Investing with a moral compass
Annual Report 2009

Central Finance Board
of the Methodist Church

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.

Investing for the long term: balancing risk and opportunity

It is important to build on firm foundations. This basic principle was forgotten by many over recent years. The result has been that organisations that had appeared solid and reliable collapsed when the financial storm broke. No investor has escaped the turmoil unscathed. We have all been tossed about by forces outside our control and have had to trust, like Noah, that our vessels were seaworthy. Sadly for many this proved a false hope as it is now clear that they did not appreciate the scale of the risks they were running.

Many investors accepted slightly higher yields from bank deposits and corporate bonds without considering the risk of default. In contrast, the CFB did not compromise on the quality of holdings and as markets adjusted to the new environment the returns on our Deposit and Corporate Bond funds earned significantly better returns than those available elsewhere. The crisis also highlighted the link between weak corporate governance and potential company collapse as unacceptable levels of risk were taken by those tempted by excessive remuneration packages. As a responsible investor, the CFB made full use of its voting powers and it is instructive that we voted in favour of resolutions relating to executive pay only 9% of the time. Although the value of our equity portfolios plummeted, a policy of concentrating on lower risk, well-run companies with sustainable future prospects has helped limit the damage and set the stage to benefit from recovery.

Investing for the long term: considering the welfare of children

Children represent our future and caring for them as the most vulnerable members of our community is a fundamental requirement of a healthy society. It follows that as investors with a long-term perspective that we should take particular notice of ethical issues relating to children. We have taken this to a new level in the past year through a wide-ranging review of the subject, which will form the basis of a CFB policy statement.

Children are often the first to suffer when things go wrong. Consequently, we do all in our power to minimise the prospect of them coming to harm. Our concerns are reflected in the portfolios we manage. Partly this means avoiding investment in some companies, such as those involved in alcohol, armaments, gambling and tobacco, as their financial success may be at the expense of the best interests of children. It also involves engaging with companies to ensure that their policies improve where there is a risk of children being harmed. We continue to challenge Nestlé on the marketing of breast milk substitutes. However, other companies and issues such as bonded child labour, factory conditions, pornography and health are also tackled. We work with others with a particular concern for children, such as *Action for Children*. To see the CFB paper, *Ethical Issues Concerning Children* and all other policy statements, please visit our website (www.cfbmethodistchurch.org.uk).

Investing for the long term: working for a sustainable world

The potential impact of climate change highlights that the Biblical call to love our neighbours as ourselves includes future generations. To allow economic activity to continue with no thought for the long term consequences for the environment flies in the face of this requirement. As investors, we too have a responsibility to act.

We have always attempted to integrate environmental guidelines into the management of our portfolios. Only those resource companies that follow ‘best practice’ are considered for investment and we engage vigorously with them to encourage further improvements. Sometimes this process is done in concert with others through our active membership of the Church Investors Group and the Institutional Investors Group on Climate Change. Perhaps of most significance has been a theological assessment of climate change, *Hope in God’s Future*, produced by the Methodist Church in conjunction with the Baptist Union and United Reformed Church. This has been used to develop a CFB position paper that has been debated in detail by the Joint Advisory Committee on the Ethics of Investment. This should lead to a policy framework that will assist our efforts to meet the challenges and opportunities of investing profitably, as we adjust to a lower carbon future.

Chairman's statement

Roger Smith Chairman

Financial system in crisis

As what is likely to prove the worst economic downturn since the 1930s has unfolded, Governments and central banks around the world have struggled to stabilise the financial system. In the UK hundreds of billions of pounds has been made available to provide liquidity to the money markets and to guarantee lending between the banks. It became necessary for the Government to take effective control of both the Royal Bank of Scotland and, following its merger with HBOS, Lloyds Banking Group. Total bank dividends are now less than a quarter of the level being paid a year ago. It is scarcely surprising that with such a background equity prices fell precipitously with FTSE All Share Index down 36% in the year under review. Those that avoided the capital risk of equities by keeping assets on deposits saw their income slump as Bank Rate fell from 5.25% to 0.5%. The fixed interest market did provide protection but only through gilts and the highest quality non-government bonds.

Low risk strategy

Although the past year has been one of the most challenging for investors in living memory it is some consolation that the low risk strategy followed by the CFB resulted in most of our funds producing better returns than their respective benchmarks. The return on the Corporate Bond Fund is particularly noteworthy with a total return of +4.9% compared to -5.4% for the iBoxx Non Gilts Index as the policy of avoiding lower quality issues at the expense of a lower running yield paid-off spectacularly well. The Gilt (+8.8% versus +8.4%) and Inflation Linked (-2.8% versus -3.3%) funds also outperformed their respective indices although the Short Fixed Interest Fund (+11.0%) failed to match its benchmark by just 0.1%.

Resilience in falling markets

The weakness in sterling resulted in overseas outperforming UK equities significantly but in both areas CFB returns continued to show resilience in declining markets. The decision to outsource the management of our overseas portfolios whilst retaining the asset allocation function had another relatively successful year with the Overseas Fund return of -23.5% being 3.2% better than that of the Index. Ethical exclusions helped relative performance in the UK equity market, with the CFB Fund (-31.4%) outperforming the ethically adjusted index by 0.9% and the FTSE All Share Index by a further 0.7%.

Rigorous lending criteria

It was a year in which investors began to question whether it was appropriate to concentrate on maximising short term returns with no thought for the long term viability of a company or the importance of an underlying moral compass to guide management in the direction a business is developed. This was particularly apparent in what was previously thought of as very low risk bank deposits. When the Icelandic banks collapsed and UK clearers seemed on the brink of following their example, many charities realised how exposed they were to possible defaults. The CFB Deposit Fund was served well by its rigorous approach in selecting the banks to which it lent money. Even so, criteria were tightened on several occasions as we wrestled with the challenge of balancing risk and return, whilst taking advantage of a steepening of the yield curve to lock in higher rates for longer. This has resulted in the rate of interest being paid to our investors declining more slowly than would have been experienced elsewhere. Indeed the Affirmative Deposit Fund, which allows us to make our expertise available to non-Methodist charities, has grown rapidly in the past year, to £470 million with over 10% now deposited in around 300 non-Methodist accounts out of a total of 8,500.

Climate change

Last year we adopted a written policy on investment in companies with military exposure, which we have now extended to include contractors providing military security and services. An important theological paper is to be presented to the Methodist Conference that it is hoped will form the basis of the Methodist position on Climate Change. In the light of this a position paper on how the subject relates to investment has been drafted and it is hoped that the CFB will soon be able adopt a policy that reflects the Methodist stance.

In troubled times it is vital to have access to wisdom and experience and I am truly grateful for this provision through our Council. It is therefore with regret that two members are standing down. Both Brian Mansfield, formerly Treasurer of the Methodist Mission Society and Managing Director of the merchant bank, Singer and Friedlander and Tim Melling, with his wide experience as a finance director in the commercial world, will be sorely missed.

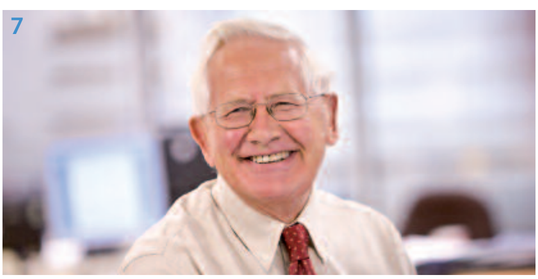
Finally, our thanks must go to the CFB staff, led by Bill Seddon, who have been able to demonstrate a calm and considered approach that has given confidence to our clients that the CFB can be trusted to be wise stewards of their Methodist assets through even the most testing of times.

Roger Smith
Chairman
April 2009

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



1 Roger Smith Chairman
Chairman of family investment company, following a career in the oil and gas industry and motor industry. Chairman of Epworth Investment Management.

2 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). A Director of Epworth Investment Management.

3 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.

4 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'.

5 John Gibbon
Adviser to a number of pension funds and member of the Investors Committee of the Property Income Trust for Charities.

6 Sue Haworth
A qualified accountant with experience in tax and compliance. Previously, compliance officer and company secretary for Montagu Private Equity. Currently CFO for Advantage Capital Ltd.

7 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 Vice Chairman of Magdi Yacoub Research Institute, Chairman of Heathfield School and Director of Methodist Ministers' Pension Trust and Epworth Investment Management.

8 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.

9 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.

10 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.

