



10 October 2007

**Downturn in Bond Returns:  
CCLA recommends charities review asset allocation strategy**

CCLA, the investment company owned by its charity, faith and local authority clients is recommending that charities review their asset allocation strategy in the light of faltering returns from bond investments.

James Bevan, CCLA's Chief Investment Officer says "Rising inflation, the impact of the financial crisis of the summer and changing government priorities have combined to put increased pressure on bond pricing, eroding long term returns.

"Recent market instability has centred on equities rather than bonds and understandably that is the area which has captured the headlines. But it is very important that investors do not overlook the fact that in a period of change, all areas of investment markets will be affected."

"Charities uncertain of their position should seek advice from their investment fund manager to reduce their exposure, review their allocation and to focus on higher yielding alternative assets."

**Background to falling bond prices:**

The 2005/6 peak in bond prices was caused by strong cash flows into the sector from investors such as pension funds and insurance companies who were changing their asset allocations out of equities and into bonds, better to reflect their liabilities. These flows have moderated because investors have found alternative approaches, giving better value.

The world economy has experienced a 20 year prolonged dis-inflationary phase. Governments focused on anti inflationary strategies, while excess demand within western economies led by the baby boomers peaked and has now begun to fall back. Importantly the emergence of new centres in China reduced significantly the cost of manufactured goods.

It now seems however that the inflationary tide is now turning upwards.

The main gains from low cost Chinese imports have already been felt and now we see upward pressure on these prices, from local wage growth and a stronger currency exchange rate which pushes up the cost of imports. As India and China become increasingly wealthy economies they will compete for and push up the prices of other goods commodities, oil and increasingly, food.

The financial crises over the summer give further reason for caution. Interest rates are now unlikely to rise in the UK or Europe despite lingering inflationary concerns. When the US cut short-term interest rates, long rates went up to compensate for the increased inflationary risks.

**CCLA believes that these combined factors will have a cumulative impact and serve to keep the pressure on bond prices.**

Ends

CCLA ([www.ccla.co.uk](http://www.ccla.co.uk)) is an independent investment management company owned by its charity, faith group and local authority clients. This puts it in a unique position to help charities achieve their aspirations and enable trustees to meet their obligations. Established in 1958, the company today has 45,000 charity customers, a number far higher than any other fund manager in the UK.

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