40. Central Finance Board of the Methodist Church

Report for the twelve-month period ended 29 February 2024

Introduction

The Council of the Central Finance Board has determined to change the accounting reference date of the Central Finance Board to 31 August. This aligns the financial reporting of the Board with that of the broader Methodist Church. The Board will therefore be preparing financial statements for an eighteen-month period ending 31 August 2024. The Methodist Church Funds Act 1960 requires that the financial statements of the Board are presented to a general meeting at least annually. There will therefore be a general meeting of the Board on Monday 16 December 2024 where the main business of the meeting will be to approve those financial statements and review the appointment of auditors to the Board.

However, before the December general meeting of the Central Finance Board, there is the significant matter of the 2024 Methodist Conference.

This report on the activities of the Central Finance Board for the period 1 March 2023 to 29 February 2024 is therefore submitted to the Conference for consideration. It does not contain financial statements. Financial statements for the 18-month period to 31 August 2024 will be included in the report of the Central Finance Board to the 2025 Methodist Conference to be held in Telford. The content of this report has been expanded this year to include submissions from Roz Amos, the Board's Chief Investment Strategist and the Revd Dr Andrew Harper, our Chief Responsibility Officer. The report was approved by the general meeting of the Central Finance Board on Friday 26 April 2024.

Chair's statement

Investing for the future

Last year I reported on the significant decline in the assets managed by the Central Finance Board as the assets we managed on behalf of several Methodist pensions schemes declined by £382m, or 37% of our total assets under management. In response to these losses, the Council made several redundancies, increased the management fees in the CFB Funds and made other significant cost savings. However, we still reported a consolidated loss for the twelve-month period ended 28 February 2023 of £572k. These cost savings alone would not have been enough to secure the CFB's future and I must once again express my thanks to the Methodist Council who paid sufficient additional management fees to the CFB during 2023/24 to ensure that we will operate profitably during the current financial year.

This additional support has given the CFB breathing space to focus on the long-term solution to the shrinking assets that we manage on behalf of the Church – growth in our regulated subsidiary, Epworth Investment Management Limited. The Chief Executive's Report updates the Conference on the progress that Epworth has made in new business and product design in the last year. Epworth has had a successful year and it is pleasing to see the CFB's long term strategic plan delivering the additional clients' assets that are needed to replace the substantial attrition in the assets that the CFB manages for the Church.

Perhaps the greatest change in Epworth over the last three years has been the identification and annunciation of their client propositions. Historically, Epworth presented itself as the Manager of four Charity Commission regulated funds – one investing in equities, two in sterling bonds, and a deposit Fund. The structure of these funds and the way that they are presented to the potential investor has changed considerably. Alongside the Deposit Fund, there are now three equity funds that form the foundation of a portfolio management service for Charities. Epworth therefore presents itself as the potential manager of a charity's entire liquidity – their cash and their "risk" money. The Epworth funds are used as the most efficient way to deliver Epworth's unique offering of investing with Christian ethics. However, for other asset classes third party fund managers are used. Epworth chooses the best in-class Manager - but only after ensuring that the external Manager meets the rigid criteria as set out in our unique and much-admired Ethical Pillars Document.

David discusses the performance of our Discretionary Service for Charities and the Epworth Multi Asset fund in his CEO report. Whilst strong sales of the Epworth Cash Plus Fund have led to a significant improvement in the financial position of the consolidated organisation, it is these client propositions that will secure our long-term future.

Improvement in investment returns.

The "annus horribilis" that the CFB suffered in 2022 was compounded by a year of poor absolute and relative investment returns in most of our Funds. The war in Ukraine led to a surge in the stock prices of many companies in which the CFB does not invest on ethical grounds – oil and gas companies and defence companies. I am pleased to report that 2023 saw a reversal of much of this underperformance. The CFB's "First Fund" is now called the Managed Mixed Fund and wholly invests into Epworth's Multi Asset Fund. That Fund has just been awarded a four crowns rating by a major fund rating agency – meaning that it sits within the top 15% of the funds in its peer group for consistency of good investment returns.

The CFB's financial position

We are now two thirds of the way through this eighteen-month reporting period. I am hopeful that, after the injection of additional fees from the Methodist Council, we will finish the new financial year-end in positive territory. A further key objective is that we end the financial period trading on a positive basis through our organic business. The balance sheet of the Central Finance Board remains strong with in excess of £2m of consolidated net assets as at 29 February 2024.