CFB staff

1 **Bill Seddon** Chief Executive
2 **Peter Forward** Chief Financial Officer
3 **Russell Sparkes** Chief Investment Officer
4 **Miles Askew** Senior Fund Manager
5 **Stephen Beer** Senior Fund Manager
6 **Chris Wigley** Senior Fund Manager
7 **Christophe Borysiewicz** Fund Manager
8 **Chris Gooding** Trainee Fund Manager
9 **David Katimbo-Mugwanya** Trainee Fund Manager

10 Bill Lane Client Relationship Manager
11 Chris Field Operations Manager
12 Janice Thomson Senior Deposit Fund Administrator
13 James Forward Communications Officer and Senior Fund Administrator
14 Victoria Daniels Fund Administrator
15 Paul Berry Fund Administrator
16 Safiya Nelson Fund Administrator
17 Kate McNab Secretary
18 Natalie Zahl Secretary

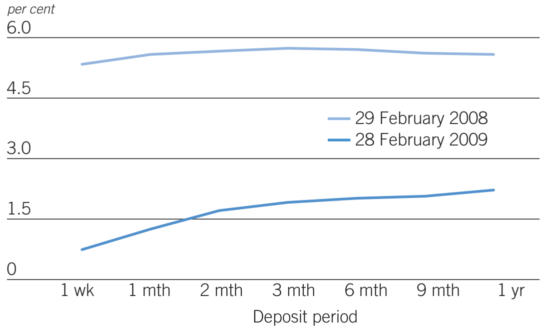
Investment review

Bill Seddon Chief Executive

Market movements and performance

Money market

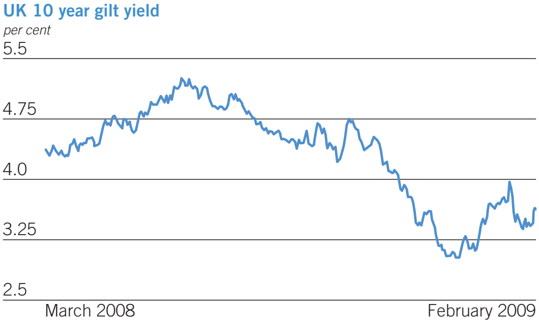
Money market yield curve



- Base rate began the year at 5.25% and was still 5.0% in October when the first of six successive monthly cuts took place and at the end of February the rate was 1%. The 0.5% reduction in March took it to the lowest level since the Bank of England was established in 1694.
- The premium of 3 month bank deposit rates over base rate moved between 30bp and 175bp before closing at 95bp, 53bp higher on the year.
- 3 month rates opened at 5.67%, peaked at 6.25% in September and closed at 1.95%, 5bp above the low.
- 12 month rates opened at 5.50%, reached a peak of 6.30% before closing at 2.25%, 15bp above the low.
- The Deposit Fund's average life moved between 85 and 103 days over the year closing up 7 at 95 days.
- An average rate of interest of 5.1% (aer) was paid out over the year compared to 1.6% (aer) for higher rate bank deposits.

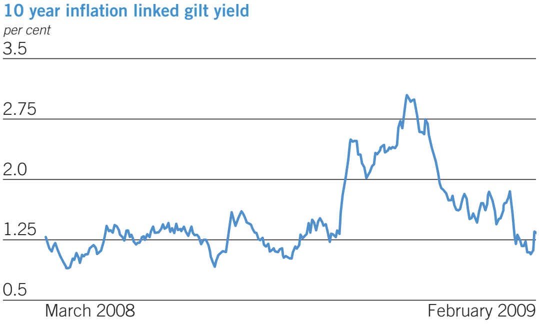
Fixed Income

UK 10 year gilt yield



- Global bond prices fell at the beginning and end of the period under review but rose strongly in the second half of 2008. 10 year US Treasury yields closed down 49bp at 3.02% having traded between 4.27% and 2.06%.
- The 10 year gilt yield followed a similar pattern, but closed down 85bp at 3.62% having traded between 3.02% and 5.25%.
- The shape of the yield curve steepened dramatically as 2 year gilt yields fell 263bp to 1.44% while 30 year gilt yields fell just 5bp to 4.34%.
- The average yield spread of corporate over government bonds surged to close the year at +406bp, up 236bp having ranged between +153bp and +406bp.
- The spread between AAA and BBB rated bonds rose 346bp to close at +563bp having traded between +153bp and +681bp.

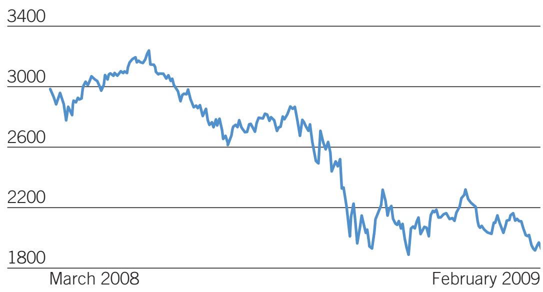
10 year inflation linked gilt yield



- Indexed linked gilts were very volatile. The ten year yield fell 6bp to close at 1.34% having traded between 0.90% and 3.05% over the year.
- Over the year conventional gilts outperformed all other bonds (FTSE All Stocks Gilts Index +8.4%, FTSE All Stocks Index Linked Index -2.6%; iBoxx Non Gilt Index -5.4%). Short dates were well ahead of the long end (Short Fixed Composite Index +11.1%; Over 15 year Index +4.5%).
- The Corporate Bond Fund outperformed its benchmark by 10.3%. The Managed Fixed Interest, Inflation Linked and Gilt funds outperformed their indexes by 1.2%, 0.5% and 0.4%, respectively, with the Short Fixed Interest Fund just 0.1% behind its benchmark.

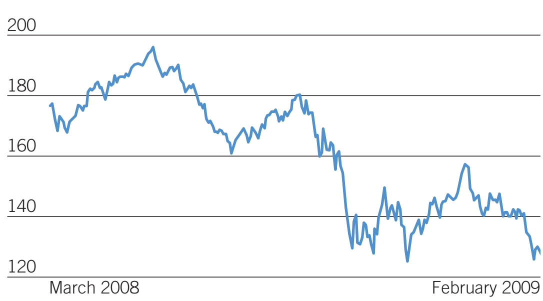
UK Equities

FTSE All Share Index



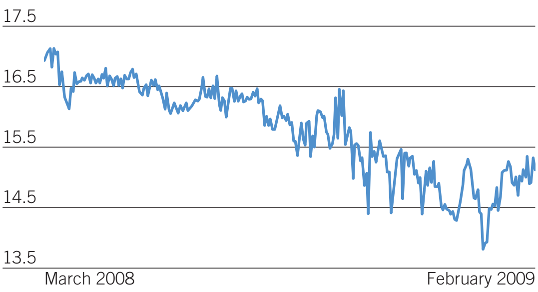
- The UK equity market was very volatile over the year under review. There were four rallies of 10% or more but none were sustainable and the FTSE All Share Index was at one stage 42% below its best level of the year. It closed 36% down for the year for a total return of -33.0%.
- Larger company share prices held up better with the FTSE 100 Index (-31.8%) outperforming the FTSE Mid 250 Index (-37.7%) over the period under review.
- The Oil, Pharmaceutical, and Tobacco sectors provided the strongest relative contributions to Index performance whilst the main negative contributions were from Banks, Mining and Real Estate.
- Adjusted for the ethically excluded stocks the FTSE All Share Index would have been 66bp higher over the period as excluded stocks (13.9% of the Index) fell 37.1% compared to -32.3% for the rest of the Index.
- Over the year the UK Equity Fund return (-31.4%) was better than both the FTSE All Share Index (by 1.6%) and the ethically adjusted index (by 0.9%).
- The Managed Equity Fund (-30.1%) and the Managed Mixed Fund (-21.9%) both outperformed their benchmarks (-31.5% and -22.0% respectively).
- The estimated return of the Property Fund was -34.3% for the year based on the distribution to 31 December and the value to 28 February. The purchase yield based on the historic annual distribution of 7.68p would be 12.5%.

FTSE All World ex-UK



Overseas Equities

FTSE UK verses All World ex-UK



- The FTSE World ex UK Index was also very volatile, peaking 9% above the 29 February 2008 level before declining 36% to complete the year 29% lower for a total return of -26.7%.
- The only territories to outperform were Japan (-15.5%) and North America (-21.2%). Lagging behind were the Rest of the World (-31.5%), Pacific ex Japan (-35.9%) and Europe ex UK (-36.4%).
- Sterling fell sharply against all the major currencies over the year: yen (-32.7%); dollar (-28.3%) and euro (-14.4%).
- The weakness of sterling resulted in the FTSE All Share Index lagging the World ex UK index by 6.2% over the year.
- The Overseas Fund (-23.5%) exceeded the returns of the FTSE World ex UK Index by 3.2%.

