

Church of Ireland Pensions Board – Report 2003

THE CHURCH OF IRELAND CLERGY PENSIONS FUND

FINANCIAL STATEMENTS – PAGE 1

YEAR ENDED 31 DECEMBER 2002

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FINANCIAL STATEMENTS 2002 **PAGE 2**

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TRUSTEE'S REPORT

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CONSTITUTION OF THE FUND

The Fund is established under Chapter XIV of the Constitution of the Church of Ireland as amended from time to time by the General Synod. The Representative Church Body is the Trustee of the Fund which is administered by the Church of Ireland Pensions Board in accordance with the provisions of Chapter XIV.

The Fund has been approved by the Revenue Commissioners as a retirement benefits scheme under Part 30, Chapter I of Taxes Consolidation Act, 1997, and is treated as an “exempt approved scheme” for the purposes of that Act. In addition, the Fund, exclusive of the part relating to the Republic of Ireland, has been approved by the Board of the Inland Revenue of the United Kingdom as a retirement benefits scheme for the purposes of Chapter I, Part XIV, Income and Corporation Taxes Act 1988 and is treated as an “exempt approved scheme” for the purposes of Section 592 of that Act.

The Financial Statements, which should be read in conjunction with the report of the Church of Ireland Pensions Board, are expressed in Euro currency for balance sheet reporting purposes but the Fund is maintained in separate currency subdivisions having regard to the membership profile in the Republic of Ireland and Northern Ireland and the currencies in which the contributions and benefits are payable.

The financial development of the Fund over the year 2002 was as follows:

		€'000
Contributions and other receipts		3,628
Investment income		2,787
Benefits paid and other expenses		<u>(7,182)</u>
Net new money available for investment		(767)
Value of Fund at 31 December 2001	120,064	
Currency translation adjustment	<u>(4,377)</u>	115,687
Realised/Unrealised investment losses		<u>(19,842)</u>
Value of Fund at 31 December 2002		<u>95,078</u>

The Representative Body, as Trustee of the Fund, is responsible for investment policy and meetings are held with the Investment Managers to review strategy and performance on a regular basis. The Investment Managers are remunerated on a fee basis calculated by reference to asset values and in accordance with formal fund management agreements between the managers and the Trustee. Management fees and attributed costs of administration are charged to the Fund by the Trustee.

The investment objectives are to maximise total returns through diversified portfolios of equity, fixed interest, property and cash investments having regard to liability restraints, cash flow, interest rate and currency movements.

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ACTUARIAL VALUATION

The Actuary's certificate is included in the annual report of the Church of Ireland Pensions Board.

Since the last valuation of the Fund, there has been a significant change in the value of the Fund's assets and in its funded position. The next actuarial valuation of the Fund is to take place as at 30 September 2003 and the funded position and contribution rate will be reviewed in the light of the results of this valuation.

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The Representative Body, as Trustee, is required to prepare financial statements of the Fund for each financial year which give a true and fair view of the financial transactions of the Fund for the period and the assets and liabilities (other than liabilities to pay pensions and other benefits in the future) at the end of the Fund's year, which include a statement whether the accounts have been prepared in accordance with Statement of Recommended Practice – Financial Reports of Pension Schemes ("SORP"), subject to any material departures disclosed and explained in the financial statements. The Trustee is also responsible for ensuring that contributions are made to the Fund in accordance with the Fund rules and the recommendations of the actuary.

In preparing these financial statements, the Trustee must ensure that:

- suitable accounting policies are selected and then applied consistently;
- reasonable and prudent judgements and estimates are made; and
- the SORP has been followed, or particulars of any material departures have been disclosed and explained.

The Trustee is responsible for ensuring that proper membership and financial records are kept and ensuring that the financial statements comply with relevant legislation. It is also responsible for safeguarding the assets of the pension scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DG Perrin
Chairman, RCB Executive Committee

11 March 2003

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REPORT OF THE INVESTMENT MANAGER – 2002

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OVERVIEW OF WORLD MARKETS

Most global equity markets recorded negative returns in 2002 for the third successive year – the first time this has happened since the early years of the Second World War. The S&P 500 Index of America's largest corporations shed about a quarter of its value during 2002, valuing the market more than 40% below its peak of early 2000. Its performance in the year just ended was blighted by a series of corporate accounting scandals, increased military tensions and continuing declines in the technology, media and telecommunication sectors.