Moving to Methodist Church House

We are looking forward to moving in to the new offices at Methodist Church House in Tavistock Place alongside our colleagues in the Connexional Team. It is looking highly likely that we will be in the new building by the end of this calendar year. I hope that we will be able to hold our general meeting in December in the meeting rooms on the ground floor of Tavistock Place.

Membership of Council

The general meeting of the Central Finance Board being held on 26 April 2024 agreed the following changes to the membership of Council:

Retirements

Peter Howson and Morwenna Williams

Peter and Morwenna will retire by virtue of the age limitation contained in the governing statute. Both will continue to serve as Board members and advisers to the Council. I must extend my thanks to them both for their diligent and passionate support for the Central Finance Board.

Appointments

Nicola Sivori, Andrew Slim and Julian Blakemore

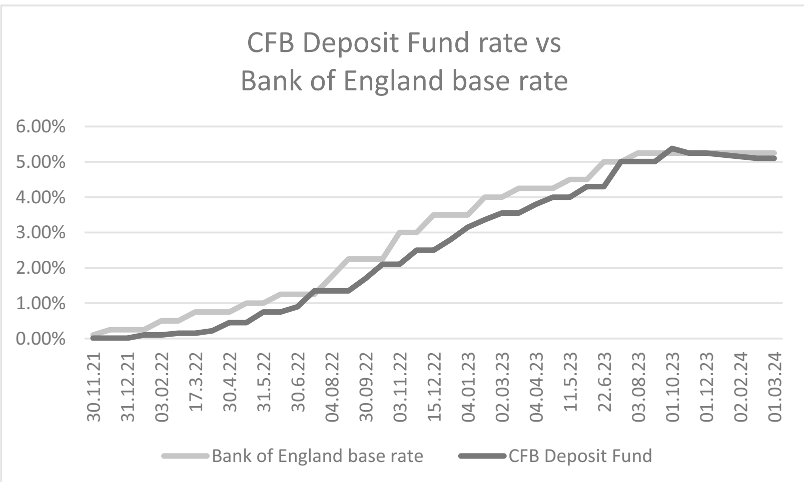
Nicola, Andrew and Julian filled casual vacancies on the CFB Council at the Council meeting held on 26 March 2024. The General meeting of the CFB to be held on 26 April 2024 confirmed these appointments.

Chief Executive Officer's report

After a difficult 2022, I am pleased to reflect on a much-improved 2023. The rise in interest rates has made Epworth's Cash Plus Fund an attractive proposition to charities and I must thank Simon Woolnough for the amount of tyre rubber and shoe leather he has used during the last year to visit numerous bursars and treasurers. One comment that we have received consistently is about the speed and ease with which we open new accounts and for that I must thank the client, compliance and operations teams. As our Deputy Chair frequently reminds me; everyone in the business can contribute to our sales effort. Whilst we have had a much better year, there is still a lot of work to do. We will only be able to report a profit this year thanks to the help from the Methodist Council and we will lose a further £34m of assets from the Methodist pensions schemes before the end of this calendar year. By that point, all of the major accounts from the pension schemes of the Methodist Church with the CFB or Epworth will have been closed, a decline of £570m over the last seven years. A major capital investment is also required in our Deposit Funds to significantly improve our service to clients. 2023 has been a much better year – but we are not yet in a position to switch from a cost constraining model to a push for rapid growth.

CFB Deposit Fund

When I wrote this report last year the CFB Deposit Fund had just declared an interest rate of 3.56%. Today it is 5.10%, having peaked at 5.38% in October 2023. As the Chief Investment Strategist notes, we are not expecting interest rates to retreat quickly, meaning that churches and our other depositors will continue to receive positive real returns (ie adjusted for inflation) on their balances in the Deposit Fund. This Fund has seen some attrition in the last year with several major Methodist institutions needing to access their reserves for operational purposes, but the core balance invested through the Trustees for Methodist Church Purposes remains remarkably stable.



We have a major project underway to investigate how we can better support this Fund from an operational and Information Technology perspective. The current IT platform that the Fund sits on uses legacy software that is not robust nor well supported. Nowhere is this more evident than in the portal that our deposit fund clients use to access their balances and pass through instructions. This is frequently “down” due to issues with compatibility with other systems as they get upgraded. We have engaged an external firm of consultants to identify potential solutions, their costs, risks and delivery timetable. This is likely to lead to a major project that will significantly upgrade our systems within the next 24 months. We will also need to consider how we interface with the broader Church as we move away from paper correspondence and into the world of electronic communications – and I suspect that this is a project that will take a lot longer than two years.