Economic overview

Global

There no longer seems much doubt that the last quarter of 2008 witnessed the most severe economic contraction in the post war period. Indeed, the IMF has felt obliged to downgrade its global economic forecast for the second time in two months. It is now predicting that the world economy will contract by 0.6% this year, the first actual decline since the 1930s, rather than the 0.6% growth it previously forecast. Not only has the speed of the downturn been unusually fast, but it has quickly spread to all regions, even those expected to be relatively unscathed. As world trade falls, the worst affected countries have been those with a high reliance upon manufacturing. For example the Japanese economy shrank at an annual rate of 12.7% in the fourth quarter. Unfortunately recent statistics, such as the 46% collapse in Japanese exports in January compared to the previous year, suggest that the rate of decline is increasing and that the economy may contract at an even greater rate in the current quarter.

Although the US economy contracted at an annual rate of 6.2% in the fourth quarter, the largest quarterly decline since 1982, much of the decline was due to aggressive inventory liquidation which is unlikely to be repeated on such a scale. Signs that conditions are not deteriorating further, combined with a reduction in the imbalances that had built up in the previous boom, provides grounds for cautious optimism. Since the US economy entered recession at the beginning of 2008 the savings rate has soared from zero to reach 5%, its highest level since 1995, while the trade deficit has fallen to a relatively affordable 3% of GDP. In May Mr Obama's $790bn stimulus package will begin to be paid out, and the improved savings rate and trade balance could help the economy experience a sustainable recovery later in the year. On the other hand, the US employment market is continuing to deteriorate, with a sharp rise in unemployment to 8.1% in February, amid predictions it could reach 10% next year.

There are also signs of recovery in China following the government's reflation package, with a pick-up in bank lending and a revival in capital investment. However, it would be premature to become too optimistic, as the rest of the economy appears to be in the grip of a severe downturn, with exports in February falling 26%, while car sales and the housing market also declined rapidly.

Politicians and economists have been surprised by the speed with which the Eurozone economies have turned down as they had been quite buoyant, notably Germany, until the second quarter of 2008. In the final quarter the Eurozone declined at an annual rate of 6.0%, with Germany particularly weak (-8.4%), the worst performance since pan-European data began in 1995. The majority of recent statistics suggest that the downturn is still accelerating. For example the European Commission's joint indicator of business and consumer activity fell to its lowest level on record in February, indicating that the first quarter could see an annualised decline of around 8%. The European Central Bank (ECB) has cut its Eurozone forecast for 2009 from growth of 0.5% to a decline of 2.7%, but even this may be over optimistic, with the IMF now predicting a 3.2% fall. Europe does have defensive characteristics that could prevent the downturn becoming too severe. These include relatively high personal savings rates and budget deficits that are low by global standards. However, national political concerns are preventing the introduction of large fiscal stimulus, as wealthier countries such as Germany are unwilling to bail out the weaker economies such as Greece, Portugal and Ireland. Probably the greatest area of concern for Eurozone policy makers relates to Eastern Europe, which seems to be entering a major economic crisis similar to the one which hit Asia in 1997-98, with the possibility of an economic decline approaching 15%.

UK

Data released in recent weeks confirms that the UK economy is in the midst of a deep recession. Industrial production fell 2.6% in January taking the decline to 11.4% over the past year, the biggest setback in industrial output for almost thirty years. In February, unemployment rose above two million for the first time since 1997, whilst new claimants saw the biggest monthly rise since records began in 1971. House prices continue to drop with the Nationwide survey taking the cumulative fall to 20.6% in February. Economic forecasts are still being lowered and a decline in GDP of 3% this year followed by an anaemic 0.5% rise in 2010 is now the consensus. However, whilst few would be surprised if the outcome proves to be even worse, especially as the latest IMF figures for this year and next are -3.8% and -0.2% respectively, it would be sensible to consider the possibility that the news proves to be better than anticipated.

Although the economic slowdown is severe, there is some evidence that it is no longer intensifying, with some survey data, particularly in the service sector, showing signs of improvement. De-stocking, which in the fourth quarter was at the highest level for twenty years, is now likely to abate and should have run its course in the first half of the year. Retail sales volumes have held up unexpectedly well, even if the figures have been helped by heavy discounting and the cut in VAT. Furthermore, notwithstanding the rise in unemployment, the improvement in disposable income is having some effect. Basic earnings are growing at around 3.5%, which coupled with the decline in the costs of servicing mortgages could provide for a significant increase in the savings ratio without inducing a catastrophic collapse in consumer spending. There have even been tentative signs of hope in the housing market. Repossessions fell in the fourth quarter whilst the level of problem loans remains low in comparison with the early 1990s housing slump. New mortgage approvals seem to have passed their low point although the figure remains extremely low by historic standards and enquiries from potential buyers have risen sharply. It is also possible that the effect of the fall in the value of sterling is already beginning to be felt with an improvement in the trade balance and the Consumer Price Index continuing to be above market expectations despite talk of deflation.

Other causes for optimism are both the scale of the policy of quantitative easing that the Bank of England has adopted and the speed with which it is to be implemented. In just three months £75 billion, the equivalent of 5% of GDP is to be injected into the financial system through the purchase of bonds. Two thirds are likely to be gilts accounting for 10% of all conventional issues and around one third of the outstanding stock in the chosen medium to long dated maturity band. Authority has also been given to double the programme if necessary. It is hoped that the resulting increase in money supply will translate into an upsurge in bank lending that will kick-start the economy. The success of the strategy will ultimately depend on an increase in both the demand for borrowing from the private sector and the appetite for banks to accept more risk. Actions taken by the authorities to provide both fiscal and monetary stimulus have put in place the necessary conditions for an economic recovery even if these are not sufficient to start the process until there is an improvement in sentiment. Indeed, some commentators are predicting a 'decade of austerity' with a lower trend rate of growth as both private and public finances adjust to a culture of lower borrowing. However, it seems likely that with deteriorating global prospects in general and Europe in particular, that the relative short term outlook for the UK may be better than currently discounted.

Market outlook

Money markets

Global benchmark interest rates have fallen to unprecedentedly low levels over the past year, with the US rate down from 3% to 0%-0.25%, the Eurozone from 4% to 2% with a further cut to 1.5% in March and Japan from 0.5% to 0.1%. Other measures have also been announced to try and stimulate lending. The US Federal Reserve are injecting up to $1tr into consumer debt through its troubled asset backed lending facility (TALF), while the Bank of Japan is to provide ¥1tr of subordinated capital to the banking system to replenish weak capital ratios. Both have followed the Bank of England by implementing quantitative easing (QE).

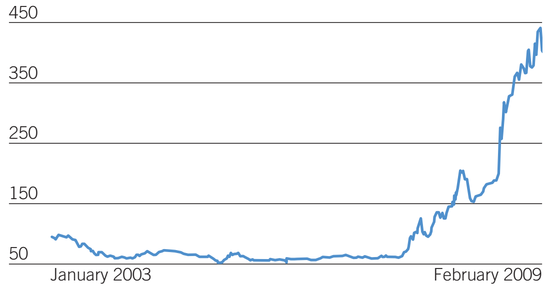
The 0.5% cut by the Monetary Policy Committee in early March to 0.5% probably marks the low point for the Base rate. However, the premium of three month money market rates over the official rate still remains a substantial 115bp, a figure which should fall as confidence returns to the financial sector. As any increase in the Base rate is unlikely for many months this will result in a further fall in money market returns. To minimise the negative impact on the income of investors, advantage will continue to be taken of the upward sloping yield curve by locking-in rates of around 2% for one year deposits, whilst they are still available.

Fixed interest

US Treasury prices had been falling all year, with ten year yields rising from 2.1% to 3.0% when the surprise announcement that the Fed was adopting QE resulted in yields falling nearly 50bp in a single day. The plan is to inject a further $1.15tr into bond markets. This will mostly be by increased purchases of mortgage backed securities, but it also intends to purchase $300bn of US Treasuries in the 2-10 year range. Together with the TALF proposals, QE will double the Fed's balance sheet to around $4tr, or 30% of US GDP. Although headline US inflation has fallen sharply, 'core inflation' only dropped from 2.5% to 1.8%. Therefore, Treasuries seem to offer very little value with ten year yields currently at 2.6% and when signs of economic recovery appear, prices appear vulnerable to the potential inflationary impact resulting from the massive monetary expansion.

It is not inconceivable that the action of the US Fed was influenced by the result of the earlier announcement by the Bank of England that it was to buy bonds aggressively in the 5 to 15 year period as it embarked on a QE policy. Consequently there has been a major shift in the yield curve with twenty year gilt yields falling by almost 100bp to almost 3.7% at one stage. Initially, short dated issues actually saw yields rise due not only to being excluded from the buying programme but also because they will be subject to a disproportionate amount of new issuance. It seems likely that the trend towards a flatter yield curve will continue for the time being. However, given the monetary policy experiment currently underway and an inflation objective of 2%, it is difficult to see fundamental value in conventional gilts following the recent move, unless deflation becomes embedded in the system. Although yields may move lower and stay down for some time, the long term gilt bull market seems to be drawing to a close and the opportunity to sell into strength should be taken.