Returns in 2002 were worse than in each of the previous two years, not least because of disappointment in the real economy. Economic recovery failed to materialise to the extent that was anticipated in the early part of the year. Despite underperforming initial expectations, the US economy has proved to be quite resilient even as the equity market continued to decline.

Corporate fraud came to the fore as a feature of 2002. Revelations of corporate financial impropriety precipitated unease about the veracity of earnings forecasts, adding to concerns about high valuations. Banks also came under scrutiny over the level of credit exposure afforded to companies such as Enron, Global Crossing and WorldCom, and the practices of research operations in reporting buy recommendations in return for investment banking business. Greater executive accountability for financial statements was established with the passage of the Sarbanes-Oxley Act in the US in August. Towards the end of the year, major investment banks and securities firms reached a settlement with the US Securities and Exchange Commission for allegedly misleading investors.

The volatile global geopolitical backdrop also impacted markets. The stand-off between the US and Iraq persisted through the second half of the year and this remained a significant risk to global economic and equity market recovery. Oil prices rose sharply in the last two months, hitting a two-year high as the prospects for war mounted. The strike in Venezuela, which has virtually paralysed its oil industry, also contributed to the price surge.

OUTLOOK

The final quarter of 2002 provided a snapshot of the difficulties facing investors. October and November registered strong gains amid rising optimism that markets were entering a bullish phase, pushing some stocks strongly ahead. However, by the end of December, much of those gains had evaporated as geopolitical tensions began to rise again.

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REPORT OF THE INVESTMENT MANAGER – 2002
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We did not expect this brief rally to be sustained as much of the gains were made by ‘high beta’ stocks (stocks that rise and fall more than the overall market on average) at the expense of more defensive areas of the market. In our view, sustainable long-term gains in equity prices must come from growing earnings in line with the valuation multiples being paid for stocks.

Even after December’s decline, valuations for many technology-related companies still appear stretched, especially as earnings prospects for many have continued to deteriorate. We continue to favour quality ‘defensive’ stocks, which tend to produce solid earnings growth over time, and expect that, overall, equity markets are likely to continue to trend sideways amid occasional bouts of volatility.

FACILITATING A RECOVERY

The low interest rate environment should provide a beneficial backdrop for equity markets. Interest rates in the US are at a level last recorded in 1961 and we do not expect any significant movement in 2003. There may be more scope for the European Central Bank to ease rates further if inflation eases. This option could provide an extra boost for the German economy, in particular, if the region fails to respond to the most recent rate cut.

As economic recovery takes hold, corporate profits should improve although the level of improvement may be quite modest. However, we do not believe the economic recovery will be so strong as to prompt an aggressive rise in interest rates.

POTENTIAL OBSTACLES

The possibility of a war with Iraq represents a significant risk to the global economy in the coming year. Oil prices have risen sharply to the end of 2002 and a war would likely lead to a further spike in prices, at least in the short-term. The stand-off between North Korea and the US over the North Korean’s nuclear military capability has also heightened tensions.

The American consumer has been the main driver of economic growth in recent years, increasing spending despite the weakness in the economy. Lower interest rates have been largely responsible, transcending relatively weak consumer confidence polls. Although we do not envisage a consumer recession, a retrenchment in spending would represent a serious blow to the economy, particularly if there were no increase in business investment to pick up the slack.

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PERFORMANCE

IRISH FUND

The Fund decreased in value from €54,208,917 to €45,397,523 during the period. Taking into account cashflow of (€1,500,100) this represents a weighted return of -13.7%.

The asset distribution of the fund at the start and end of the review period was as follows:

	1 January 2002	31 December 2002
Equities	67.1%	63.6%
Fixed Interest	22.2%	26.1%
Property	7.6%	9.3%
Cash	3.1%	1.0%

STERLING FUND

The Fund decreased in value from £40,049,529 to £32,343,202 during the period. Taking into account cashflow of (£1,250,000) this represents a weighted return of -16.3%.