The CFB’s Fixed Interest funds

When I joined the Central Finance Board over seven years ago, the CFB offered a broad range of funds that invested in the Sterling bond market:

CFB Index -Linked Bond Fund

CFB Short Dated Fixed Interest Fund

CFB Corporate Bond Fund

CFB Gilt Fund

CFB Managed Fixed Interest Fund

This range of funds met the credit and duration needs of our institutional clients; unfortunately, these clients have subsequently withdrawn their bond and credit portfolios from the CFB’s management. The Index-Linked fund was closed three years ago and the Short-Dated, Corporate Bond and Gilt funds were closed in early 2024 in reflection of the placement by the Methodist pension’ schemes of their credit portfolios with third party managers. The small balances in the residual funds were merged into the CFB’s Managed Fixed Interest Fund. This Fund uses external collective investment schemes for government and corporate debt exposure.

Epworth Investment Management Limited

The strategic plan of the Central Finance Board has always acknowledged that the assets the CFB managed on behalf of the Church would decline and that, to replace them, we would need to grow our external business through our wholly owned subsidiary, Epworth

Investment Management Limited. The sudden attrition of 2022 increased the burden on Epworth to deliver this growth at a time when our capacity for risk was limited. Epworth therefore focused its sales efforts in 2023 on the Epworth Cash Plus Fund where there was an opportunity created by the sudden rise in interest rates and the inability of the High Street banks to pass all of the interest rate rises through to their customers. The Epworth Cash Plus Fund is available to charities in the United Kingdom and can use the structural advantage offered by the core investment from the CFB Deposit Fund to place money on longer term deposits whilst still offering instant access to our depositors. I am delighted to report that gross sales of that Fund in the last year have exceeded £120m (£80m net). The recovery in consolidated assets under management from their low of £860m to £980m today can be largely attributed to the sales of this Fund, together with some help from the better returns from the equity markets.

Whilst Epworth's Cash Plus Fund has been the source of our recovery over the last year, we do not see it as the long-term solution as sales and depositors will inevitably dry up as interest rates decline. For our longer-term security, we need to see growth in Epworth's risk products – its discretionary portfolio service for charities, its Multi Asset fund and the Model Portfolio Service for the retail investor.

Epworth's portfolio service has produced good investment returns, consistent with the relevant risk profiles across its five models since its re-launch in January 2023. This consistent performance, combined with a simple on-line reporting system, places Epworth in a strong place to leverage their strength in the Christian ethics of investment to seek long term investment monies from Charities. The Multi Asset Fund offers a similar investment solution but within a product wrapper for those charities that want a simple solution. As the financial position of the organisation improves, Epworth is increasing its investment in relevant Conferences and other profile-raising opportunities. Our Chief Responsibility Officer is becoming an in-demand guest on mainstream media such as the ITN news and The Times newspaper. The impact of our improved propositions and the work of the business development team is evident in the strength of Epworth's new business pipeline. I am pleased to add that this has been delivered at the same time as Epworth made a significant investment in our compliance culture as it dealt with the FCA's Senior Managers & Certified Regime, Consumer Duty and the new Sustainability Disclosure Requirements.

Epworth's offering to the "person in the pew", the Model Portfolio Service (MPS), has seen only limited take up. Epworth did not embark on a direct-to-consumer sales strategy due to the substantial costs this required. Instead, the sales strategy for MPS is via independent financial advisers. This has certainly slowed the sales process down and Epworth made an initial mistake with the product pricing compounded by poor performance from the services' sub–Investment Manager. The Epworth board has taken steps to remedy both of these issues and is hopeful that the sales of their Model Portfolio Service for the retail investor will pick up later in 2024.

Award

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

Report of the Chief Investment Strategist

The last year in investment markets has been one of improvement globally, although this overall rosy picture hides quite a lot of variation in the performance of regions and countries. Around the world inflation has fallen back to close to long-term targets, following the spikes seen a year ago. While interest rates remain at elevated levels compared to the preceding decade, most market participants are expecting to see falls in these rates throughout the year. There is cautious optimism that an economic 'soft landing' has been achieved - that is, policymakers have succeeded in reducing inflation without creating a deep or long recession. The US economy has surprised on the upside with its strength and resilience, and even in other markets such as Europe and China where growth has been sluggish, we are seeing tentative green shoots of recovery.