Corporate bond yield premium over gilts



Corporate bonds should also benefit from the QE policy with up to £25 billion earmarked for non gilts and likely to be concentrated towards the lower end of the investment grade credit spectrum. The sharp fall in gilt yields has resulted in credit premiums widening further. Fixed interest exposure should continue to be concentrated in high quality corporate bonds with particular emphasis on banks with government guarantees. Index linked securities are not included in the QE programme and therefore lack the temporary technical support available in conventional issues to compensate for lack of fundamental value.

Overseas Equities

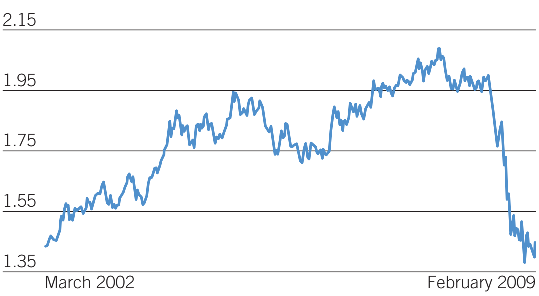
2009 has been disappointing for sterling investors with the FTSE All World ex UK Index at one stage down 24% from its high at the beginning of January and 40% below the peak reached in October 2007. However, the position in local currencies is even worse. For example, the US S&P 500 index reached a level last seen in 1996, 57% below its 2007 peak. It is worth noting that the severity of the current bear market is approaching extreme levels. US equities have fallen more than in any post-war bear market whilst the ten year period to the end of 2008 was the only one since the Great Depression that produced a negative annualised return.

The US equity market has been led down by financial shares, with the sector falling over 50% since the end of the year, and down 84% from its peak, on fears that the government would have no alternative but to nationalise large banks such as Citigroup. Other markets have experienced similar downward momentum from financial shares. Surveys of investor optimism, which have a good record as a contrary indicator, recently touched their lowest levels on record. It was not, therefore, surprising that reports from major US banks that current trading was strong led to a 33% sector rally in a week and stimulating a general market rally. Whilst most markets look cheap on historic measures, these may not be reliable indicators of imminent low points when earnings and dividends are falling sharply. Longer term measures such as the Shiller ratio of prices to the ten year average of earnings and the Tobin Q ratio of real asset value, suggest that US equities are relatively cheap and offer good long term returns to investors. However the Barclays *Equity Gilt Study* points out that these ratios have not yet approached the type of utterly depressed levels often seen at the end of major bear markets.

On balance the current rally may have further to go and it is therefore appropriate for liquidity to be kept at a relatively low level for the present. However, it seems unlikely that it is the start of a major new bull market. North America is favoured at present because it seems likely to be the first to experience economic recovery, while Europe looks vulnerable to the emerging crisis in Eastern Europe. It also seems appropriate to reduce exposure to the Pacific and Rest of the World which have enjoyed relative strength this year despite signs of less resilient economies than had previously been anticipated. The UK has underperformed the rest of the world recently, and a move towards a neutral weighting would now seem justified.

Currencies

Sterling/dollar exchange rate



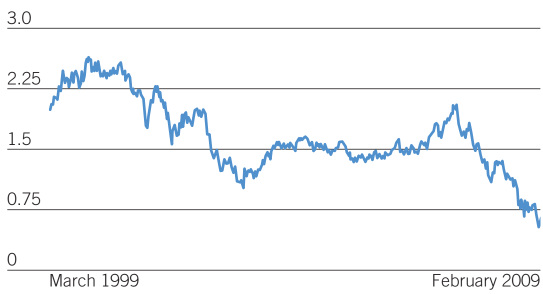
Since the end of January the yen has replaced sterling as the world's weakest major currency, falling 20% from its recent high. The yen has been hit by a significant reduction in the capital inflows which previously supported it, while sentiment has been adversely affected by the economic contraction in Japan. Although the dollar fell sharply on the news of QE, such weakness may not last if it is followed by signs of recovery. Given increasing strains within the single currency and growing fears about the economic crisis in Eastern Europe, the Euro's recent strength seems unsustainable. Sterling's period of relative stability should continue as long as investors concentrate on problems elsewhere, but it remains vulnerable to any further deterioration in the UK economy.

UK Equities

At its recent low point the FTSE 100 Share Index briefly traded at less than half its all-time peak and was only 5% above the level reached in March 2003. It was, perhaps, symptomatic of market psychology at this time that, despite an announcement by the Government of its guarantee of UK bank credit, spreads widened and bank share prices fell further. However, in just two weeks there was a rise of over 14%, the fifth rally of 10% or more since the sell-off began in the final third of last year. As on all previous occasions investors began to ask themselves whether the latest bounce marked the final low point or was merely a temporary respite from a continuing decline.

Some encouragement can be taken from signs of capitulation that were emerging prior to the rally. Although consensus earnings forecasts are now around 30% lower than they were six months ago, the possibility of an even worse outcome has increasingly been put forward. For example Morgan Stanley believes that the earnings decline over 2008 and 2009 will total 60% with no recovery in 2010. Such figures would translate into a PE multiple of 14 times, in-line with previous downturns. Furthermore, given the parlous state of both the global economy and the financial system, arguments began to be made for the multiple to trough well below the average on this occasion.

10 year gilt yield relative to All Share yield



However, under all but the most pessimistic of scenarios, the UK market was looking extremely good value at the recent low point. The ratio of prices to the ten year average of earnings touched 10 times, the lowest level since the mid 1970s. Over the past sixty years the inflation adjusted annual real return of the UK equity market has averaged 6.8% and at its recent low point the market was trading 30% below this trend rate. Although this discount was exceeded in both 1974-76 and 1980-82, it still appeared to represent an attractive buying opportunity. Dividends also provide a major support, with the FTSE All Share Index yielding 5.8% at the recent low, 2.8% above the ten year gilt yield. This would appear to be discounting substantial dividend cuts on top of the 12% reduction experienced so far.

Recent market action has the hallmarks of a bear market rally rather than those of a new bull market. An economic recovery would need to be closer at hand than currently seems likely before the more optimistic scenario becomes compelling. However, although a retest of the recent market low point may well occur, the danger of maintaining an underweight position in equities has been highlighted by recent activity. The market remains cheap both in absolute terms and relative to government securities, but buying into weakness would seem a more appropriate strategy than chasing the current rally.

Investment ethics

Russell Sparkes
Chief Investment Officer

Stephen Beer
Senior Fund Manager

Setting a moral compass

As a Church investor, the CFB seeks to make company executives aware of ethical issues and to encourage them to use a moral compass as they steer their companies.

Company engagement

We engaged with the mining company Anglo American throughout the year over concerns about health and safety, local communities, and water pollution in South Africa. Management stressed the company's high commitment to safety, whilst independent water quality tests found that drinking water supplies were not contaminated by mining pollution. Where pollution did exist, the company acted quickly to mitigate the problems. At one of our regular meeting with Royal Dutch Shell we discussed their approach to Global Corporate Responsibility, health and safety and the Corrib gas project in Ireland. Follow-up meetings are planned on Nigeria and the environmental damage of Canadian tar sands development.

Allegations that GlaxoSmithKline had failed to publicise adverse safety information on its Paxil/Seroxat antidepressant drug were investigated and we were satisfied with the thorough and extensive answers the company provided. We continue to monitor Nestlé closely meeting to discuss not only the marketing of breast milk substitutes, but also the advertising of snacks aimed at children and water scarcity. Concerns about bonded child labour on cocoa plantations were also raised and a number of Nestlé initiatives that seek to eliminate child slavery and to improve conditions in the cocoa trade were noted.

Executive Remuneration

Utilising our rights as shareholders is another way of influencing companies, and in 2008 we voted against 74 remuneration reports with a further 33 abstentions out of a total of 118 resolutions. In 2007 the Joint Advisory Committee on the Ethics of Investment (JACEI) noted the extremely high level of negative votes that the CFB's voting policy was producing regarding executive remuneration. However, following extensive debate, it was agreed that the policy should be left unchanged, a decision that looks increasingly well-founded in the light of current concerns about executive pay.

Ethical investment issues involving children

We have always taken children's issues very seriously, but felt that a more systematic approach was called for. A detailed position paper was produced to identify the main ethical issues involving children. It noted their essential vulnerability, as they are often the first to suffer when things go wrong. The ethical issues were categorised by industrial sector to guide CFB ethical investment research and engagement work and a Policy Statement has now been drafted for JACEI to consider.

Working with other churches

When it makes sense to work with others we do so, but our key partners are other churches, and in the UK the Church Investors Group (CIG) is increasing in importance. During the year CIG produced a theological examination on usury which had become a complex modern problem due to new financial products. CIG also has a regular programme of company engagement. This included Unilever, which enabled us to raise the issue of caste discrimination with them.

