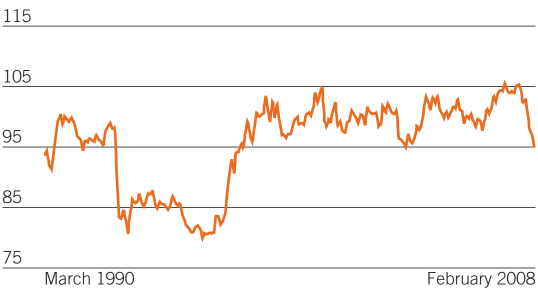
Although gilt prices have followed the global pattern, ten year yields are still 40bp above the five year low point at 4.3%. However, value also seems absent, with the Consumer Price Index at 2.5%, the Retail Price Index at 4.1% and an increasing headwind from the additional supply of government securities to finance the Northern Rock takeover. Prices may still make further progress whilst fears of recession and financial crisis remain uppermost in the minds of investors, but when these forces subside any gains are unlikely to be sustainable. Although the yield curve has steepened since the year end, the trend probably has further to go. There seems little incentive to move from ten to thirty year maturities for a yield pick up of only 10bp. Similarly, inflation linked look expensive with yields falling a further 20bp since the end of February whilst the yield on the fifty year gilt is nearly 50bp below that of the ten year issue.

Corporate bond yield premium over gilts

The one area where some value, at least relative to government securities, may be emerging is in corporate bonds. In the face of rising mortgage delinquencies, sub-prime write offs, hedge funds failing in the face of increased margin calls and continued difficulties by the monoline insurers, the yield premium of corporate bonds over gilts has now risen to over 200bp, 70bp more than at the previous peak in 2000. This seems to discount the bulk of the problem and an overweight corporate bond position offset by being underweight in gilts seems justified. However, the temptation to invest in lower quality corporate bonds should be resisted. Although the differential between AAA and BBB paper has widened to over 240bp, the move may have much further to go.

Currencies

Sterling's trade weighted value



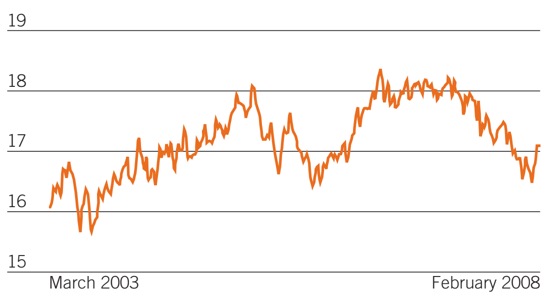
The ECB's determination to fight inflation has been rewarded with the value of the euro finally breaking through the $1.5 barrier, whilst the yen has also been strong breaking through the psychological level of 100 to the dollar. Sterling, whilst falling against these two strong currencies, has risen against the dollar, rallying back above $2.0. In the short term the euro and yen both look overbought and vulnerable to a correction. However, sterling's rally against the dollar may prove short-lived if predictions of an abrupt slowdown in the UK economy prove to be accurate.

Overseas Equities

Global equity markets continue to trade in a highly volatile manner. Renewed fears about the health of the financial sector have led to a sharp setback after February's rally. Fears that some financial companies will collapse in the face of massive losses seem well justified as the Fed was forced to engineer a rescue of Bear Stearns, the fifth largest investment bank in the US. The future of the monoline insurers remains unclear, and there are even concerns that the giant government sponsored mortgage agencies Fannie Mae and Freddie Mac could be in trouble. The total sum of US sub-prime write-offs could be as high as $600bn, of which only $160bn has so far been announced. The impact of the credit crunch is also spreading to hedge funds, with previously well-regarded firms such as Pelleton and Carlyle Capital suddenly failing due to their inability to refinance huge leveraged positions. On the other hand, whilst corporate profit estimates may not yet reflect the economic slowdown, equity valuations are not excessive and investor pessimism is at the levels usually associated with market low points. Buying into the current equity price weakness could prove attractive longer term although volatility may well continue at a high level.

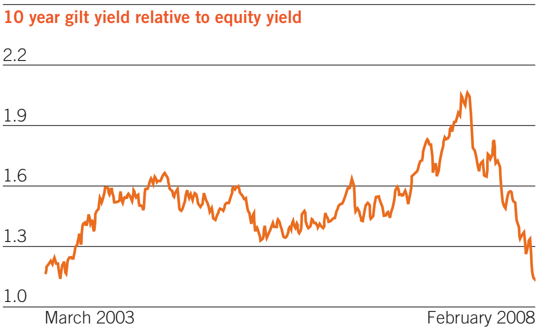
European equities are once again close to their relative peak compared to other equity markets following the recent strength of the euro. However, the region is not immune to the economic slowdown and whilst it appears strong at present this has much to do with the late cycle nature of the German economy. Therefore, although profits of European companies may hold up for longer there is a risk that the ultimate setback will be at least as bad as elsewhere and that the extended period of relative strength may be coming to an end. Exposure to Europe is consequently being reduced from its long held overweight position and the Overseas Fund is likely to move to a modest underweight position. At the other end of the spectrum US equities have been in a multi-year downtrend relative to other markets and it seems timely to go modestly overweight. Although dollar weakness may well continue, when investors refocus on recovery and the financial systems stabilises, the US market is likely to be among the first to benefit. The UK has experienced a strong rally relative to the rest of the world since bottoming in January and is probably approaching a level where further switches overseas are appropriate.

UK equity market relative to world ex-UK



UK

One of the paradoxes of the current market has been the renewed strength of UK smaller companies since the beginning of 2008. This would seem at odds with the view that economic growth was slowing down and that domestically focused companies would suffer disproportionately. However, this may have more to do with technical considerations than fundamentals. The need for highly indebted investors to reduce exposure to equities may have forced them to sell holdings of the more liquid larger companies as the marketability of smaller stocks dried up. It would seem unlikely that this latest period of relative strength will be sustainable.