This overall rosy picture hides quite a lot of variation in the performance of various asset classes. The outstanding performer, in terms of both economic and stock market growth, has been the United States, and in particular a small number of large US technology companies which are at the forefront of the new technology super-cycle emerging in the form of artificial intelligence. These companies are now very large but also very profitable, and are increasingly dominant in global stock markets, and have been nicknamed the 'Magnificent Seven'.

Global equities, turbocharged by this Magnificent Seven, returned 18.3% over the year. The UK equity market, by contrast produced a barely positive 0.6%, highlighting the impact of exposure to these high growth sectors. Our CFB Funds have performed broadly in line with the indices over the year. The UK bond market was largely flat, but higher yields meant that overall returns were around 4%. Cash rates remain high, and the CFB Deposit Fund has a rate of over 5% at time of writing, although this is expected to fall through the year as interest rates decline. Highly indebted sectors, such as property and infrastructure, have performed poorly due to the increased interest rates we have seen.

CFB Fund performance

2023 was broadly a better year for ethical equity funds as the oil price stabilised. As noted above, the CFB's Global Equity Fund significantly outperformed the UK Fund Equity Fund:

CFB Equity funds: Investment performance to 29.02.2024 *(All figures annualised and after fees)*

	Fund size 28.2.23 (m)	Fund size 29.2.24 (m)		One year	Three years p.a.	Five Years p.a.	Ten years p.a.
CFB UK Equity Fund	£63.5	£41.1m	Fund	0.48%	4.81%	3.95%	4.58%
			Benchmark	0.57%	7.78%	5.02%	5.00%
			Excess return	–0.09%	–2.97%	–1.07%	–0.42%
CFB Global Equity Fund	£49.9	£35.1m	Fund	16.06%	8.52%	10.96%	11.46%
			Benchmark	18.26%	10.93%	12.44%	12.47%
			Excess return	–2.20%	–2.41%	–1.44%	–1.01%

The decline in the value of the CFB equity funds reflects further withdrawals by the Methodist pensions schemes during the year.

The fixed Interest markets showed a positive return in 2023 but the substantial falls seen in 2022 are reflected in the negative longer-term numbers. The CFB Managed Fixed Interest Fund is the only Fund (outside of the CFB Property Fund) that does not invest through equivalent funds offered by the CFB's regulated subsidiary, Epworth Investment Management Limited. The CFB Managed Equity Fund is actively asset allocated between the Epworth UK and Global Equity Funds while the Managed Mixed Fund uses Epworth's Multi Asset Fund.

Managed CFB funds: Investment performance to 29.02.2024 *(All figures annualised and after fees)*

	Fund size 28.2.23 (m)	Fund size 29.2.24 (m)		One year	Three years p.a.	Five Years p.a.	Ten years p.a.
CFB Managed Equity Fund	£29.0m	£27.0m	Fund	8.46%	6.46%	5.63%	5.94%
			Benchmark Over rolling five year periods, to achieve through holdings in the CFB UK Equity and Global Equity Funds, a total return equal to or in excess of the composite index measuring the constituent asset classes.				

	Fund size 28.2.23 (m)	Fund size 29.2.24 (m)		One year	Three years p.a.	Five Years p.a.	Ten years p.a.
CFB Managed Fixed Interest Fund	£21.9m	£34.8m	Fund	4.30%	−4.35%	−1.67%	0.83%
			Benchmark Over rolling five-year periods, to achieve, a total return equal to or in excess of the UK Government fixed interest market.				
CFB Managed Mixed Fund	£28.5m	£28.2m	Fund	5.45%	4.76%	5.34%	5.92%
			Benchmark Over the long term, to provide a good level of income, with capital growing in line with inflation				

The rise in the assets held in the Managed Fixed Interest Fund during the year reflect the consolidation of the residual balances in the other CFB fixed interest funds into this Fund.

Report of the Chief Responsibility Officer

Safeguarding Our Climate

The CFB doesn't just manage the Church's investments; it plays a significant part in safeguarding the Methodist Church's approach to justice, its reputation in the public sphere, and its legacy through investment decisions. In other words, the CFB are stewards, entrusted by the Church to manage investments in line with Christ's mandate for life.

The CFB views good stewardship as actively engaging with the companies we invest in - pushing them to do better when it comes to environmental sustainability, social responsibility, and good governance. By fostering this kind of dialogue, the CFB not only helps drive positive change within these companies, but also contributes to the greater good of God's creation.