The asset distribution of the fund at the start and end of the review period was as follows:

	1 January 2002	31 December 2002
Equities	77.5%	74.7%
Fixed Interest	18.7%	22.4%
Cash	3.8%	2.9%

Bank of Ireland Asset Management
3 February 2003

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REPORT OF THE INVESTMENT MANAGER 2002 **PAGE 8**

Auditors' Report

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The significant accounting policies adopted by the Trustee are as follows:

(i) Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Funds (Disclosure of Information) (No. 2) Regulations, 1998, and Statement of Recommended Practice, “Financial Reports of Pensions Schemes”.

(ii) Investment Income

Income on investments includes all dividends and interest receivable during the year adjusted to reflect bought and sold interest on bond transactions in the accounting period.

(iii) Investments

Quoted investments are stated in the fund financial statements at valuation. They are valued at market prices ruling at year end and unquoted investments are stated at Trustee’s valuation. Bond valuations at year end include accrued interest from the last gale date.

(iv) Foreign Currencies

Balances and transactions denominated in foreign currencies have been translated into Euro at the rate of exchange ruling at the year end. (2002 €1 = £0.6505 : 2001 €1 = £0.6085).

(v) Benefits

The pension benefits are secured by contributions to a separately administered defined benefits scheme in accordance with the provisions of Chapter XIV of the Constitution of the Church of Ireland as amended from time to time by the General Synod.

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THE CHURCH OF IRELAND CLERGY PENSIONS FUND

FUND ACCOUNT

YEAR ENDED 31 DECEMBER

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CONSOLIDATED FUND

	Notes 2002 €'000	2001 €'000
CONTRIBUTIONS AND OTHER RECEIPTS		
Contributions receivable	3 3,628	3,901
BENEFITS AND OTHER PAYMENTS		
Benefits payable	4 6,882	6,200
Administrative expenses payable to the Trustee	78	94
	<u>6,960</u>	<u>6,294</u>
CONTRIBUTIONS LESS BENEFITS	<u>(3,332)</u>	<u>(2,393)</u>
INVESTMENT RETURN FOR THE YEAR		
Investment income	5 2,787	2,867
Realised and Unrealised investment (loss)	(19,842)	(7,720)
Currency Translation adjustment	(4,377)	1,597
Investment Management expenses	(222)	(219)
	<u>(21,654)</u>	<u>(3,475)</u>
NET (DECREASE) IN FUND FOR YEAR	<u>(24,986)</u>	<u>(5,868)</u>
BALANCE 1 JANUARY	120,064	125,932
BALANCE 31 DECEMBER	<u>95,078</u>	<u>120,064</u>

The Fund has no recognised gains or losses other than those dealt with in the Fund Account.

Signed on behalf of the Trustee: *DG Perrin*
S Gamble

Date: 11 March 2003

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THE CHURCH OF IRELAND CLERGY PENSIONS FUND
NET ASSETS STATEMENT **YEAR ENDED 31 DECEMBER 2002**
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CONSOLIDATED FUND	Notes 2002	2001
	€'000	€'000
INVESTED ASSETS	6 94,932	119,905
	_____	_____
CURRENT ASSETS		
Amounts due from the Representative Church Body	544	191
CURRENT LIABILITIES		
Creditors	398	32
	_____	_____
NET CURRENT ASSETS	146	159
	=====	=====
BALANCE OF FUND	95,078	120,064
	=====	=====
Signed on behalf of the Trustee:	<i>DG Perrin</i>	
	<i>S Gamble</i>	
Date: 11 March 2003		

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THE CHURCH OF IRELAND CLERGY PENSIONS FUND
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REPUBLIC OF IRELAND SUBDIVISION