Representatives of both the CFB and the Connexional Team were part of the CIG delegation that met with BSkyB to discuss concerns relating to 'adult content' channels. The company responded positively and we are hopeful that changes may occur that will allow our long standing policy of avoiding the company on ethical grounds to be changed.

Climate change

Climate change is an extremely important aspect of our ethical work. Consequently, we were delighted that a major theological assessment of climate change, *Hope in God's Future*, has been produced by the Methodist Church in collaboration with the Baptist Union and the United Reformed Church. This has allowed us to draft a position paper on climate change and once detailed scrutiny of this has been completed by JACEI, a new policy framework will be recommended. We also continue to be actively involved with the Institutional Investors Group on Climate Change and the Carbon Disclosure Project.

Developing and using policy

Last year a policy statement was agreed on companies with military exposure, and this has been used to assess four companies. It was agreed that there were insufficient ethical reasons to exclude Dassault Systemes, a French producer of shipbuilding design software, and Bodycote, a UK engineer. However, JACEI did recommend that two companies should be excluded from investment. One was Morgan Crucible, a UK engineering company. It took a controlling stake in NP Aerospace, which specialises in parts for the defence and aerospace industries, which include body and vehicle armour protection. The other was the German company Thyssen Krupp, which has a shipbuilding division that has built submarines for the Israeli navy. JACEI was particularly concerned about credible allegations that these could carry nuclear missiles.

Policy on contractors providing military and security services

During the year we carried out an ethical review of G4S following its acquisition of the private security contractor Armor Group, which carries out military outsourcing in combat zones. JACEI concluded that Armor Group came close to running private unregulated armies, involvement with which was considered unacceptable. As private security contractors were not covered by the existing policy on military exposure a complementary policy statement was produced.

This states that for the purposes of investment, a company's exposure to the provision of private military or security services will only be tolerated if it does not form a significant proportion of its overall activity, is clearly conducted in a well-regulated environment with clear rules of engagement subject to legal scrutiny, and is not deployed as a substitute for national armed forces. It also emphasised that the CFB policy *Companies with Military Exposure* must be specifically applied to the provision of private military or security services by a company as such services may be regarded as raising more concern than the provision of offensive weapons.

How our funds performed

Unit price and distribution history

Schedule of valuations and distributions – Equity and Property Funds

	UK Equity Fund		Overseas Fund		Property Fund	
	Valuation p	Annual Distribution p	Valuation p	Annual Distribution p	Valuation p	Annual Distribution p
28 Feb 2005	1262.6	37.26	200.2	2.80	n/a	n/a
28 Feb 2006	1460.5	40.60	251.2	3.71	103.9	1.56
28 Feb 2007	1580.9	44.08	255.9	3.92	118.8	6.77
29 Feb 2008	1491.8	49.82	258.1	3.48	99.4	7.71
28 Feb 2009	978.5	58.27	193.9	4.24	59.2	7.66

Property Fund launched 1 December 2005

Schedule of valuations and distributions – Managed Funds

	Managed Equity Fund		Managed Fixed Interest Fund		Managed Mixed Fund	
	Valuation p	Annual Distribution p	Valuation p	Annual Distribution p	Valuation p	Annual Distribution p
28 Feb 2005	1452.9	39.54	164.8	8.03	279.4	8.97
28 Feb 2006	1703.7	43.81	169.3	7.90	316.5	9.54
28 Feb 2007	1829.2	47.50	163.0	7.59	332.5	10.53
29 Feb 2008	1745.0	52.52	165.1	7.53	320.7	11.54
28 Feb 2009	1171.0	62.23	172.8	7.48	239.7	12.70

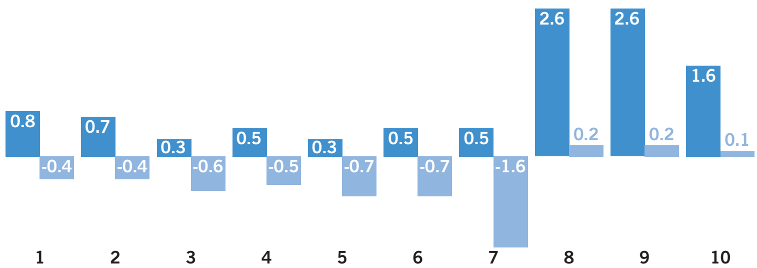
Schedule of valuations and distributions – Fixed Interest Funds

	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 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
28 Feb 2009	132.1	5.57	109.5	5.87	108.5	4.53	225.1	4.63

Corporate Bond Fund units consolidated 1 July 2005

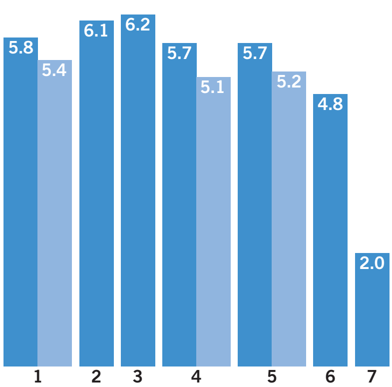
Long term returns: internal assessment
for the periods to 28 February 2009

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 FTSE 100 Index (net)
8 CFB Overseas Fund (Charity)
9 CFB Overseas Fund (Pension)
10 FTSE All World Index (ex UK)



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

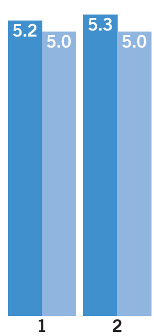
Fixed Interest
1 CFB Managed Fixed Interest Fund
2 CFB Short Fixed Interest Fund#
3 FTSE Short Gilt Index Composite#
4 CFB Gilt Fund*
5 FTSE All Stock Gilt Index
6 CFB Corporate Bond Fund#
7 iBoxx Non Gilts Index#



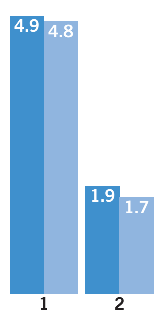
*Figures prior to 01/11/02 relate to CFB Long Fixed Interest Fund

#10 year data unavailable

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)

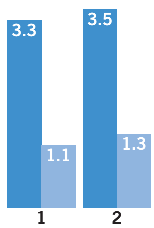


5 years % pa
10 years % pa

Long term returns: external assessment
for the periods to 31 December 2008

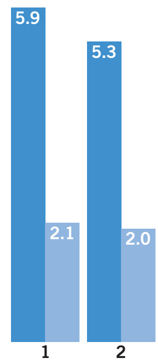
UK Equity
1 CFB

2 FTSE All Share Index



Overseas Equities
1 CFB

2 FTSE All World Index (ex UK)



UK Fixed Interest
1 CFB – Gilt

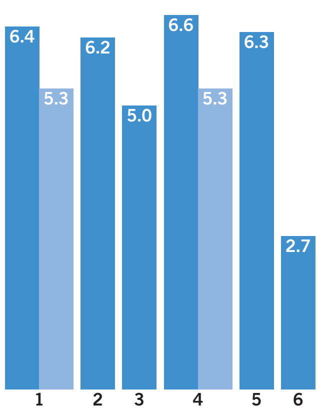
2 CFB – Short#

3 CFB – Corporate Bond#

4 FTSE All Stock Gilt Index

5 Short Fixed Composite#

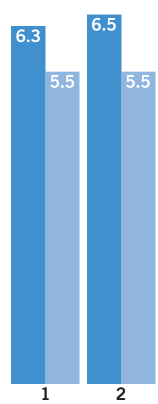
6 iBoxx Non Gilts Index#



#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.

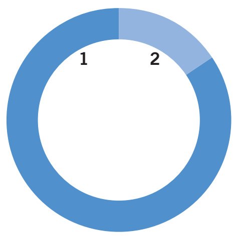
Investment parameters
(reviewed annually)

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 28 February 2009

1 UK Equity Fund 84.3%

2 Overseas Fund 15.7%



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	4.6-7.6 years
Dealing surcharge	0.15% of unit value

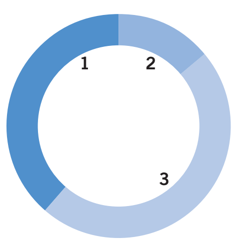
Summary of investments and other assets
as at 28 February 2009

1 Gilt Fund 38.5%

2 Corporate Bond Fund 14.1%

3 Short Fixed Interest Fund 47.4%

Modified duration of fund 6.1 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 2009

1 UK Equity Fund 59.3%

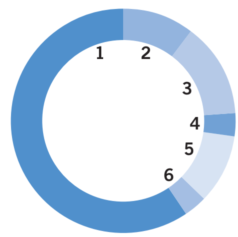
2 Overseas Fund 10.5%

3 Gilt Fund 13.6%

4 Corporate Bond Fund 3.4%

5 Short Fixed Interest Fund 9.8%

6 Property Fund 3.5%



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)	180 days
Total expense ratio	0.185%