Historically market low points often coincide with the collapse of a major financial institution such as Continental Illinois in 1984, Drexel Burnham Lambert in 1990 and Long-Term Capital Management in 1998. Bear Stearns could fulfil this role in 2008, although it is far from clear that other even larger institutions can be sure of escaping a similar fate. Equity markets also tend to be close to finding a base around the time that corporate profits peak. It is likely that this point is near at hand and whilst the downturn is yet to be forecast let alone seen, the worst for the market may not be too far away. As yet analysts do not seem to have reduced profit forecasts to realistic levels, but falling prices should already have discounted much of the bad news unless an unexpectedly deep recession becomes established. Although it may be difficult to be sure that UK equity prices are reasonable value in relation to earnings, the yield on the FTSE All Share Index has now risen to over 3.8% compared to 2.8% at the market peak as dividends, an excellent barometer of corporate confidence have continued to rise with the rate of increase still over 8% in the year to the end of February.

It has become generally accepted that central bank policy plays a key role if external shocks such as a jump in commodity prices are not to result in more general inflation. However, there are growing fears that the Federal Reserve's current policy of aggressive monetary stimulus could result in period where price inflation once again becomes a problem. The surge in the gold price, which has reached $1000 oz for the first time and doubled in two years when priced in the euro, demonstrates these concerns. If these worries are justified it is likely to be positive for real assets such as commodities but extremely negative for bonds. The ratio of gilt to UK equity yields fell below 1.0x at the market low of 2003. This ratio is currently below 1.15x, a level that has rarely been sustained for long. Raising equity exposure relative to bonds is likely to prove profitable over the long term.

Investment ethics

Russell Sparkes
Chief Investment Officer

Stephen Beer
Senior Fund Manager

Investment ethics in a complex world

Each year our ethical workload seems to increase and become more complicated, but we remain committed to following a discipline in which the ethical dimension is an integral part of all investment decisions.

Continuing to engage

During the year we met with BP, focussing on their safety record, environmental damage in Alaska and their renewable energy strategy. When we met Royal Dutch Shell the main issues discussed were their controversial developments in Ireland, Nigeria, Alaska and Russia. We also assessed media allegations that Anglo American had forced people from their land to make way for a mine and that water supplies had become contaminated. As ever, on closer analysis the issues were more complicated than appeared at first sight. Discussions with company management are underway and more information has been promised. Nestlé is never far from controversy and a negative report from an NGO was followed up whilst concerns relating to giving away ‘prescription pads’ were raised with the company. The company also sought input from the Methodist Church in one of its stakeholder consultations.

Working with the Connexion

We continue to work closely with the Joint Public Issues Team, which took part in our meetings with Royal Dutch Shell and Anglo American and kept us up to date on Nestlé. In addition the CFB was represented on the Methodist Church delegation to Israel/Palestine a report of which is available on the Methodist Church website. We are also thankful that more complex subjects can be referred to the Joint Advisory Committee on the Ethics of Investment (JACEI). This year it reviewed the CFB voting policy as it had resulted in an extremely high level of negative votes on executive remuneration. Despite considerable discussion, no consensus for change emerged and the policy remains unchanged. The Committee also carefully scrutinised the draft policy on companies with military exposure and recommended it for acceptance by the CFB. JACEI’s Annual Report to Conference provides a comprehensive review of the year’s work and is available on our website.

Working with other churches

The Church Investors Group (CIG) is becoming an increasingly important part of our approach. Through it UK churches are able to work ecumenically on ethical issues related to investment. Vodafone and GlaxoSmithKline both made presentations on their approaches to corporate social responsibility and responded to CIG questions. Dialogue continued with Reed Elsevier on the company's continued involvement with defence exhibitions. It also issued a public statement on investment in the Sudan and a major report on usury was commissioned.

In 2007 our core US equity portfolio was outsourced to the General Board of Pensions and Health Benefits of the United Methodist Church. This has not only helped us to improve our US equity investment performance, but has also enabled us to participate in their ethical work with US companies adding our modest weight to the pressure they bring in engagement and voting.

Developing policy

We believe it is important to address ethical issues within a consistent and logical framework. This involves producing in-depth position papers which lead to the adoption of policy statements. Our most recent effort relates to companies with military exposure. The new policy statement and accompanying position paper are available on the CFB website. We have now begun an in-depth review of ethical issues specifically linked to children. Children's issues have always been part of our ethical work, but it was felt to be timely to approach the subject in a more systematic way,

Utilising policy

Smiths Group is a technology company where just over 10% of sales still come from the military end market, although mostly defensive communications products. Daimler manufactures cars and lorries but through a 24.9% stake in the aerospace company, EADS, has links to the French nuclear weapons system. JACEI advised the CFB that applying the new policy indicated that Smiths Group was acceptable on ethical grounds, but Daimler was not, as even its minute exposure to nuclear weapons was an area of very great concern. We continue to apply our policy on investing in the extractive industries. Lonmin became the fourth mining company to be considered acceptable under this 'best in class' approach.

Policy on companies with military exposure

The Methodist Church should aim to avoid benefiting financially from the provision of military and related products and services where this might increase the probability of conflict and human rights abuses.

The extent of a company's exposure to military-related products and services will be assessed in terms of the proportion of revenue and, where possible, earnings. Companies with a high exposure will be avoided.

Consideration will be given to the type of product or service offered.

Exposure to products and services specifically designed for military use will raise the level of concern and close attention will be paid to the degree of exposure. Exposure to products and services primarily designed for other uses will also raise concerns but a higher exposure will be acceptable in such cases.