	Notes 2002	2001
	€'000	€'000
CONTRIBUTIONS AND OTHER RECEIPTS		
Contributions receivable	3 1,137	1,205
Transfers from Northern Ireland subdivision	356	
	<u>1,493</u>	<u>1,434</u>
BENEFITS AND OTHER PAYMENTS		
Benefits payable	4 3,102	2,423
Transfers to Northern Ireland subdivision	135	59
Administrative expenses	39	45
	<u>3,276</u>	<u>2,527</u>
CONTRIBUTIONS LESS BENEFITS	<u>(1,783)</u>	<u>(1,093)</u>
INVESTMENT RETURN FOR THE YEAR		
Investment income	884	905
Realised and Unrealised investment (loss)	(8,193)	(1,828)
Investment Management expenses	(84)	(89)
	<u>(7,393)</u>	<u>(1,012)</u>
NET (DECREASE) IN FUND FOR YEAR	<u>(9,176)</u>	<u>(2,105)</u>
BALANCE 1 JANUARY	54,177	56,282
BALANCE 31 DECEMBER	<u><u>45,001</u></u>	<u><u>54,177</u></u>

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NORTHERN IRELAND SUBDIVISION

	Notes 2002	2001	
	€'000	€'000	
CONTRIBUTIONS AND OTHER RECEIPTS			
Contributions receivable	3 2,491	2,696	
Transfers from Republic of Ireland subdivision	135	59	
	<u>2,626</u>	<u>2,755</u>	
BENEFITS AND OTHER PAYMENTS			
Benefits payable	4 3,780	3,777	
Transfers to Republic of Ireland subdivision	356	229	
Administrative expenses	39	49	
	<u>4,175</u>	<u>4,055</u>	
CONTRIBUTIONS LESS BENEFITS	<u>(1,549)</u>	<u>(1,300)</u>	
INVESTMENT RETURN FOR THE YEAR			
Investment income	1,903	1,962	
Realised and Unrealised investment (loss)	(11,649)	(5,892)	
Currency Translation adjustment	(4,377)	1,597	
Investment Management expenses	(138)		(130)
	<u>(14,261)</u>	<u>(2,463)</u>	
NET (DECREASE) IN FUND FOR YEAR	<u>(15,810)</u>	<u>(3,763)</u>	
BALANCE 1 JANUARY	65,887	69,650	
BALANCE 31 DECEMBER	<u><u>50,077</u></u>	<u><u>65,887</u></u>	

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NOTES TO THE FINANCIAL STATEMENTS

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ACTUARIAL VALUATIONS

An actuarial valuation is carried out at intervals of not more than three years. The last valuation of the Fund was carried out at 30 September 2000. Based on that valuation the Actuary confirmed that the scheme satisfied the minimum funding standards laid down under section 44 of the Pensions Act, 1990 (Republic of Ireland).

FORMAT OF THE FINANCIAL STATEMENTS

The statements summarise the transactions and net assets of the scheme. They do not take account of liabilities to pay pensions and other benefits expected to become payable in the future. The actuarial position of the fund, which does take account of such liabilities, is dealt with in the statement by the actuary in the text of the Annual Report of the Board and these statements should be read in conjunction therewith.

SUMMARY OF CONTRIBUTIONS RECEIVABLE

	2002 €'000	2001 €'000
<u>Republic of Ireland</u>		
Members – normal	244	236
– additional personal	118	104
Dioceses	776	742
Representative Church Body	(1)	(13)
Transfers from other funds	-	136
	<u>1,137</u>	<u>1,205</u>
<u>Northern Ireland</u>		
Members – normal	368	399
– additional personal	106	100
Dioceses	1,159	1,257
Representative Church Body	840	937
Transfers from other funds	18	3
	<u>2,491</u>	<u>2,696</u>
Total	<u>3,628</u>	<u>3,901</u>

Net contributions paid in Sterling to the Northern Ireland subdivision (excluding transfers from other funds) decreased by £ 30,018 in 2002.

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BENEFITS PAYABLE

	2002 €'000	2001 €'000
<u>Republic of Ireland</u>		
Pensions to Retired Clergy and Bishops	1,405	1,263
Pensions to Widows and Orphans	1,159	1,022
Commutation of pensions	203	18
Death benefits	0	99
Transfer to other funds	335	21
	<u>3,102</u>	<u>2,423</u>
<u>Northern Ireland</u>		
Pensions to Retired Clergy and Bishops	2,330	2,189
Pensions to Widows and Orphans	1,270	1,277
Commutation of pensions	122	39
Death benefits	-	176
Transfer to other funds	58	96
	<u>3,780</u>	<u>3,777</u>
Total	<u><u>6,882</u></u>	<u><u>6,200</u></u>

Benefits paid in Sterling from the Northern Ireland subdivision (excluding transfers to other funds) increased by £181,536 in 2002.