Credit rating breakdown
as at 28 February 2009

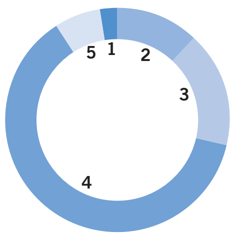
1 Aaa 2.3%

2 Aa1 12.0%

3 Aa2 16.9%

4 Aa3 62.1%

5 A1 6.8%



Average life of fund 95 days

Percentage of fund deposited with banks participating in UK Government credit guarantee scheme 59.0%

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 2009

	28/2/09 £'000s	*29/2/08 £'000s*
Portfolio of investments	**421,839**	**421,923**
Current assets		
Debtors	191	17
Bank balances	3	–
	194	17
Current liabilities		
Creditors	47	28
Bank overdrafts	–	164
Undistributed income	328	84
	375	276
Net current assets	**(181)**	**(259)**
Net assets	**421,658**	**421,664**
Represented by:		
Current deposits	320,658	315,664
Term deposits	101,000	106,000
Unitholders' funds	**421,658**	**421,664**

Statement of total return
for the year ended 28 February 2009

	28/2/09 £'000s	*29/2/08 £'000s*
Gross income	22,668	23,896
Expenses	(539)	(469)
Net income & total return for the period	**22,129**	**23,427**
Finance costs: Distributions	(21,885)	(23,355)
Net increase in undistributed income	**244**	**72**

Summary of deposits by maturity
as at 28 February 2009

	28/2/09 £'000s	*29/2/08 £'000s*
Repayable within		
On call	325,839	315,923
5 business days	6,000	6,000
1 month	10,000	19,000
2 months	14,000	28,000
3 months	10,000	16,000
6 months	18,000	19,000
1 year	34,000	14,000
2 years	4,000	4,000
Total deposits	**421,839**	**421,923**

Net asset value (NAV)/fund size

Date	*Net asset value £m*
28 February 2005	337.0
28 February 2006	374.6
28 February 2007	398.6
29 February 2008	421.7
28 February 2009	421.7

Income distribution history

Year to February	*Average rate %*	*Average CAR %*
2005	4.37	4.46
2006	4.52	4.61
2007	4.61	4.71
2008	5.56	5.71
2009	4.96	5.08

Notes to the accounts
Year to 28 February 2009

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

3 April 2009

Independent Auditors' Report to the Members of the Central Finance Board of the Methodist Church
We have audited the financial statements of the Deposit Fund of the Central Finance Board of the Methodist Church for the year ended 28 February 2009 which comprise the Balance Sheet, Distribution Table, Statement of Total Return, Summary of Deposits by Maturity, the Net Asset Value Table, Income Distribution History 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 accounting and disclosure requirements of the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in December 2005 and 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 Statement of the Council's Responsibilities. 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 of the financial position of the Deposit Fund as at 28 February 2009 and of the total return of the property of the fund for the year then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in December 2005 and the Methodist Church Funds Act 1960.

Mazars LLP
Chartered Accountants and Registered Auditors
Tower Bridge House, St Katharine's Way, London E1W 1DD

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.

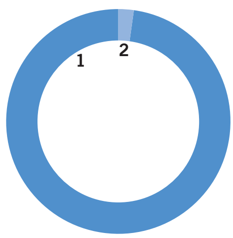
Investment parameters
(reviewed annually)

UK equities	95-100%
Cash	0-5%
Total expense ratio	0.25%
Dealing surcharge	0.30% of unit value

Valuation of UK Equity Fund
as at 28 February 2009

1 Equities 97.7%

2 Cash 2.3%



Summary of investments and other assets
as at 28 February 2009

	Market value £'000s	*CFB %*	*FTSE All Share %*
Oil & Gas Producers	55,041	21.7	21.2
Oil Equipment & Services	1,447	0.6	0.5
Chemicals	2,188	0.9	0.3
Industrial Metals	–	–	0.1
Mining	14,319	5.6	6.7
Construction & Materials	408	0.2	0.3
Aerospace	–	–	2.3
General Industrials	2,398	0.9	0.7
Electronic & Electrical Equipment	981	0.4	0.3
Industrial Engineering	576	0.2	0.4
Industrial Transportation	322	0.1	0.1
Support Services	5,888	2.3	3.0
Beverages	804	0.3	3.1
Food Producers	9,510	3.7	2.8
Household Goods	7,608	3.0	2.2
Personal Goods	–	–	0.2
Tobacco	–	–	5.0
Healthcare Equipment & Services	2,024	0.8	0.5
Pharmaceuticals & Biotechnology	27,552	10.9	9.0
Food & Drug Retailers	11,956	4.7	3.6
General Retailers	5,053	2.0	1.6
Media	8,451	3.3	2.8
Travel & Leisure	5,864	2.3	2.5
Fixed-Line Telecommunications	3,004	1.2	1.0
Mobile Telecommunications	17,873	7.0	6.4
Electricity	5,219	2.1	1.4
Gas, Water & Multi-Utilities	12,198	4.8	3.5
Banks	21,015	8.3	8.4
Non-Life Insurance	2,696	1.1	1.1
Life Insurance	6,977	2.8	2.4
Real Estate	2,660	1.0	1.2
General Financial	3,394	1.3	1.5
Equity Investment Instruments	14,301	5.7	2.7
Software & Computer Services	1,834	0.7	1.0
Technology Hardware & Equipment	128	0.1	0.2
Total investments	**253,689**	**100.0**	**100.0**
Net cash	**5,854**		
Total value of fund	**259,543**		

Portfolio valuation
as at 28 February 2009

	Holding 000s	Market value £'000s
Oil & Gas Producers		
BG Group	992	9,959
BP	3,973	17,797
Cairn Energy	65	1,265
Chevron	85	3,615
iShares S&P Global Energy Sector Fund	240	4,240
Premier Oil	69	529
Royal Dutch Shell B	1,188	17,636
		55,041
Oil Equipment & Services		
Wellstream Holdings	145	663
Wood Group (John)	405	784
		1,447
Chemicals		
Croda International	170	835
Johnson Matthey	107	1,050
Treatt	150	303
		2,188
Mining		
Anglo American	350	3,505
BHP Billiton	541	5,987
Lonmin	64	645
Rio Tinto	232	4,182
		14,319
Construction & Materials		
Gleeson (MJ) Group	145	132
Morgan Sindall	52	276
		408
General Industrials		
Rexam	440	1,153
Smiths Group	150	1,245
		2,398
Electronic & Electrical Equipment		
Halma	300	472
Spectris	118	509
		981
Industrial Engineering		
Spirax-Sarco	72	576
		576
Industrial Transportation		
Forth Ports	40	322
		322
Support Services		
Bunzl	272	1,580
Capita Group	355	2,357
Connaught	65	218
Experian Group	176	729
RPS Group	180	233
Shanks Group	250	143
Spice	700	271
Wolseley	200	357
		5,888

Portfolio valuation
as at 28 February 2009

	Holding 000s	Market value £'000s
Beverages		
Britvic	350	804
		804
Food Producers		
Associated British Foods	170	1,107
Cadbury Schweppes	485	2,602
Unilever (UK)	425	5,801
		9,510
Household Goods		
Bellway	70	442
Berkeley Group	85	740
Reckitt Benckiser	239	6,426
		7,608
Health Care Equipment & Services		
Care UK	200	556
Smith & Nephew	295	1,468
		2,024
Pharmaceuticals & Biotechnology		
Ark Therapeutics	340	155
Astrazeneca	433	9,708
iShares S&P Global Hlthcare	50	1,292
Glaxosmithkline	1,453	15,522
Shire	105	875
		27,552
Food & Drug Retailers		
Greggs	12	442
Morrison (Wm) Supermarkets	790	2,038
Sainsbury (J)	475	1,495
Tesco	2,398	7,981
		11,956
General Retailers		
ASOS	100	320
Dignity	85	524
Halfords Group	175	454
Home Retail Group	235	498
Kingfisher	235	297
Marks & Spencer Group	400	1,042
Next	125	1,460
WH Smith	136	458
		5,053
Media		
Centaur Media	500	95
Daily Mail	105	261
ITV	500	123
Lion Hudson	108	103
Next Fifteen Communication	1,035	362
Pearson	285	1,879
Reed Elsevier	485	2,539
Reuters Group	70	1,015
United Business Media	60	248
WPP Group	500	1,826
		8,451