In considering the type of exposure, distinctions will be made between:

- Defensive systems and components (mainly electronics and mechanical components)
- fighting platforms (eg ships) and systems (guidance and target identification)
- weapons (including bullets, shells, and missiles).

Where the destination of military sales can be specifically identified, it may allay concerns if sales are to countries deemed acceptable. In other cases it will be assumed that sales may be to countries with poor human rights records.

The Methodist Church should aim to avoid benefiting financially from the promotion of the arms trade.

The environmental impact of products or services for military customers will be considered.

In some cases positive benefits from other activities of a company may offset concerns over military exposure.

How our funds performed

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
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
29 Feb 2008	1491.8	49.82	1491.8	49.82	258.1	3.48	258.1	3.48

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
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	1.56
28 Feb 2007	1829.2	47.50	163.0	7.59	332.5	10.53	118.8	6.77
29 Feb 2008	1745.0	52.52	165.1	7.53	320.7	11.54	99.4	n/a

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
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
29 Feb 2008	126.8	5.62	110.2	5.82	102.1	4.66	236.1	4.80

Corporate Bond Fund units consolidated 1 July 2005

Long term returns: internal assessment
for the periods to 29 February 2008

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)

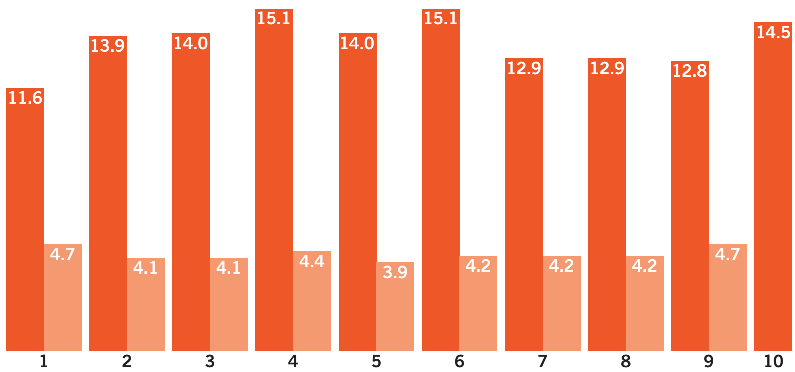
7 CFB Overseas Fund (Charity)

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

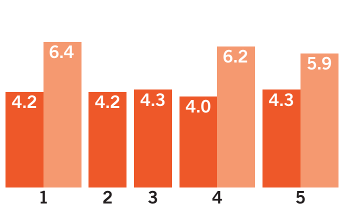
2 CFB Short Fixed Interest Fund

3 FTSE Short Gilt Index Composite

4 CFB Gilt Fund*

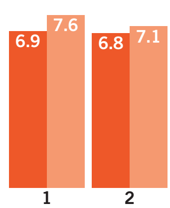
5 FTSE All Stock Gilt Index

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



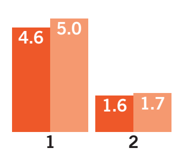
Inflation Linked
1 CFB Inflation Linked Fund

2 FTSE All Stock Index Linked Index



Cash
1 CFB Deposit Fund

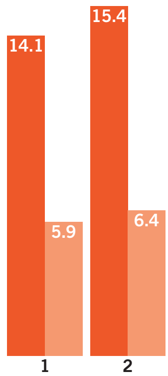
2 Higher Rate Bank Deposits (over £10,000)



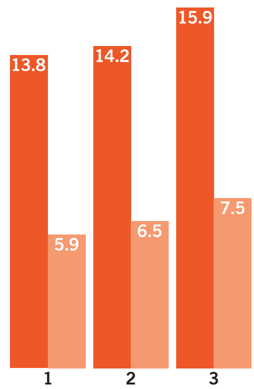
5 years % pa
10 years % pa

Long term returns: external assessment
for the periods to 31 December 2007

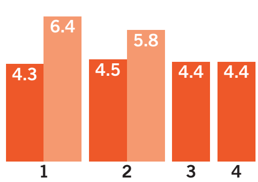
UK Equity
1 CFB
2 FTSE All Share Index



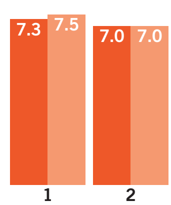
Overseas Equities
1 CFB
2 FTSE All World Index (ex UK)
3 Composite Index



UK Fixed Interest
1 CFB – Gilt
2 FTSE All Stock Gilt Index
3 CFB – Short
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

Our funds in detail

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.

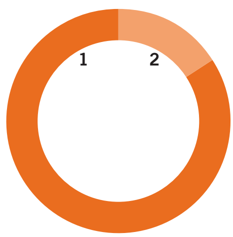
Investment parameters
(reviewed annually)

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 29 February 2008

1 UK Equity Fund 83.9%

2 Overseas Fund 16.1%



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	4.7-7.8 years
Dealing surcharge	0.15% of unit value

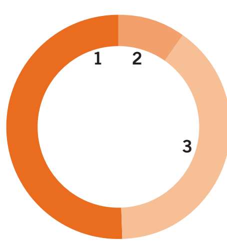
Summary of investments and other assets
as at 29 February 2008

1 Gilt Fund 39.7%

2 Corporate Bond Fund 9.9%

3 Short Fixed Interest Fund 50.4%

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 29 February 2008

1 UK Equity Fund 60.2%

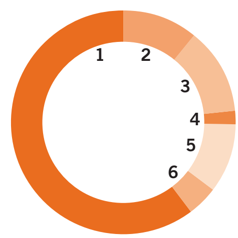
2 Overseas Fund 10.9%

3 Gilt Fund 12.6%

4 Corporate Bond Fund 2.0%

5 Short Fixed Interest Fund 10.0%

6 Property Fund 4.3%



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
Total expense ratio	0.20%

Credit rating breakdown
as at 29 February 2008

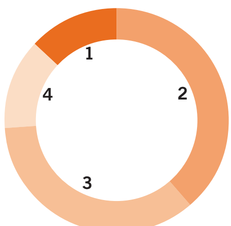
1 Aaa 12.8%

2 Aa1 38.7%

3 Aa2 35.4%

4 Aa3 13.1%

Average life of fund 88 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 29 February 2008