The investment space is full of complex issues. One only needs to look at the state of the planet and its people to witness all sorts of suffering, violence, poverty, and exclusion. So, how does the CFB choose what topics to engage on? When the CFB looks for opportunities for engagement, it does so with consideration for the missional priorities of the church, alongside the potentiality to make real change.

During this reporting period, the CFB focused its engagement efforts on topics ranging from the climate emergency to labour rights, tax justice, and healthier food standards. All the topics included in the detail below reflect the CFB's steadfast commitment to advancing Christian ethics, as defined by the Methodist Church, in the investment space.

Climate Action and Extractive Industries

The Central Finance Board (CFB), in partnership with Climate Action 100+, continues to actively engage with Anglo American, a prominent multinational mining company. Anglo American's operations, spanning platinum, diamonds, copper, nickel, and iron ore, are under scrutiny due to their significant methane emissions resulting from coking coal mining. Methane, a potent greenhouse gas, poses a considerable threat to our climate, with emissions from coking coal mining surpassing those from global gas pipelines and Liquid Nitrogen Gas (LNG) facilities combined, as calculated by the International Energy Agency (IEA).

As methane emissions represent a substantial portion of Anglo American's Scope 1 emissions, it is imperative for investors to monitor and assess the company's progress in mitigating these emissions. Hence, the CFB, alongside co-leads Robeco and the Church of England Pensions Board, is advocating for methane-specific reduction targets from Anglo American to address this urgent environmental concern.

Climate Accountability in Banking Sector

Continuing its advocacy efforts, the CFB has been actively involved in holding banks accountable for their climate pledges. I shed light on HSBC's contradictory actions in an interview with ITV's Business and Economics editor, Joel Hills. Despite HSBC's climate commitments, investigations revealed its involvement in financing expansionist oil and gas projects, prompting public concern.

As a result of heightened scrutiny, HSBC has committed to disclosing its off-balance sheet emissions associated with capital raises for oil and gas ventures—an essential step toward transparency and accountability in the banking sector. Moreover, the CFB, in collaboration with ShareAction and institutional investors, has filed a shareholder resolution against Barclays PLC, aiming to refine the company's policies regarding financing oil and gas extractive activities. This ongoing engagement demonstrates the commitment to holding financial institutions accountable for their environmental impact.

Promoting Biodiversity Conservation

In response to the growing recognition of biodiversity's importance, the CFB has embraced initiatives like Nature Action 100, which aims to mitigate the impact of corporate operations on nature. By engaging with select companies, the CFB endeavours to set specific targets and ensure annual disclosures to track progress towards reducing their environmental footprint. This aligns with previous engagement efforts with companies like MJ Gleeson and Anglo American, emphasising a holistic approach to environmental stewardship.

Navigating Conflict and Labour Issues

Adapting Conflict Policy

Recognising the evolving landscape of global conflicts, the CFB has developed a comprehensive Conflict Policy to address various conflict scenarios worldwide, including the Israel/Palestine conflict. This policy provides clear guidance to fund managers, ensuring rigorous assessment and proactive engagement with investee companies to navigate geopolitical risks responsibly.

Promoting Labour Rights

The CFB remains vigilant regarding labour rights violations, as evidenced by its response to allegations of sexual violence in Kenyan tea plantations formerly owned by Unilever. Despite the lack of response from Unilever, the CFB is committed to engaging with the company and collaborating with stakeholders like the Methodist Church in Sri Lanka to address these issues. Through proactive dialogue and advocacy, the CFB seeks to uphold labour rights and promote a culture of accountability within investee companies.

Advocating for Fairness and Transparency

Addressing Tax Justice

The CFB continues its proactive engagement with investee companies to promote fair taxation practices, emphasising the importance of timely and transparent tax payments. This includes engaging with UK-based firms as well as extending efforts to European holdings to enhance tax transparency standards. By aligning with organisations like the Fair Tax Mark and advocating for global tax transparency, the CFB reinforces its commitment to responsible investment practices.

Ensuring Effective Voting Practices

In fiscal year 2023, the CFB demonstrated its commitment to responsible stewardship by voting at 100% of eligible meetings through its subsidiary Epworth Investment Management Limited, reflecting a robust approach to corporate governance. With a focus on sustainability and shareholder values, the CFB, in collaboration with the Church Investors Group, employs a joint voting policy. This policy prioritises sustainable, long-term shareholder value and encompasses diverse issues, including remuneration structures and director elections, to promote accountability and transparency in corporate decision-making.

