

Methodist Church Investment Committee Annual Report

For the year to 31 August 2015 and some background notes for prior years

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Introduction

1. The terms of reference (TOR) of the Investment Committee (IC) require an annual report to the Methodist Council and as necessary to the SRC. This is the first report to have been prepared under the TOR and includes some relevant background material.
2. The TOR were approved by the Methodist Council (paper MC/13/20) in 2013. The intention was, to paraphrase Purpose A, to regularise and define the process by which the Trustee body ensured the appropriate investment of the funds (unrestricted, restricted and endowment funds) of the Methodist Church in Great Britain (MCIGB) and reported as 'Investments' (under 'Fixed assets') in the annual audited accounts of the MCIGB. A second responsibility, Purpose B, concerned the management of cash flow and the making and realising of investments.
3. The duties of the IC regarding appropriate investment come in three parts:
 1. to supervise the management of all the assets;
 2. to manage the assets agreed to be under the direction of the IC;
 - 3, 4 & 5. to liaise with other boards or committees that report to the Methodist Council to ensure that all investment assets are subject to appropriate oversight and day to day management.

The IC's degree of success in carrying out these duties is referred to later in the report.

MEMBERSHIP OF THE COMMITTEE AND MEETINGS HELD

4. The membership of the Committee is: Andrew Gibbs (Chair), Geoffrey Wilcox, Martin Rees, with Ted Awty and Tim Swindell in attendance. Meetings are normally attended by Bill Seddon, Chief Executive of the Central Finance Board (CFB) of the Methodist Church and his colleague Christophe Borysiewicz, and by the Director of Financial Operations and representatives of the Finance Office.
5. In April 2014 we were deprived of the services of Andrew Worth, who died suddenly at the early age of 52. Since his death, we have missed his expertise and knowledge of the life and work of the Church.
6. Martin Rees joined the IC in February 2015, and the Council will need to seek an additional member.
7. There were 3 meetings in the 12 months to 31 August 2015. The number of members (including ex-officio members) attending was as follows:
Andrew Gibbs, 3 out of 3
Geoffrey Wilcox, 3 out of 3

Martin Rees, 2 out of 3
Ted Awty, 1 out of 3
Tim Swindell, 1 out of 3

STATEMENT OF THE INVESTMENTS HELD AT 31 AUGUST 2015

The statement below, extracted from the Annual Statement of Accounts, shows that of the £165m in total investments in the balance sheet, £119m (72%) is in CFB units and deposits and £33m (20%) is in direct property assets.

Of the £165m, £91m (plus some cash) is managed by the IC, about 55+%. The rest is managed elsewhere within the Church.

The Methodist Church in Great Britain, (MCIGB)	£million	2014 £million
Investment properties	33	28
CFB Units	107	111
CFB Deposit Fund	12	9
William Leech (Investments) Ltd	9	9
Other	<u>3</u>	<u>2</u>
Total	<u>165</u>	<u>160</u>
Managed by the IC	<u>91</u>	
Managed elsewhere, not including CFB Deposit Fund,(£12m)	<u>62</u>	

Note:

1. the figures for the Connexional Funds (total £153m) are included in the total of £165m for the MCIGB.
2. Cash balances reported to the IC at 31 August 2015 totalled £16m.
3. There are about 21 major funds (restricted, unrestricted and endowed) and about 37 smaller funds (less than £2m) that constitute the Total Funds in the Accounts (£185m). Most of these have investments that are included in the £91m of investments managed by the IC. Each has its own cash flow and may require separate consideration.

DEGREE OF SUCCESS IN CARRYING OUT THE DUTIES

Purpose A

1. **To supervise the investment management of all the assets under the control of the Methodist Council.** This duty is taken to mean the supervision of the investment assets under the control of the Council, that is, the £165m shown above. The IC has not been given information regarding the £62m, described as being managed elsewhere, to allow the exercise of supervision on these assets. It understands that they mainly comprise properties and Self Accounting Entities overseen by delegated trustee bodies. The supervision of £91m, managed by the IC, is part of the overall management of the individual investments on behalf of the individual funds. By means of aggregation of the investments it has been possible to establish and remain reasonably close to an overall investment policy in accordance with the needs of the Church.
2. **To manage, on behalf of the Methodist Council, the assets agreed *from time to time* to be under the direction of the IC.** Currently, this is the £91m shown above. Full and comprehensive information is supplied to the IC on these assets, all of which are invested in CFB Units or held on CFB Deposit. Useful, but incomplete, work on reserves policies for the funds and the setting of individual investment objectives and policies has been carried out. The day to day management of the investments is in the hands of the CFB, policy and other investment changes are agreed at IC meetings. It is only with the establishment of reserves policies, eg, for the Fund for the Support of Presbyters and Deacons, the World Mission Fund and the Fund for Training, that appropriate investment policies can be implemented. Taking all the assets as an aggregated whole, it is considered that the £91 million is invested appropriately.
3. **To liaise with other boards or committees that report to the Methodist Council** .4 **To receive reports on the investment management** . 5. **To advise, when requested, other Methodist Bodies** . No formal communication has been had by the IC with any of the other bodies responsible for investments.