	29/2/08 £'000s	28/2/07 £'000s
Portfolio of investments	**421,923**	**397,667**
Current assets		
Debtors	17	969
Bank balances	–	45
	17	1,014
Current liabilities		
Creditors	28	38
Bank overdraft	164	–
Undistributed income	84	12
	276	50
Net current assets	**(259)**	**964**
Net assets	**421,664**	**398,631**
Represented by:		
Current deposits	315,664	300,131
Term deposits	106,000	98,500
Unitholders' funds	**421,664**	**398,631**

Statement of total return
for the year ended 29 February 2008

	29/2/08 £'000s	28/2/07 £'000s
Gross income	23,896	18,387
Expenses	(469)	(479)
Net income & total return for the year	**23,427**	**17,908**
Finance costs: Distributions	(23,355)	(17,947)
Net increase/(decrease) in undistributed income	**72**	**(39)**

Summary of deposits by maturity
as at 29 February 2008

	29/2/08 £'000s	28/2/07 £'000s
Repayable within:		
On call	315,923	299,167
5 business days	6,000	8,000
1 month	19,000	16,500
2 months	28,000	20,000
3 months	16,000	20,000
6 months	19,000	6,000
1 year	14,000	23,000
2 years	4,000	5,000
Total deposits	**421,923**	**397,667**

Net asset value (NAV)/fund size

Date	*Net asset value £m*
29 February 2004	321.7
28 February 2005	337.0
28 February 2006	374.6
28 February 2007	398.6
29 February 2008	421.7

Income distribution history

Year to February	*Average rate %*	*Average CAR %*
2004	3.48	3.54
2005	4.37	4.46
2006	4.52	4.61
2007	4.61	4.71
2008	5.56	5.71

Notes to the accounts
Year to 29 February 2008

1 Accounting policies

(a) Basis of accounting
The accounts have been prepared under the historic cost convention, 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 term and call deposits are accrued on a day-to-day basis.

(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
The Fund does not invest directly with the Money Market following a decision by the CFB Council to invest entirely 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

8 April 2008

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 29 February 2008 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 29 February 2008 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
Tower Bridge House, St Katharine's Way, London E1W 1DD

8 April 2008

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.

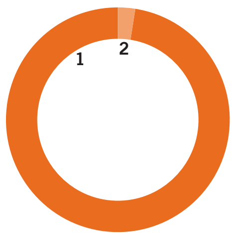
Investment parameters
(reviewed annually)

UK equities	94.5-99.5%
Cash	0-5%
Total expense ratio	0.215%
Dealing surcharge	0.30% of unit value

Valuation of UK Equity Fund
as at 29 February 2008

1 Equities 97.5%

2 Cash 2.5%



Summary of investments and other assets
as at 29 February 2008

	Market value £'000s	*CFB %*	*FTSE All Share %*
Oil & Gas Producers	59,604	17.2	16.4
Oil Equipment & Services	3,018	0.9	0.6
Chemicals	3,178	0.9	0.4
Forestry & Paper	1,036	0.3	0.1
Mining	32,702	9.4	11.3
Construction & Materials	919	0.3	0.4
Aerospace	–	–	2.0
General Industrials	1,519	0.4	0.6
Electronic & Electrical Equipment	1,851	0.5	0.4
Industrial Engineering	2,386	0.7	0.6
Industrial Transportation	1,816	0.5	0.2
Support Services	7,503	2.2	2.9
Automobiles & Parts	–	–	0.1
Beverages	764	0.2	2.8
Food Producers	10,629	3.1	2.5
Household Goods	8,755	2.5	1.8
Personal Goods	–	–	0.2
Tobacco	–	–	2.7
Healthcare Equipment & Services	2,759	0.8	0.5
Pharmaceuticals & Biotechnology	21,007	6	5.8
Food & Drug Retailers	11,494	3.3	2.8
General Retailers	5,665	1.6	1.7
Media	11,591	3.3	3.1
Travel & Leisure	8,342	2.4	2.7
Fixed-Line Telecommunications	5,858	1.7	1.4
Mobile Telecommunications	18,639	5.4	5.3
Electricity	5,929	1.7	1.6
Gas, Water & Multi-Utilities	11,935	3.5	2.6
Banks	49,640	14.3	14.2
Non-Life Insurance	2,199	0.6	0.8
Life Insurance	14,651	4.2	3.5
Real Estate	7,974	2.3	2.0
General Financial	6,126	1.8	2.2
Equity Investment Instruments	23,858	6.9	2.9
Software & Computer Services	3,102	0.9	0.7
Technology Hardware & Equipment	778	0.2	0.2
Total investments	**347,227**	**100.0**	**100.0**
Net current assets	**9,004**		
Total value of fund	**356,231**		

