

44. Central Finance Board of the Methodist Church

Report for the eighteen-month period that ended 31 August 2024 as approved by the Board at a general meeting of 16 December 2024

Chair's statement

Introduction

It is only six months since I last prepared a statement for the annual report of the Central Finance Board (the CFB). Traditionally, our reporting date has been the end of February, but the Board approved a change in accounting date to 31 August at its general meeting in 2023. To effect this change of date, the Board has therefore been enjoying a long eighteen-month reporting period from 1 March 2023 to 31 August 2024. Our general meeting of April 2024 approved written reports for the twelve-month period ended 29 February 2024 from myself and our Chief Executive Officer. These reports were submitted to the Conference in 2024. However, that report did not include financial statements due to the long reporting period.

This report will therefore include the financial statements for the eighteen-month period ended 31 August 2024. In future the CFB will report as at 31 August in each year, in line with the reporting date for most entities within the Methodist Church of Great Britain.

The end of an era

The attrition in the assets managed by the CFB has been well documented as the Methodist Pension Schemes have taken advantage of higher interest rates to “de-risk” their assets. This has been great news for the finances of the Church but has presented an enormous challenge for the CFB. The last of the pension scheme money managed on behalf of three major pension schemes will leave us in December 2024, meaning that the CFB and Epworth will have lost £550m of assets under management over the last five years (a small AVC portfolio of £4m will still be with us). This attrition was always anticipated by the pension trustees and the Executive, but its speed was faster than expected. We could not have managed the transition to a more outward facing organisation without the support of the Methodist Council. This period's financial statements include additional management fees of £500k that we received from the Methodist Council during the period.

Changing the shape of our business

The loss of the pension scheme assets means that the organisation manages far less equities than previously. In the five years to August 2024 the equities under management have fallen from £680m to £245m. This could have significantly reduced the power of our ethical voice in the investment market, but I am pleased to report that our Chief Responsibility Officer, the Revd Dr Andrew Harper, has managed to raise the Methodist Church's profile with company boards during this time.

As well as equities, the CFB has also seen the bonds that it manages greatly diminish in value with the withdrawal of the pension scheme assets. This resulted in the consolidation of four bond funds into one managed fixed interest fund last year. With equity assets suffering a similar fate, the Executive is exploring whether the CFB Equity funds should also be merged into a managed vehicle.

At the general meeting earlier this year we were asked to report the recent changes in the assets managed by the CFB. Here is the 5-year history of each Fund's asset value:

CFB Fund value 2020-2024

	08.24 £m	08.23 £m	08.22 £m	08.21 £m	08.20 £m
UK Equity	30	56	164	248	337
Global Equity	30	48	136	198	147
Short Fixed	-	13	14	15	14
Gilt	-	5	4	5	5
Corporate Bond	-	20	18	114	100

Property	13	14	24	23	20
Managed Mixed	28	27	30	32	27
Managed Fixed	34	-	-	-	-
Methodist Council Medium Term	9	11	-	-	-
Methodist Council Long Term	61	61	-	-	-
Total Ex Deposit	205	255	389	637	623
Deposit	420	354	356	372	345
Total All	625	609	745	1,009	968

The Funds of the Methodist Council exclude assets invested into other CFB Funds. The CFB Managed Equity Fund is not included in the above table as it invests all of its assets into other CFB Funds.

Efforts to replace the lost assets have focussed on Epworth's Cash Plus Fund. The interest rate paid by this Fund closely tracks the Bank of England base rate, offering highly attractive interest rates with same day access to UK charities. Over the last eighteen months the value of this Fund has increased by £181m. At the 31 August £703m (65%) of the assets managed within the organisation were Deposit Funds. Recognising that the favourable investment environment for the Deposit Funds could deteriorate later this decade, the Epworth business development team is focusing on the promotion of our managed portfolio and managed fund solutions for charities. They have built up a tremendous pipeline of potential new business – the success of the next year will be driven by whether or not they manage to convert this pipeline into new business.

The Deposit fund system

I noted in my last report the issues that users are having with our deposit fund system. It runs on very old software that has problems dealing with new software upgrades and communication with the separate online portal. I am once again grateful to the Methodist Council who have provided finance for a project to replace the systems that the Deposit fund uses. This project is already up and running and I hope to see a significant improvement in the service that we provide to church treasurers by the end of 2025. Part of the project will be looking at opportunities for digitisation and we will work with the Connexional Team to explore how this could affect the broader Church.

Thanks

Several times in this report I have referred to financial support from the Methodist Council as we dealt with the sudden loss of funds under management. Not only has their support been financial but they have also given us tremendous encouragement. The team has moved in to the connexional offices in Tavistock Place and I look forward to the opportunities for closer collaboration that this will give us.