Portfolio valuation
as at 28 February 2009

	Holding 000s	*Market value £'000s*
Travel & Leisure		
Arriva	150	651
British Airways	180	247
Carnival	50	716
Compass Group	680	2,103
First Group	290	780
Go-Ahead Group	36	329
Intercontinental Hotels Group	90	435
Whitbread	81	603
		5,864
Fixed Line Telecommunications		
BT Group	2,329	2,110
Cable & Wireless	650	894
		3,004
Mobile Telecommunications		
Vodafone Group	14,276	17,873
		17,873
Electricity		
International Power	650	1,542
Scottish & Southern Energy	320	3,677
		5,219
Gas, Water & Multi-Utilities		
Centrica	1,815	4,905
National Grid	815	5,102
Severn Trent	101	1,101
United Utilities	215	1,090
		12,198
Banks		
Barclays	1,233	1,151
Barclays 9¾% 2009 Convertible	2,000	1,313
HSBC Holdings	2,600	12,766
iShares S&P Global Financials	25	402
Lloyds Banking Group	1,750	1,020
Royal Bank of Scotland	3,200	742
SPDR Financial Sector	100	533
Standard Chartered	465	3,088
		21,015
Non-Life Insurance		
Admiral Group	130	1,111
Royal and Sun Alliance	1,155	1,585
		2,696
Life Insurance		
Aviva	825	2,384
Friends Provident	675	477
Legal & General	2,175	870
Prudential	904	2,535
Standard Life	409	711
		6,977

Portfolio valuation
as at 28 February 2009

	Holding 000s	*Market value £'000s*
Real Estate		
British Land	115	526
Hammerson	120	291
Hammerson nil paid	168	154
Land Securities Group	165	905
Primary Health Properties	215	570
Shaftesbury	80	214
		2,660
General Financial		
Aberdeen Asset Management	400	524
Icap	394	926
Man Group	357	614
Rathbone Brothers	90	675
Schroders	90	655
		3,394
Equity Investment Instruments		
Blackrock World Mining	500	1,400
Herald Investment Trust	400	752
Herald Ventures II	0	494
Herald Ventures	0	293
iShares FTSE 100	1,635	6,274
iShares FTSE 250	375	2,244
KB Fund Unit Trust	0	0
Liontrust First Growth	219	294
Liontrust Intellectual Capital	188	422
North Atlantic Smaller Cos	230	1,047
Oryx International Growth Fd	525	525
TR Property Investment Trust	540	556
		14,301
Software & Computer Services		
Alterian	485	257
Aveva Group	50	239
Micro Focus International	200	571
Sage Group	450	767
		1,834
Technology Hardware & Equipment		
Vislink	655	128
		128
Total investments		**253,689**
Net current assets		**5,854**
Total value of Fund		**259,543**

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 annually)

Overseas equities	95-100%
– N America	(42-62)%
– Europe (ex UK)	(11-31)%
– Japan	(6-16)%
– Pacific (ex Japan) & Emerging Markets	(8-24)%
Cash	0-5%
Total expense ratio	0.80%
Dealing surcharge	0.25% of unit value

Summary of investments and other assets

as at 28 February 2009

1 North America 55.1%

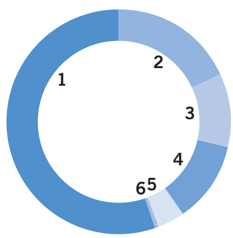
2 Europe 18.2%

3 Japan 10.5%

4 Pacific Basin ex-Japan 11.6%

5 Emerging Markets 4.0%

6 Cash 0.6%



Portfolio valuation

as at 28 February 2009

	Holding 000s	Market value £'000s
North America		
Canada		
iShares Canada S&P 60 Index	542	3,689
		3,689
United States		
Consumer Discretionary SPDR	89	1,095
General Board Domestic Stock Fund	5,949	42,428
Health Care Sector SPDR	64	1,032
iShares S&P 500	29	1,510
iShares S&P 100 .	140	3,443
Powershares QQQ Trust	42	811
Financials Sector SPDR	202	1,077
Utilities Sector SPDR	41	729
Consumer Staples Sector SPDR	75	1,071
Technology Sector SPDR	60	594
Basic Industries Sector SPDR	25	340
Energy Sector SPDR	60	1,731
		55,861
European Composite		
Baring Emerging Europe	152	482
European Fund CFB Units	28721	16,847
iShares MSCI Europe Ex-UK	170	2,093
JPMorgan European Fledgeling	65	293
		19,715
Japan		
BGI Japan Index Fund	2180	11,375
		11,375
Pacific Basin ex-Japan		
Australia		
Glebe Equities Trust	8056	1,738
iShares MSCI Australia	15	118
		1,856
Pacific Basin Composite		
First Ste Asia Pacific Sustain	1,765	2,065
First Ste Asia Pacific	1,823	6,938
First Ste Asia Pacific Leaders	603	1,207
iShares MSCI Pacific ex Japan	34	508
		10,718
Emerging Markets Composite		
First State Emerging Markets	814	2163
Blackrock World Mining	100	280
iShares MSCI South Africa	16	344
iShares S&P Latin America 40	95	1559
		4,346
Total investments		**107,560**
Net cash		**580**
Total value of fund		**108,140**

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	95-100%
Cash	0-5%
Modified duration	6.3-10.5 years
Total expense ratio	0.15%
Dealing surcharge	0.05% of unit value

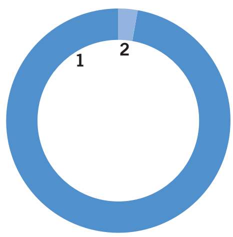
Summary of investments and other assets

as at 28 February 2009

1 British Government 97.0%

2 Cash 3.0%

Modified duration of fund 8.2 years



Portfolio valuation

as at 28 February 2009

	Holding 000s	*Market value £'000s*
Treasury 4¼% 2011	3,000	3,168
Treasury 5% 2012	4,540	4,952
Treasury 4½% 2013	2,000	2,178
Treasury 5% 2014	3,533	3,964
Treasury 4¾% 2015	4,550	5,019
Treasury 4% 2016	1,750	1,846
Treasury 5% 2018	2,000	2,250
Treasury 4½% 2019	1,750	1,879
Treasury 4¾% 2020	2,000	2,177
Treasury 5% 2025	2,250	2,409
Treasury 4¼% 2027	4,250	4,133
Treasury 4¼% 2032	3,250	3,143
Treasury 4¼% 2036	2,250	2,199
Treasury 4¾% 2038	875	936
Treasury 4¼% 2046	1,000	972
Treasury 4¼% 2055	1,750	1,731
Total investments		**42,956**
Net current assets		**1,340**
Total value of fund		**44,296**

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	95-100%
Cash	0-5%
Modified duration	4.7-7.9 years
Total expense ratio	0.15%
Dealing surcharge	0.45% of unit value

Summary of investments and other assets

as at 28 February 2009

1 Debentures 6.1%

2 Supranational 24.2%

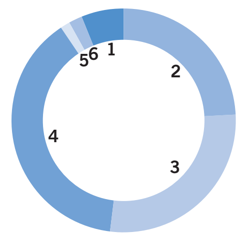
3 Corporate Unsecured
– Financial 28.0%

4 Corporate Unsecured
– Non Financial 38.5%

5 Corporate Secured – Financial 1.3%

6 Cash 1.9%

Modified duration of fund 6.3 years



Portfolio valuation

as at 28 February 2009

	Holding 000s	*Market value £'000s*
Debentures		
Peel Holdings 9⅞% 2011	500	567
Asda Property 6⅛% 2014	500	537
Witan IT 8½% 2016	250	292
Co-operative Group 7⅝% 2018	250	273
JPMorgan Fleming Claverhouse 7% 2020	250	254
Scottish American IT 8% 2022	450	469
Edinburgh IT 7¾% 2022	500	623
Monks IT 6⅜% 2023	500	445
Witan IT 6⅛% 2025	250	256
Great Portland 5⅝% 2029	500	358
Merchants Trust 5⅞% 2029	250	210
Scottish IT 5¾% 2030	500	399
		4,683