Portfolio valuation
as at 29 February 2008

	Holding 000s	*Market value £'000s*
Oil & Gas Producers		
BG Group	940	11,195
BP	3,928	21,427
Cairn Energy	61	1,655
Chevron	69	3,005
Premier Oil	55	766
Royal Dutch Shell	1,211	21,556
		59,604
Oil Equipment & Services		
Abbot Group	210	814
Expro International	90	1,130
Wood Group (John)	260	1,074
		3,018
Chemicals		
Croda International	170	1,031
Johnson Matthey	92	1,787
Treatt	150	360
		3,178
Forestry & Paper		
Mondi	265	1,036
		1,036
Mining		
Anglo American	337	10,891
BHP Billiton	516	8,411
Lonmin	30	992
Rio Tinto	217	12,408
		32,702
Construction & Materials		
Gleeson (MJ) Group	145	354
Morgan Sindall	52	565
		919
General Industrials		
Cookson Group	66	394
Rexam	255	1,125
		1,519
Electronic & Electrical Equipment		
Halma	350	725
Laird Group	40	199
Spectris	118	928
		1,851
Industrial Engineering		
Charter	50	413
Enodis	350	564
IMI	145	563
Spirax-Sarco	90	846
		2,386
Industrial Transportation		
Forth Ports	40	784
Wincanton	285	1,032
		1,816

Portfolio valuation
as at 29 February 2008

	Holding 000s	*Market value £'000s*
Support Services		
Biffa	160	554
Bunzl	130	905
Capita Group	260	1,706
Experian Group	165	703
RPS Group	145	431
SIG	38	317
Speedy Hire	60	475
Spice	140	644
Travis Perkins	60	650
Wolseley	180	1,118
		7,503
Beverage Producers		
Britvic	230	764
		764
Food Producers		
Associated British Foods	135	1,145
Cadbury Schweppes	620	3,491
Premier Foods	442	407
Unilever (UK)	350	5,586
		10,629
Household Goods		
Barratt Developments	165	676
Bellway	25	200
Berkeley Group	85	887
Persimmon	110	811
Reckitt Benckiser	212	5,785
Taylor Wimpey	230	396
		8,755
Health Care Equipment & Services		
Care UK	175	760
Smith & Nephew	305	1,999
		2,759
Pharmaceuticals & Biotechnology		
Ark Therapeutics	240	178
Astrazeneca	316	5,982
Glaxosmithkline	1,253	13,808
Shire	105	1,040
		21,007
Food & Drug Retailers		
Greggs	12	522
Morrison (Wm) Supermarkets	670	1,992
Sainsbury (J)	350	1,243
Tesco	1,932	7,737
		11,494
General Retailers		
Carphone Warehouse Group	200	614
Home Retail Group	220	570
Inchcape	155	608
Kingfisher	530	695
Marks & Spencer Group	400	1,611
Next	82	1,057
WH Smith	136	510
		5,665

Portfolio valuation
as at 29 February 2008

	Holding 000s	*Market value £'000s*
Media		
Centaur Media	500	439
Daily Mail	135	632
ITV	900	603
Lion Hudson	108	103
Next Fifteen Communication	685	397
Pearson	265	1,765
Reed Elsevier	345	2,198
Reuters Group	375	2,241
United Business Media	94	504
WPP Group	390	2,326
Yell Group	175	383
		11,591
Travel & Leisure		
Arriva	150	1,025
British Airways	180	464
Carnival	42	840
Compass Group	600	1,959
First Group	190	1,100
Go-Ahead Group	30	540
Intercontinental Hotels Group	90	694
National Express	22	249
Tui Travel	170	458
Whitbread	80	1,013
		8,342
Fixed Line Telecommunications		
BT Group	2,155	4,886
Cable & Wireless	550	972
		5,858
Mobile Telecommunications		
Vodafone Group	11,470	18,639
		18,639
Electricity		
International Power	530	2,015
Scottish & Southern Energy	265	3,914
		5,929
Gas, Water & Multi-Utilities		
Centrica	1,160	3,744
National Grid	741	5,439
Severn Trent	91	1,298
United Utilities	210	1,454
		11,935
Banks		
Barclays	1,405	6,705
HBOS	820	4,945
HSBC Holdings	2,455	18,805
Lloyds TSB Group	1,270	5,753
Royal Bank of Scotland	1,970	7,580
Standard Chartered	350	5,852
		49,640
Non-Life Insurance		
Admiral Group	110	1,117
Royal & Sun Alliance	820	1,082
		2,199

Portfolio valuation
as at 29 February 2008

	Holding 000s	*Market value £'000s*
Life Insurance		
Aviva	740	4,525
Friends Provident	600	801
Legal & General	2,175	2,708
Prudential	765	4,665
Resolution	155	1,066
Standard Life	405	886
		14,651
Real Estate		
British Land	125	1,189
Brixton	135	442
Hammerson	118	1,304
Land Securities Group	130	2,053
Liberty International	75	721
Primary Health Properties	215	572
Segro	129	669
Shaftesbury	135	773
Unite Group	75	251
		7,974
General Financial		
Aberdeen Asset Management	580	780
Icap	374	2,356
Invesco	55	708
Man Group	324	1,797
Rathbone Brothers	50	485
		6,126
Equity Investment Instruments		
Close Beacon Investment	900	601
Herald Investment Trust	260	775
Herald Ventures II	1	420
Herald Ventures	1	419
iShares FTSE 100	1,315	7,752
iShares FTSE 250	375	3,728
KB Fund Unit Trust	1	16
Liontrust First Growth	219	463
Liontrust Intellectual Capital Trust	188	590
Merrill Lynch World Mining	610	4,130
North Atlantic Smaller Companies	220	2,354
Oryx International Growth Fund	475	1,178
Shires Smaller Companies	250	403
TR Property Investment Trust	540	1,029
		23,858
Software & Computer Services		
Alterian	485	674
Aveva Group	89	878
Kofax	200	377
Northgate Information Solutions	300	284
Sage Group	450	889
		3,102
Technology Hardware & Equipment		
Spirent Communications	734	429
Vislink	655	349
		778
Total investments		**347,227**
Net current assets		**9,004**
Total value of Fund		**356,231**

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	(6-14)%
– Pacific (ex Japan) & Emerging Markets	(13-23)%
Cash	0-5%
Total expense ratio	0.18%
Dealing surcharge	0.25% of unit value