Purpose B

1. **To receive regular reports on the cash administered by the Connexional Team ... in particular the current balances and the projected cash flows etc.** The IC has received sufficient information on cash balances and cash flow to enable it to carry out its work satisfactorily.

RECOMMENDATION REGARDING THE PERFORMANCE (BOTH FINANCIAL AND ETHICAL) AND THE CONTINUING USE OF THE CFB FUNDS

The context for this recommendation is that Charity Trustees have a duty to obtain the best financial return, considering the risks taken, from their investments for the benefit of the Charity's beneficiaries. They need to balance the interests of current beneficiaries with those of future beneficiaries. Finally, they may take account of ethical considerations associated with the purpose and principles of the Charity. In the case of the Methodist Church there is a need to keep under scrutiny the service provided by its own fund manager, namely, the CFB.

The CFB reports regularly on its performance to the IC and to a group of major investors. An independent assessor, Portfolio Evaluation, provides a comparative and analytical report. Over recent years performance across the CFB Funds has been satisfactory. There has recently been an increase in fund management fees, which are ad valorem, so that we pay in percentage terms the same amount on £91m as a local church or circuit holding £1,000 worth of units. The charges are still below comparable Common Investment Fund charges and represent good value for money, compared to active investment management houses.

The Methodist Conference has established the Joint Advisory Committee on Ethical Investment (JACEI), which reports to it annually on the operation of the CFB and its ethical investment policies. The IC is satisfied from its latest report that JACEI is content with the way in which the CFB Funds are operated.

STATEMENT OF CURRENT INVESTMENT POLICY

The Methodist Church has the inherited characteristic of being asset rich, especially in property. The decline in membership and in the number of churches and ministers has led over recent years to the generation of cash as properties have been sold. In effect, the financial pressure on the Central Services Budget and the assets at the disposal of the Council (as evidenced by the Accounts of the MCIGB, for example) has not been as great as it has been in local churches as they experience falling collections from fewer members. In the six years since 2009, income in the MCIGB Accounts has been fairly consistent at an average of around £44m and expenditure has been controlled at around £45m.

Over the same period, the balance sheet has expanded as the figures show:

	Total Funds	Of which: Restricted Funds
	<u>£m</u>	<u>£m</u>
MCIGB year ended 31 August 2009	143	78
MCIGB year ended 31 August 2015	<u>185</u>	<u>116</u>
Increase	<u>42</u>	<u>38</u>

Most of the growth has been in the Restricted Funds, which have grown by almost 50% over six years. Each of these Funds may have different policy objectives, reserves policies and investment time horizons. For example, some are long term (over 10 year's horizon), some medium term (between 5 and 10 years) and some short term (up to 5 years). Some are a mixture. The various reserves policy objectives require appropriate investment policies, based on a balance of capital risk, potential capital return and income needs. The policy objectives are kept under regular review. As at 31 August 2015, of the total of £91m under management, 73% was designated as long term, 19% as medium term and 7% as short term.

Overall, the percentage split of the £91m between equities, bonds, property and cash at 31 August 2015 was:

	<u>Mid range of policy %</u>	<u>Actual %</u>
Equities	74	73
Bonds	11	12
Property	13	15
Cash	<u>2</u>	<u>0</u>
	<u>100</u>	<u>100</u>

Cash Management

Interest rates, and therefore the income on cash balances, are at an unprecedented low level. It is hard to recall that UK bank base rate was between 10 and 16% for about 20 years to 1993. The base rate then fell, almost incredibly, to 0.5% over the next 15 years to 2008. Since then, base rate has been unchanged at 0.5%. This has been due to emergency monetary measures to stave off an economic collapse. There is virtually no income to be derived from holding cash. This is not expected to change in the immediate future. Low interest rates are a worldwide phenomenon, and Government debt in some countries now carries a negative interest rate. It should be noted that the rate of inflation has come down commensurately. Borrowing has become much cheaper, though not necessarily in real terms because of the low rate of inflation.

The IC has attempted to encourage a tighter policy of cash management, and to reduce cash holdings to a minimum, consistent with the efficient and prudent operation of the cash flow. These figures are an indication of the changes that have occurred in the last six years, although not telling the full story:

<u>£m</u>	<u>Total Funds</u>	<u>Net Current Assets</u>	<u>Other Net Assets</u>
MCIGB year ended 31 August 2009	143	22	121
MCIGB year ended 31 August 2015	185	4	181

This report is on the situation as at 31 August 2015. Exploration of a way of more efficiently varying the investments held by CFB has made encouraging progress. It is hoped that this will enable the IC in future to respond in a more timely and effective manner as the economic and market environment changes.

CONCLUSION

This review looks back to a time when it would have been hard to form a judgement on the adequacy of the Methodist Council's management of its balance sheet, and of the assets for which the Council was responsible. There has been a marked improvement in basic accounting, reporting and in financial understanding. This report shows that, with regard to the management of the investments recorded on the Balance Sheet of the MCIGB, considerable work still needs to be done to ensure that the investment assets of the Church are effectively deployed in accordance with the wishes of the Council and in building a mission shaped Church.

*****RESOLUTION**

59/1. The Council receives the report.