Portfolio valuation
as at 28 February 2009

	Holding 000s	*Market value £'000s*
Supranational		
Ned Waterschapsbank 5 3/8% 2010	750	778
Network Rail 4 3/8% 2011	750	778
KFW 5 3/8% 2011	500	540
KFW International 5 1/4% 2012	1,250	1,334
European Inv Bank 4 3/4% 2012	750	797
European Inv Bank 4.5% 2013	1,000	1,053
KFW 5 3/8% 2014	2,000	2,174
Ned Waterschapsbank 5 5/8% 2015	1,500	1,653
KFW 5 5/8% 2017	250	278
Intl Bank Reconstruction 5.4% 2021	1,000	1,083
European Inv Bank 5 3/8% 2021	1,250	1,352
Reseau Ferre 5.5% 2021	1,250	1,371
Network Rail 4 3/4% 2024	750	734
KFW 5.5% 2025	500	538
Intl Bank Reconstruction 4 7/8% 2028	1,250	1,258
Reseau Ferre 5 1/4% 2028	1,000	1,031
Ned Waterschapsbank 5 3/8 2032	500	524
Network Rail 4 3/4% 2035	500	497
European Inv Bank 5% 2039	750	797
		18,570
Corporate Unsecured – Financial		
Lloyds TSB 9 1/2% 2009	500	503
American Express 5 5/8% 2009	750	688
Bank of Scotland 4 3/8% 2010	750	742
Toronto Dominion Bank 6 7/8% 2011	1,250	1,329
Sun Life of Canada 5 3/4% 2011	500	498
Bank of Scotland 4 5/8% 2011	500	526
Bank of New York Mellon 6 3/8 2011	750	792
AIG Sun 5 5/8% 2012	1,000	740
Rabobank Nederland 5 1/8% 2014	1,750	1,847
Bank of America 5 3/4% 2014	500	465
Morgan Stanley 5 1/8% 2015	500	394
JPMorgan Chase 5 3/8% 2016	1,250	1,081
Bank of America 5 1/4% 2016	1,000	808
Goldman Sachs 6 1/8% 2017	500	443
Bank of Ireland 4 7/8% 2018	500	412
Societe Generale 5.4% 2018	750	685
Santander 5.75% 2018	500	456
UBS Ag 6 5/8% 2018	1,000	1,014
Royal Bank of Scotland 5 5/8 2018	1,000	1,050
Lloyds TSB 6 3/4% 2018	1,000	1,066
ANZ 4 3/4% 2018	500	434
Co-operative Bank 5 7/8% 2019	250	218
Commerzbank 6 5/8% 2019	500	422
Bank of America 5.5% 2019	1,250	1,164
Danske Bank 5.375% 2021	500	305
Wells Fargo 5 1/4% 2023	500	335
HSBC 5 75% 2027	750	642
ABN-Amro Bank 6 3/8% 2028	500	477
Aegon NV 6.125% 2031	750	514
Prudential 6 1/8% 2031	250	155
Legal & General 5 7/8% 2033	750	515
HSBC Bank 5 3/8% 2033	1,000	802
		21,522
Corporate Secured – Financial		
Bank of Scotland 4 7/8% 2010	1,000	1,001
		1,001

Portfolio valuation
as at 28 February 2009

	Holding 000s	*Market value £'000s*
Corporate Unsecured – Non Financial		
Coca Cola 5 1/4% 2009	450	447
RWE Finance 4 5/8% 2010	500	510
Tesco 6 5/8% 2010	250	265
BP Capital 5 3/4% 2010	500	526
ENI Coordination 4 7/8% 2010	1,000	1,039
Deutsche Telekom 6 1/4% 2010	500	521
National Grid 4 3/4% 2010	1,000	1,022
Toyota Motor 5 1/4% 2010	1,000	1,040
Toyota Motor 4 5/8% 2011	2,000	2,038
France Telecom 7 1/2% 2011	500	538
General Electric 6 1/8% 2012	1,000	1,013
Eon Int Finance 6 3/8% 2012	1,250	1,336
Carrefour 5 3/8% 2012	500	527
Vodafone 4 5/8% 2014	500	500
Deutsche Telekom 4 7/8% 2014	500	494
Pearson 7% 2014	250	266
General Electric 5 5/8% 2014	1,500	1,455
Hutchison 6 3/4% 2015	250	239
Reed Elsevier 5 5/8% 2016	250	224
St Gobain 5 5/8% 2016	250	210
Telefonica 5 3/8% 2018	500	488
Anglo American 6 7/8% 2018	750	666
Bayer 5 5/8% 2018	250	247
Eon 6% 2019	750	758
Tesco 5 1/2 2019	1,250	1,258
Coca-Cola 6 1/2% 2021	500	502
Roche Finance Europe 5 3/8% 2023	1,000	892
RWE 5 5/8% 2023	1,250	1,138
Johnson & Johnson 5 1/2% 2024	1,500	1,519
France Telecom 5 1/4% 2025	1,000	879
Bouygues 5 1/2% 2026	250	190
Electricite de France 6 1/4% 2028	1,500	1,456
British Telecom 5 3/4% 2028	250	177
UPS 5 1/2% 2031	1,000	830
Electricite de France 5 7/8% 2031	1,000	941
Astrazeneca 5 3/4% 2031	1,500	1,431
East Japan Railway 4 3/4% 2031	1,250	1,092
Glaxosmithkline 5 1/4% 2033	1,000	922
		29,596
Total investments		**75,372**
Net current assets		**1,446**
Total value of fund		**76,818**

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	70-90%
Debentures & Unsecured Loans	10-30%
Cash	0-5%
Modified duration	3.1-5.2 years
Total expense ratio	0.15%
Dealing surcharge	0.10% of unit value

Summary of investments and other assets

as at 28 February 2009

1 British Government 71.4%

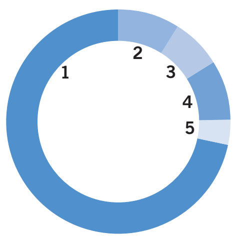
2 Supranational 9.0%

3 Corporate Unsecured – Financial 7.2%

4 Corporate Unsecured – Non Financial 8.6%

5 Cash 3.8%

Modified duration of fund 4.2 years



Portfolio valuation

as at 28 February 2009

	Holding 000s	*Market value £'000s*
British Government Stock		
Treasury 4¼% 2011	600	634
Treasury 5% 2012	2,500	2,726
Treasury 5¼% 2012	2,500	2,754
Treasury 5% 2014	1,250	1,402
Treasury 4¾% 2015	1,500	1,655
Treasury 4% 2016	4,250	4,483
Treasury 5% 2018	2,750	3,094
		16,748
Supranational		
Ned Waterschapsbank 5⅜% 2010	500	518
KFW 4¾% 2010	250	262
European Inv Bank 4.5% 2013	1,000	1,053
KFW 5⅜% 2014	250	272
		2,105
Corporate Unsecured – Financial		
AIG 5⅝% 2009	500	423
Rabobank 4¾% 2009	500	501
Bank of America 6⅞% 2010	500	514
Bank of Scotland 4⅜% 2010	250	247
		1,685
Corporate Unsecured – Non Financial		
BG Plc 5⅜% 2009	250	249
BP Capital 5¾% 2010	250	263
ENI Coordination 4⅞% 2010	250	260
Toyota Motor 5¼% 2010	500	520
General Electric 5⅝% 2014	750	727
		2,019
Total investments		**22,557**
Net current assets		**904**
Total value of fund		**23,461**

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	80-100%
Debentures & Unsecured Loans	0-20%
Cash	0-5%
Modified duration	9.2-15.2 years
Total expense ratio	0.15%
Dealing surcharge	0.20% of unit value

Summary of investments and other assets

as at 28 February 2009

1 British Government 83.1%

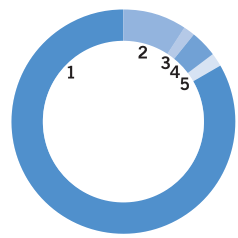
2 Supranational 9.2%

3 Corporate Unsecured – Financial 1.9%

4 Corporate Unsecured – Non Financial 3.7%

5 Cash 2.1%

Modified duration of fund 11.8 years



Portfolio valuation

as at 28 February 2009

	Holding 000s	*Market value £'000s*
British Government Stock		
Treasury 2½% 2011	1,900	5,484
Treasury 2½% 2013	1,800	4,416
Treasury 2½% 2016	700	1,941
Treasury 1¼% 2017	200	218
Treasury 2½% 2020	2,000	5,627
Treasury 1⅞% 2022	11,500	12,345
Treasury 2½% 2024	2,800	6,737
Treasury 1¼% 2027	2,100	2,184
Treasury 2% 2035	6,600	9,283
Treasury 1⅛% 2037	3,900	3,940
Treasury 1¼% 2055	200	237
		52,412
Supranational		
Ned Waterschapsbank 3% 2011	700	864
European Inv Bank 2.6% 2013	2,200	2,697
Network Rail 1.9618% 2025	2,000	2,235
		5,796
Corporate Unsecured – Financial		
Rabobank 2.324% 2013	650	743
Nationwide 4¼% 2024	250	490
		1,233
Corporate Unsecured – Non financial		
Tesco 2016	150	196
BG 4.1875% 2022	500	661
Severn Trent 3.86% 2028	500	695
Artesian Finance 3.625% 2032	650	782
		2,334
Total investments		**61,775**
Net current assets		**1,326**
Total value of fund		**63,101**

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

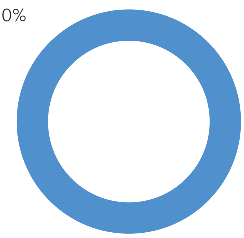
Quarterly on first working day of calendar quarter

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 2009

Property Income Fund for Charities 100.0%



Summary of investments and other assets

as at 28 February 2009

	Holding 000s	*28/2/09 £'000s*
Property Income Fund for Charities	3,830	2,608
		2,608
Net current assets		**3**
Total value of fund		**2,611**

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
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)
Sue Haworth
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