Summary of investments and other assets

as at 29 February 2008

1 North America 37.4%

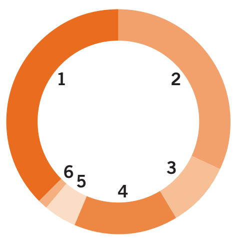
2 Europe 32.1%

3 Japan 9.5%

4 Pacific Basin ex-Japan 14.9%

5 Emerging Markets 4.8%

6 Cash 1.3%



Portfolio valuation

as at 29 February 2008

	Holding 000s	*Market value £'000s*
Canada		
iShares Canada S&P 60 Index	113	4,640
		4,640
United States		
General Board Domestic Stock Fund	4,648	38,991
Health Care Sector SPDR	75	1,237
iShares S&P 500	40	2,688
iShares S&P 100	140	4,311
JP Morgan US Discovery	75	505
Powershares QQQ Trust	20	432
Financials Sector SPDR	130	1,688
Utilities Sector SPDR	46	860
Consumer Staples Sector SPDR	42	573
Energy Sector SPDR	50	1,912
		53,197
European Composite		
Baring Emerging Europe	20	182
European Fund CFB Units	52,495	48,931
iShares MSCI Europe Ex-UK	20	395
		49,508
Japan		
Ishares MSCI Japan	2168	13,700
JPMorgan Japanese	520	920
		14,620
Pacific Basin ex Japan		
Glebe Equities Trust	8056	3,198
iShares MSCI Australia	25	331
iShares MSCI Hong Kong	147	1,360
Korea Fund	18	216
Singapore Fund	53	396
Taiwan Fund	49	436
1st State Asia Pacific Sustain	1,765	2,748
1st State Asia Pacific	1823	9,186
1st State Asia Pacific Leaders	823	2,122
iShares MSCI Pacific ex Japan	10	684
Schroder Asia Pacific	900	1,480
Standard Chartered	45	752
		22,909
Emerging Markets		
First State Emerging Markets	987	3,477
iShares S&P Latin American 40	6	804
JPMorgan Emerging Markets	250	1,135
JPMorgan Indian IT	115	462
Merrill Lynch Latin American	120	684
Mexico Fund	30	499
Templeton Emerging Markets	85	368
		7,429
Total value of investments		**152,303**
Net current assets		**1,997**
Total value of Fund		**154,300**

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	0-5%
Modified duration	6.5-10.9 years
Total expense ratio	0.15%
Dealing surcharge	0.05% of unit value

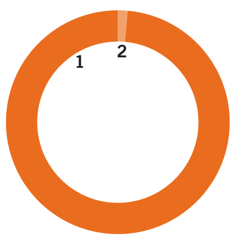
Summary of investments and other assets

as at 29 February 2008

1 British Government 98.5%

2 Cash 1.5%

Modified duration of fund 8.7 years



Portfolio valuation

as at 29 February 2008

	Holding 000s	*Market value £'000s*
Treasury 4% 2009	2,750	2,744
Treasury $5\frac{3}{4}$% 2009	750	771
Treasury $4\frac{3}{4}$% 2010	2,000	2,031
Treasury $6\frac{1}{4}$% 2010	3,750	3,965
Treasury $4\frac{1}{4}$% 2011	7,500	7,525
Treasury 5% 2012	3,750	3,870
Treasury 5% 2014	3,533	3,666
Treasury $4\frac{3}{4}$% 2015	5,500	5,619
Treasury 4% 2016	1,750	1,696
Treasury 5% 2018	3,500	3,648
Treasury $4\frac{3}{4}$% 2020	5,750	5,874
Treasury 5% 2025	4,750	5,010
Treasury $4\frac{1}{4}$ 2027	2,750	2,650
Treasury $4\frac{1}{4}$% 2032	5,000	4,844
Treasury $4\frac{1}{4}$% 2036	4,750	4,635
Treasury $4\frac{3}{4}$% 2038	2,250	2,386
Treasury $4\frac{1}{4}$% 2046	3,000	2,952
Treasury $4\frac{1}{4}$% 2055	2,500	2,500
Total investments		**66,386**
Net current assets		**980**
Total value of fund		**67,366**

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	0-5%
Modified duration	5.1-8.5 years
Total expense ratio	0.15%
Dealing surcharge	0.45% of unit value

Summary of investments and other assets

as at 29 February 2008

1 Debentures 7.5%

2 Supranational 29.3%

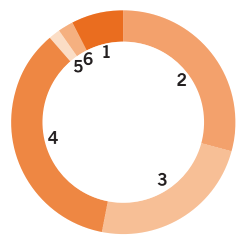
3 Corporate Unsecured – Financial 23.8%

4 Corporate Unsecured – Non Financial 35.6%

5 Corporate Secured – Financial 1.7%

6 Cash 2.1%

Modified duration of fund 6.8 years



Portfolio valuation

as at 29 February 2008

	Holding 000s	*Market value £'000s*
Debentures		
Peel Holdings $9\frac{7}{8}$% 2011	500	561
Asda Property $6\frac{1}{8}$% 2014	500	502
Witan IT $8\frac{1}{2}$% 2016	250	298
Co-operative Group $7\frac{5}{8}$% 2018	250	286
JPMorgan Fleming Claverhouse 7% 2020	250	272
Scottish American IT 8% 2022	250	302
Edinburgh IT $7\frac{3}{4}$% 2022	250	300
Monks IT $6\frac{3}{8}$% 2023	500	524
Witan IT $6\frac{1}{8}$% 2025	250	255
Great Portland $5\frac{5}{8}$% 2029	500	475
Merchants Trust $5\frac{7}{8}$% 2029	250	239
Scottish IT $5\frac{3}{4}$% 2030	500	485
		4,499