Voting record of Epworth Equity Funds 2023-2024

Type	For	Against	Abstain	% Against or abstain (%)
Auditor appointments	**250**	**0**	**0**	**0**
Directors	**2063**	**472**	**4**	**19**
Remuneration reports	**104**	**221**	**9**	**69**
Executive pay schemes (UK)	**52**	**14**	**0**	**21**
Shareholder capital (overseas)	**156**	**15**	**0**	**9**
Other	**1359**	**214**	**14**	**14**
Total	**3984**	**938**	**27**	**20**

Advancing Diversity and Equity

Supporting Diversity in the Workforce

The CFB's engagement efforts extend to promoting diversity and inclusion within investee companies, as demonstrated in discussions with IntegraFin. By encouraging initiatives to promote women and minorities in traditionally male-dominated sectors like finance, the CFB emphasises the importance of fostering an inclusive corporate culture. Additionally, by advocating for unbiased recruitment practices and supporting initiatives like the 10k Black Interns and Women in Finance, the CFB underscores its commitment to advancing diversity and equality in the workplace.

Advocating for Fair Wages

The CFB's engagement with companies like Greggs underscores its commitment to fair labour practices, including equitable pay structures for employees. By engaging with investee companies on issues related to living wages, the CFB seeks to ensure that workers are fairly compensated for their contributions. Through ongoing dialogue and advocacy, the CFB aims to promote fair labour standards and uphold the dignity and well-being of workers within the corporate sector.

Prioritising Public Health and Well-being

Promoting Healthy Food Practices

The CFB remains vigilant regarding public health concerns, as evidenced by its support for resolutions promoting healthy food sales targets at companies like Nestlé. By advocating for greater transparency and accountability in setting targets related to healthy food sales, the CFB underscores its commitment to promoting consumer well-being. Despite not participating in the co-filing process, CFB remains actively engaged with Nestlé and supports efforts to prioritise public health in corporate decision-making.

Commitment to External Standards and Accountability

Adherence to Stewardship Standards

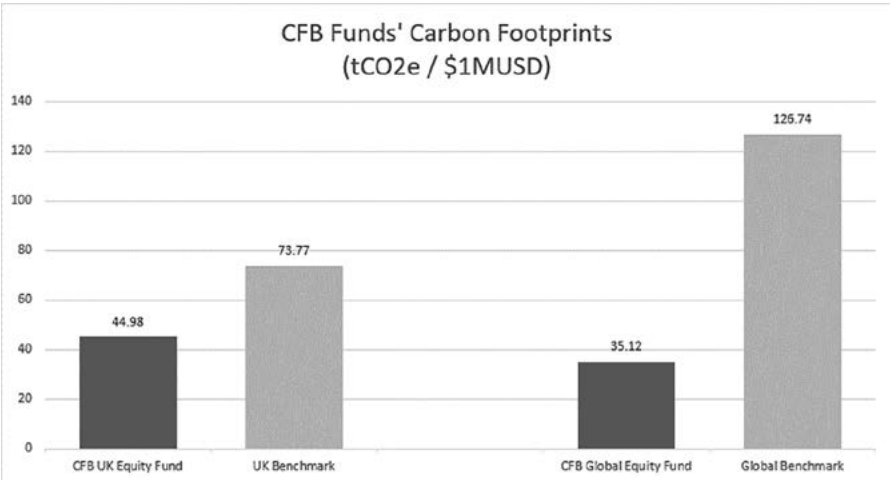
The CFB upholds high stewardship standards as outlined in the Financial Reporting Council's UK Stewardship Code, reflecting its commitment to responsible investment practices. Through regular reporting and adherence to stewardship principles, the CFB demonstrates transparency and accountability in its investment approach. By seeking approval of its stewardship reports and engaging with stakeholders, the CFB reaffirms its dedication to promoting sustainable and ethical investment practices.

By refining and articulating these communications, the Central Finance Board can effectively convey its commitment to environmental sustainability, social responsibility, and ethical investment practices to stakeholders, thereby fostering trust and accountability within the investment community.

The Carbon Footprint of the CFB Equity Funds

The CFB recognises that investment performance is only one measure that our clients hold us to. The other is our ethical performance. The Epworth Funds that the CFB invests in are actively managed to reduce the consolidated carbon footprint of the companies in the portfolio relative to the Funds benchmark:

Carbon footprint of Epworth Equity funds at 29.02.2024



*****RESOLUTION**

40/1. The Conference adopts the Report of the Central Finance Board.