John Sandford
Chair
12 December 2024

Chief Executive Officer's report

The Chair has already reflected upon the assistance we have received from the Methodist Council over the last 18 months. This has enabled Epworth to invest in business development resources and activities leading to strong sales growth over the last 18 months, particularly in Epworth's Cash Plus Fund. We have yet to replace all of the assets under management that have been lost from the CFB Pension Schemes but there are encouraging signs that we will succeed in this key strategic objective.

Major projects

The new financial year is seeing the delivery of several projects that the team have been working on for some time.

Move to Tavistock Place

In November 2024 we became the main tenant on the top floor of Methodist Church House in Tavistock Place. We moved into a floor that is fitted out to the same standard as the Connexional Team enjoys in the rest of the building. We have our own meeting rooms but also have access to larger spaces on the ground floor through a reservation system.

Deposit Fund System

Our Chair has already mentioned the financial support our review of our Deposit fund systems has received from the Methodist Council. This project is investigating how we can modernise our operating model so that it is more digital and more accessible to church treasurers. In parallel with rethinking our processes in the Deposit Fund, we are looking at ways that we can protect the Church from the activities of bad actors that may seek to use the myriad accounts of the Church for nefarious purposes.

Epworth's resignation as an Authorised Fund Manager

Epworth has stepped back from its role as Authorised Fund Manager (AFM) to the Epworth Investment Fund for Charities. The regulatory burden of this role had become too demanding for a firm of Epworth's size. Epworth remains as the sponsor and investment manager to the Fund. Replacing Epworth as the AFM is Waystone, the largest independent Authorised Fund Manager for regulated funds in the UK. At the same time as Epworth stepped down as the AFM, the other Trustee to the Fund also changed with HSBC stepping down to be replaced by Bank of New York Mellon. This change of Trustee also involved a change of custodian to the Fund and the Epworth team were involved in a major transfer of data and assets between the custodians in October 2024.

New Trustee and Custodian to the Epworth Cash Plus Fund

HSBC are also stepping down as the trustee and Custodian to the Epworth Cash Plus Fund. These roles are likely to transfer to the National Westminster Bank (trustee) and CACEIS (custodian) in the first quarter of 2025.

Merger of the Epworth UK Equity Fund & Epworth Climate Stewardship Fund

In between all the above projects, the Change team are looking to organise the merger of Epworth's two Funds that invest in the UK Equity market. The Climate Stewardship Fund was launched when some of Epworth's clients wished to disinvest from the oil and gas sector ahead of similar recommendation from the Methodist Church's Joint Advisory Committee on the Ethics of Investment. That differentiator between the Funds disappeared several years ago and the disinvestment by the Methodist Pension Schemes has shrunk both Funds down to uneconomic sizes. A merger of these Funds will also resolve a potential regulatory issue with the naming of the Climate Stewardship Fund as the FCA's new Sustainability Disclosure Requirements start to bite.

Award

I am delighted to announce that, for the third year in a row, Epworth received the award for best Charity Investment Fund Management Firm in the UK from the Wealth & Finance Awards.

Thanks

I must not forget to express my gratitude in this report to the Council and Epworth Board members who work so hard to support us and to the staff of the CFB that have stuck with us through difficult times, keeping their positive attitude and showing why the CFB is a unique place to work in the City of London.

David Palmer
Chief Executive Officer
12 December 2024

Chief Investment Strategist's report

The last 18 months have been a positive period for most investment markets, with leading global equity markets testing new highs, albeit with different drivers. The boom in artificial intelligence and technology has driven US, and thus global markets, while the UK, despite being a long-time underperformer, has had a good year with many companies seeing takeover bids. Inflation has moderated in 2024 and so interest rate sensitive assets such as bonds and infrastructure have improved after a challenging period. Our focus at the CFB has been to expand the range of external ethical funds we use to complement our in-house products and offer a strong, risk adjusted portfolio of investments that are aligned with our Christian values.

We expect central banks to continue cutting interest rates slowly through the year, but the number of interest rate cuts is difficult to judge given the volatility in economic data and the number of elections taking place this year. We believe the risk of economic shocks has reduced but not disappeared completely, and the constant threat of geopolitical escalation continues to cloud the risk outlook. We do not think inflation should remain structurally higher now that the recent supply shocks have largely run their course, but further shocks cannot be ruled out. We have continued with a neutral position in equities, monitoring valuations for signs of excess after a prolonged period of strong performance across markets globally and think there continues to be a risk of near term correction. We continue to view bonds as attractive assets at current yields, considering our expectations for interest rate cuts and given the ongoing economic risks. We continue to have a negative view towards property assets in the UK, with a lack of available capital and significant investment needs, particularly in the office space. We believe some infrastructure assets are undervalued, but it is a wide sector. Private equity has performed better where investments are high quality and technology focussed, which we expect to continue, whilst commodities will remain volatile, driven by geopolitics.