Portfolio valuation
as at 29 February 2008

	Holding 000s	Market value £'000s
Supranational		
Ned.Waterschapsbank $5^3/_8$% 2010	250	253
KFW International $4^3/_4$% 2010	1,250	1,257
European Inv Bank $4^1/_4$% 2010	500	497
Network Rail $4^3/_8$% 2011	750	748
KFW International $5^3/_8$% 2011	500	515
KFW International $5^1/_4$% 2012	1,250	1,276
European Inv Bank $4^3/_4$% 2012	750	753
European Inv Bank $4^1/_2$% 2013	500	495
KFW international $5^3/_8$% 2014	1,250	1,288
KFW International $5^5/_8$% 2017	750	791
European Inv Bank $4^3/_4$% 2018	1,000	990
Intl Bank Reconstruction 5.4% 2021	1,000	1,054
European Inv Bank $5^3/_8$% 2021	750	784
Reseau Ferre $5^1/_2$% 2021	1,250	1,310
Network Rail $4^3/_4$% 2024	750	743
Kredit Wiedrauf $5^1/_2$% 2025	500	537
Intl. Bank Reconstruction $4^7/_8$% 2028	2,000	2,010
Reseau Ferre $5^1/_4$% 2028	1,000	1,040
Network Rail $4^3/_4$% 2035	250	253
European Inv Bank 5% 2039	1,000	1,059
		17,653
Corporate Unsecured – Financial		
Lloyds TSB $9^1/_2$% 2009	500	522
American Express $5^5/_8$% 2009	750	743
HBOS Treasury $4^3/_8$% 2010	500	486
Alliance & Leicester $4^3/_4$% 2011	500	472
Sun Life of Canada $5^3/_4$% 2011	500	505
Mellon Funding $6^3/_8$% 2011	750	772
AIG Sun $5^5/_8$% 2012	1,000	964
Merril Lynch $5^3/_4$% 2014	500	465
Morgan Stanley $5^1/_8$% 2015	500	440
JPMorgan Chase $5^3/_8$% 2016	1,250	1,121
Bank of America $5^1/_4$% 2016	1,000	893
Goldman Sachs $6^1/_8$% 2017	500	480
Bank of Ireland $4^7/_8$% 2018	500	449
Societe Generale 5.4% 2018	750	657
Santander Issuances 5.75% 2018	500	475
ANZ Banking $4^3/_4$% 2018	500	456
Co-operative Bank $5^7/_8$% 2019	250	232
Commerzbank $6^5/_8$% 2019	500	471
Bank of America $5^1/_2$% 2019	750	702
Danske Bank 5.375% 2021	500	421
Wachovia Bank $5^1/_4$% 2023	500	403
HSBC Holdings $5^3/_4$% 2027	750	668
ABN-Amro $6^3/_8$% 2028	500	520
Prudential $6^1/_8$% 2031	250	224
HSBC Bank $5^3/_8$% 2033	1,000	849
		14,390
Corporate Secured – Financial		
HBOS Treasury $4^7/_8$% 2010	1,000	991
		991

Portfolio valuation
as at 29 February 2008

	Holding 000s	Market value £'000s
Corporate Unsecured – Non Financial		
Coca Cola $5^1/_4$% 2009	450	447
RWE Finance $4^5/_8$% 2010	500	493
Tesco $6^5/_8$% 2010	250	260
ENI Coordination $4^7/_8$% 2010	1,000	997
Deutsche Telekom $6^1/_4$% 2010	500	506
National Grid $4^3/_4$% 2010	1,000	978
Toyota Motor $5^1/_4$% 2010	1,000	1,011
Toyota Motor $4^5/_8$% 2011	1,000	994
France Telecom $7^1/_2$% 2011	500	525
General Electric $6^1/_8$% 2012	1,000	1,028
Eon Int Finance $6^3/_8$% 2012	750	774
Carrefour $5^3/_8$% 2012	500	493
Vodafone $4^5/_8$% 2014	500	454
Deutsche Telekom $4^7/_8$% 2014	500	457
Pearson 7% 2014	250	254
GE Capital UK $5^5/_8$% 2014	1,500	1,485
Hutchison $6^3/_4$% 2015	250	257
Reed Elsevier $5^5/_8$% 2016	250	233
St.Gobain $5^5/_8$% 2016	250	226
Telefonica $5^3/_8$% 2018	500	450
Bayer $5^3/_8$% 2018	250	231
Eon Int Finance 6% 2019	750	738
Tesco $5^1/_2$% 2019	1,250	1,181
Coca-Cola $6^1/_2$% 2021	500	516
RWE Finance $5^5/_8$% 2023	1,250	1,190
Johnson & Johnson $5^1/_2$% 2024	500	502
France Telecom $5^1/_4$% 2025	500	429
Bouygues $5^1/_2$% 2026	250	213
British Telecom $5^3/_4$% 2028	250	215
UPS America $5^1/_2$% 2031	1,000	901
Electricite de France $5^7/_8$% 2031	750	742
Astrazeneca $5^3/_4$% 2031	750	737
East Japan Railway $4^3/_4$% 2031	750	659
Glaxosmithkline Capital $5^1/_4$% 2033	1,000	894
		21,470
Total investments		**59,003**
Net current assets		**1,267**
Total value of fund		**60,270**

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	0-5%
Modified duration	3.0-5.1 years
Total expense ratio	0.15%
Dealing surcharge	0.10% of unit value