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ANALYSIS OF INVESTMENT INCOME

	2002 €'000	2001 €'000
Fixed interest securities	777	754
Dividends from equities	1,928	1,809
Income from managed funds	11	115
Interest on cash deposits	56	182
	<u>2,772</u>	<u>2,860</u>
Underwriting commission	4	2
Other trust income	11	5
	<u>2,787</u>	<u>2,867</u>

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INVESTED ASSETS

(a) Analysis of Fund Asset Values at 31 December 2002

	2002 €'000	2001 €'000
<u>Listed Securities</u>		
Ireland		
Trustee	2,175	2,794
do – Index-linked	582	-
Bonds	133	645
Equities	6,445	8,874
Europe		
Bonds	1,425	1,777
Equities	10,558	14,110
United Kingdom		
Trustee	4,189	7,869
Sterling Bonds	4,425	1,364
Equities	28,838	37,191
North America		
Bonds	938	890
Equities	14,275	19,792
Pacific Basin		
Bonds	166	398
Equities	1,983	2,702
Japan		
Equities	2,012	2,832
	<u>78,144</u>	<u>101,238</u>

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NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
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6. INVESTED ASSETS – CONTINUED

(a) Analysis of Fund Asset Values at 31 December 2002 – continued

	2002 €'000	2001 €'000
<u>Unlisted Securities</u>		
Ireland		
Unit Trusts	1,701	1,785
Unit Trusts – Property	4,201	4,132
Europe		
Unit Trusts	8,220	8,196
North America		
Unit Trusts	1,070	1,777
	<u>15,192</u>	<u>15,890</u>
<u>Other Assets</u>		
Cash	1,596	2,777
	<u>1,596</u>	<u>2,777</u>
<u>Summary</u>		
Listed Securities	78,144	101,238
Unlisted Securities	15,192	15,890
Cash	1,596	2,777
	<u>94,932</u>	<u>119,905</u>
	<u><u>94,932</u></u>	<u><u>119,905</u></u>

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NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
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6. INVESTED ASSETS – CONTINUED

(b) Concentration of Investment

(vi) The one investment which exceeded 5% of the net assets of the scheme, Bank of Ireland Exempt Eurozone Bond Fund, amounted to 8.5 % of the net assets of the scheme at 31 December 2002.

(c) Purchases and Sales

(vii) The total amounts of purchases and sales of investments, other than cash deposits, in the year amounted to €44.7 m and €44.8 m respectively.

(d) Equities

(viii) There were 121 holdings of equities at the year end with a total market value of

(ix) €65.8m

(x)

(xi) The 20 largest holdings were as follows:

	€'000
Glaxosmithkline	2,494
Unilever	2,215
Shell Transport & Trading	2,173
Diageo	2,151
Barclays	1,976
Vodafone	1,810
Bank of Ireland	1,745
HSBC	1,733
BP	1,598
Lloyds TSB	1,596
Gannett	1,365
Phillip Morris	1,313
Johnson & Johnson	1,293
CRH	1,138
Fannie Mae	1,077
Tesco	1,069
Cadbury Schweppes	1,028
Sysco	928
Prudential	900
WPP Group	894

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6. INVESTED ASSETS – CONTINUED

(e) Managed Funds:

(xii) The following managed funds were held at 31 December 2002:

	€'000
Bank of Ireland Exempt Euro Liquidity Fund	115
Bank of Ireland Exempt Eurozone Bond Fund	8,105
Bank of Ireland Exempt International Bond Fund	1,070
Bank of Ireland Exempt Smaller Equity Fund	1,534
Irish Pension Fund Property Unit Trust	337
New Ireland Pensions Property Fund	3,864
New Ireland Venture Fund	167

CONTINGENT LIABILITIES

In the opinion of the Trustee the scheme had no contingent liabilities at 31 December 2002.

ADMINISTRATIVE AND INVESTMENT MANAGEMENT EXPENSES

The costs of investment management and administration are substantially borne by the Fund. The balance of these costs is borne by the Trustee.