The CFB UK Equity Fund (investing mainly into the Epworth UK Equity Fund) has had a strong 12 months, supported by takeover activity in the conviction part of the portfolio. In contrast the CFB Global Equity Fund (investing mainly in Epworth's Global Equity fund) has had a mixed year, with poor relative performance in the conviction portfolio due to the absence of large technology stocks, being offset by strong returns in the core portfolio.

Performance to 31 August 2024

	1 year %	3 years %pa	5 years %pa	10 years %pa
UK Equity Fund	18.8	3.9	5.6	5.8
FT All Share	17.0	7.5	6.6	6.1
Global Equity Fund	15.3	4.3	9.3	11.2
FT All World	19.4	7.9	10.9	11.9
Managed Mixed Fund	10.9	1.7	4.9	6.1

Chief Responsibility Officer's report

The CFB has remained focused on more effectively integrating our theological principles with our policies on ethical investing. These enhancements demonstrate the CFB's ongoing dedication to fulfilling God's call for stewardship over the planet and a concern for its people.

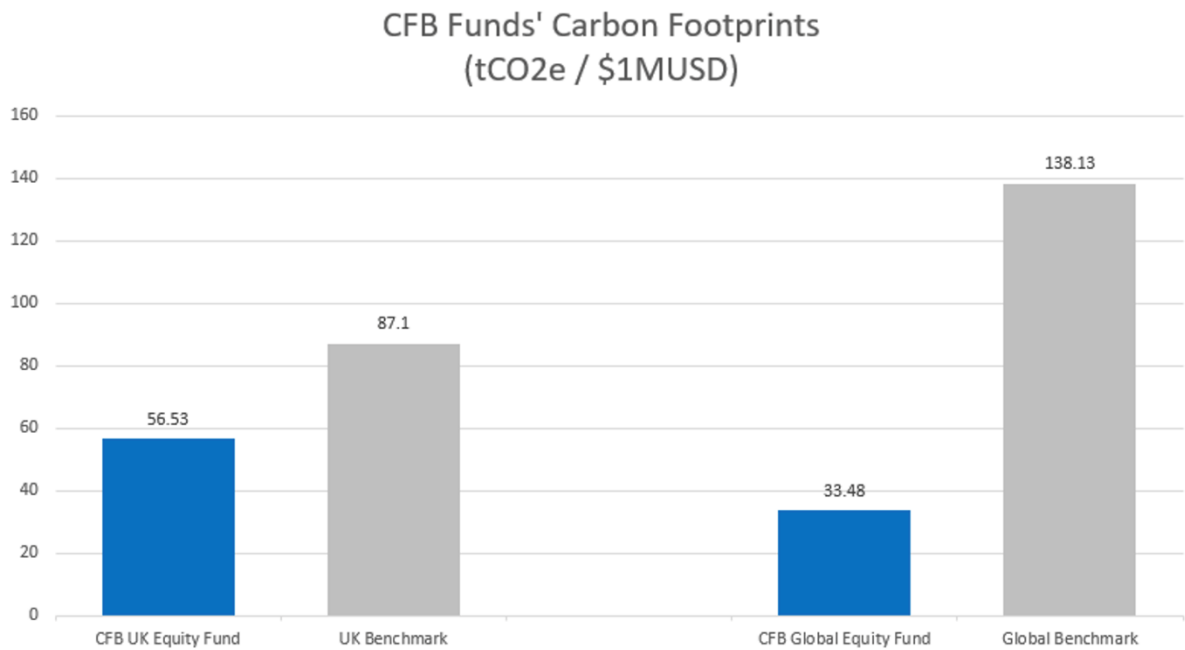
Over the last 18 months, the CFB has also sought to reflect the core social justice values of the Methodist Church, as detailed in the *Justice-Seeking Church* report, by updating ethics policies to prioritise equality, personal integrity, and communal support. Importantly, the CFB adopted a new Conflict policy that seeks to implant these values into the devastating rise in global armed conflict.

Alongside policy making, the CFB remains committed to engaging companies to improve corporate behaviour. Working in collaboration with other investors, the CFB led the charge in exposing hypocrisy within HSBC and Barclays climate commitments. The resulting media pressure resulted in HSBC changing its climate policy to include greater investor transparency, and Barclays agreeing to ongoing scrutiny meetings.

Other areas of engagement include human rights abuses on tea plantations, the promotion of healthy food offerings, petitioning for greater concern on biodiversity, and tax justice.

The implied carbon footprints of the companies in which we invest remain a key performance indicator for the CFB and I am pleased to confirm that we continue to outperform in this regard.

Carbon footprint of CFB Equity funds vs benchmark at 31 August 2024 (see below)



*****RESOLUTION**

44/1. The Conference received the Report.