Summary of investments and other assets

as at 29 February 2008

1 British Government 76.0%

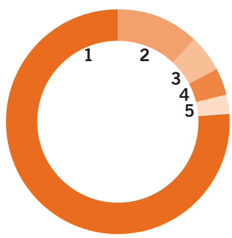
2 Supranational 12.1%

3 Corporate Unsecured – Financial 5.3%

4 Corporate Unsecured – Non Financial 3.8%

5 Cash 2.8%

Modified duration of fund 4.1 years



Portfolio valuation

as at 29 February 2008

	Holding 000s	*Market value £'000s*
British Government Stock		
Treasury 4% 2009	5,000	4,990
Treasury $4\frac{3}{4}$% 2010	2,150	2,183
Treasury $4\frac{1}{4}$% 2011	1,700	1,706
Treasury 5% 2012	2,250	2,322
Treasury 5% 2014	4,750	4,928
Treasury $4\frac{3}{4}$% 2015	4,100	4,189
Treasury 4% 2016	5,000	4,845
		25,163
Supranational		
Ned Waterschapsbank $5\frac{3}{8}$% 2010	500	507
KFW International $4\frac{3}{4}$% 2010	1,000	1,006
European Inv Bank $4\frac{1}{2}$% 2013	1,000	990
KFW International $5\frac{3}{8}$% 2014	500	515
European Inv Bank $4\frac{3}{8}$% 2015	500	486
Network Rail $4\frac{7}{8}$% 2015	500	502
		4,006
Corporate Unsecured – Financial		
ASIF III $5\frac{5}{8}$% 2009	500	495
Rabobank Nederland $4\frac{3}{4}$% 2009	250	249
Bank of America $6\frac{7}{8}$% 2010	500	513
Toyota Motor $5\frac{1}{4}$% 2010	500	506
		1,763
Corporate Unsecured – Non Financial		
BG $5\frac{3}{8}$% 2009	250	249
ENI Coordination $4\frac{7}{8}$% 2010	250	249
GE Capital UK $5\frac{5}{8}$% 2014	750	743
		1,241
Total investments		**32,173**
Net current assets		**940**
Total value of fund		**33,113**

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	0-5%
Modified duration	9.0-15.1 years
Total expense ratio	0.15%
Dealing surcharge	0.20% of unit value

Summary of investments and other assets

as at 29 February 2008

1 British Government 88.4%

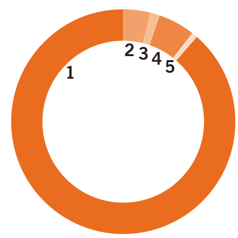
2 Supranational 3.9%

3 Corporate Unsecured – Financial 1.5%

4 Corporate Unsecured – Non Financial 5.2%

5 Cash 1.0%

Modified duration of fund 12.0 years



Portfolio valuation

as at 29 February 2008

	Holding 000s	*Market value £'000s*
British Government Stock		
Treasury $2\frac{1}{2}$ 2009	600	1,607
Treasury $2\frac{1}{2}$% 2011	2,800	8,138
Treasury $2\frac{1}{2}$% 2013	400	988
Treasury $2\frac{1}{2}$% 2016	1,600	4,440
Treasury $1\frac{1}{4}$% 2017	200	217
Treasury $2\frac{1}{2}$% 2020	6,400	18,347
Treasury $1\frac{7}{8}$% 2022	7,700	8,643
Treasury $2\frac{1}{2}$% 2024	4300	11,010
Treasury $1\frac{1}{4}$% 2027	400	452
Treasury 2% 2035	9,200	14,160
Treasury $1\frac{1}{8}$% 2037	1,200	1,363
Treasury $1\frac{1}{4}$ 2055	200	277
		69,642
Supranational		
European Investment Bank 2.6% 2013	1,100	1,359
Network Rail 2.117% 2025	1,400	1,677
		3,036
Corporate Unsecured – Financial		
Rabobank 2.324% 2013	500	578
Nationwide $4\frac{1}{4}$% 2024	250	569
		1,147
Corporate Unsecured – Non financial		
Anglian Water Services $5\frac{1}{2}$% 2028	850	1,509
Tesco 2016	150	206
BG Transco 4.1875% 2022	500	735
Severn Trent 3.86% 2028	500	720
Artesian Finance 3.625% 2032	650	981
		4,151
Total investments		**77,976**
Net current assets		**802**
Total value of fund		**78,778**

PROPERTY FUND

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

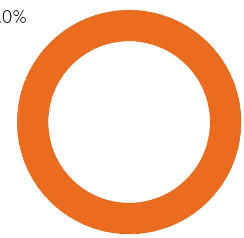
Dealing purchases
On first working day of month.

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 29 February 2008

Property Income Fund for Charities 100.0%



Summary of investments and other assets
as at 29 February 2008

	Holding 000s	*29/2/08 £'000s*
Property Income Fund for Charities	3,672	4,230
		4,230
Net current assets		**1**
Total value of fund		**4,231**

Chairman & senior officers
Chairman **Roger Smith**
Vice Chairman **Richard Reeves** FCA
Chief Executive **Bill Seddon** BSc (Econ) ASIP
Chief Financial Officer **Peter Forward** FCA
Chief Investment Officer **Russell Sparkes** MA ASIP
Senior Fund Manager **Miles Askew** BA MSc ASIP
Senior Fund Manager **Stephen Beer** BA ASIP
Senior Fund Manager **Chris Wigley** BA
Relationship Manager **Bill Lane** MSc ASIP

Council members
Ted Awty FCA
Peter Cussons MA ACA ATII
John Gibbon
Sue Haworth FCCA ATII
Brian Mansfield FCA
Tim Melling FCCA
Sir Michael Partridge KCB
Colin Pearson MA FIA
Richard Reeves FCA
Roger Smith
Revd Graham Thompson
Peter Thompson BSc FIA

Audit Committee
Peter Cussons (Chairman)
Brian Mansfield
Sir Michael Partridge

Remuneration Committee
Roger Smith (Chairman)
Sir Michael Partridge
Richard Reeves

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of the Methodist Church