

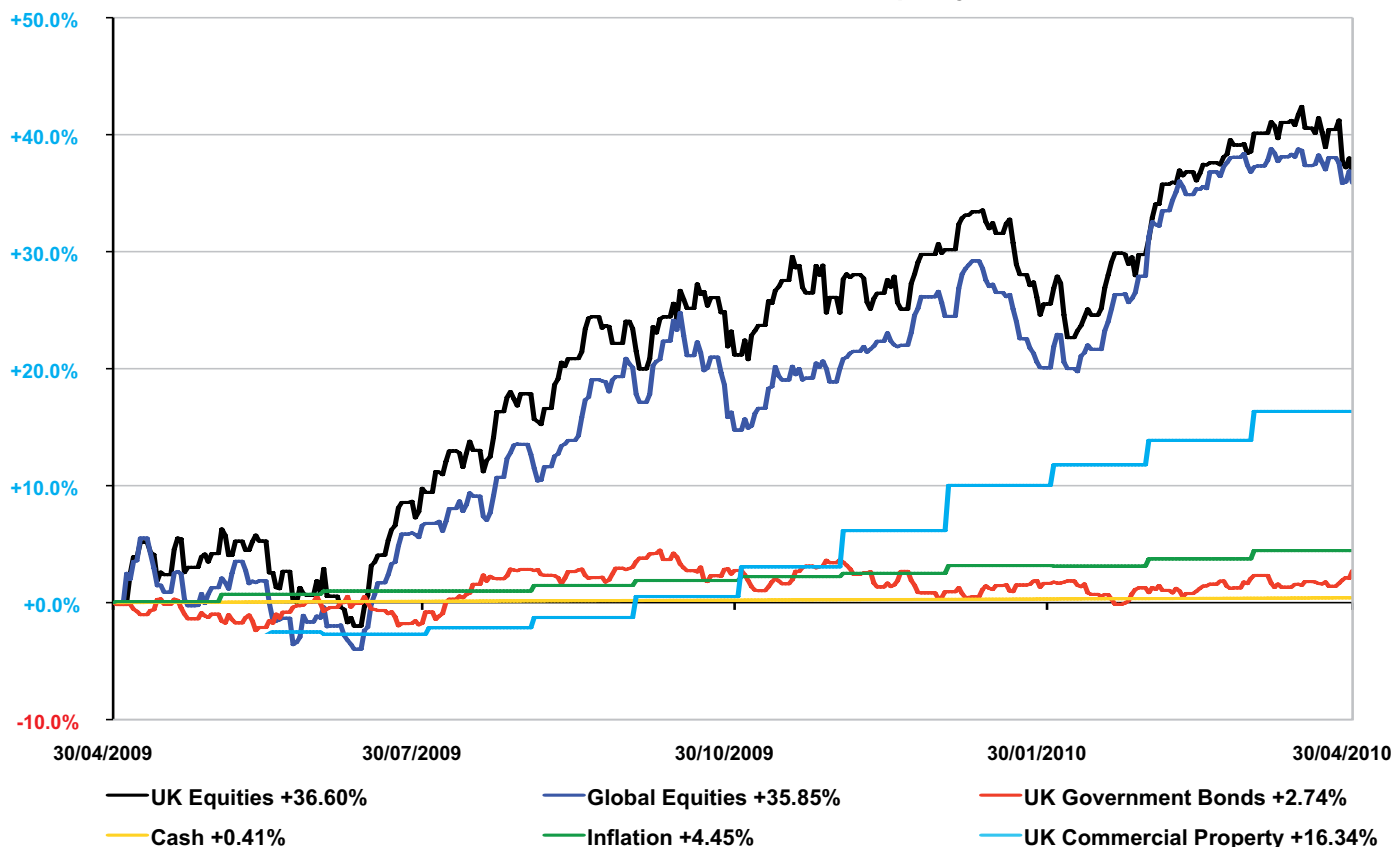
CCLA INVESTMENT MANAGEMENT LTD

MARKET REPORT APRIL 2010

Summary

- International equities were mixed over the month with progress in the United States and Asia offset by falls in the UK, Europe and Japan.
- Bond returns were positive, if modestly so. Once again corporate bonds performed more strongly than government issues.
- Property prices continued to recover.
- Sterling edged higher with noticeable strength against the euro.

Investment market returns over the past year



Sources: Bloomberg, IPD: FTSE All-Share Total Return Index, FTSE All-World Total Return Index, FTSE UK Govt All-Stocks Total Return Index, IPD Monthly Total Return Index*, 7 Day LIBID, Retail Price Index* (*lagged a month to give a contemporaneous picture).

Review

Global equity markets produced a mixed performance in April with falling indices in the UK, Europe and Japan offsetting gains elsewhere. Over the month the FTSE All World Index produced a total return of -0.69% due to falling values at the end of the period eroding away earlier progress. The markets which managed to progress improved only modestly; Asian markets returned +0.60%, and the US +0.64%. In Japan the return to a UK based investor was -1.03% but this was substantially influenced by currency factors and in local currency terms the outcome was actually a slight gain, of +0.47%. The weakest performance came from Europe where sharply lower prices in Greece (-12.74%) and Portugal (-10.23%) were major catalysts in undermining investor confidence, prompting a -4.05% fall in the regional index. The UK, with its stretched financial position, was not immune from the troubles in Europe and with good recent gains achieved, investors took profits, causing the FTSE All Share Index to give a negative total return of -1.39%. Large companies fell faster than smaller companies, their superior liquidity making them the preferred sales candidates. Growth stocks fell by -3.08%, value by just -0.84% as the defensive characteristics of the latter group came into their own.

In fixed income all areas of the market made positive returns. The gains on government bonds (gilts) reflected some defensive switching from equities, also hopes that a Conservative win in the election would lead to earlier and more determined action to reduce the budget deficit. Corporate bonds rose more strongly and once again investors showed their preference for longer dated bonds and those with lower credit ratings – the sectors that provide the highest yields.

Property valuations continued to improve. Retail warehouses achieved good growth but the industrial sector, previously favoured because of the high income yields available, lost momentum. Transaction volumes have increased but are still low

by historic standards, a reflection of the reluctance of sellers to accept current prices. With the economic background still very testing, downward pressure has continued on rental levels, but the decline is clearly moderating and in a small number of hotspots such as Central London offices, the trend has reversed and rents are edging higher once again.

In currency markets the focus was on the euro which remained under pressure, losing -2.21% of its value against sterling over the month. Sterling also improved relative to the dollar (+0.59%) and yen (+0.99%).

The dominant international event was the crisis in Greece where collapsing investor confidence forced the government to seek support from a coalition of the IMF and ECB. In exchange for severe cuts in spending and increases in domestic taxes, together designed to reduce the budget deficit from 13.6% in 2009 to 3% in 2014, the Greek government has been given access to a 110 billion facility, sufficient to meet the borrowing requirements for two years or so. With the Greeks effectively excluded from international money markets, the support deal, however unpalatable, was the only option other than default. The social cost of the programme will be heavy and there are clear doubts over whether it will succeed, with some commentators questioning whether Greece will have the resolve to stick to a course which will create an austere economic environment for several years.

As the Greek story unfolded so questions were raised about the other European countries and pressure mounted on the bond and equity markets of Spain and Portugal.

Although completely overshadowed by the news from Greece, other international economic news was positive. China announced that economic growth for the first quarter of the year had reached 11.9% and that action would be taken to slow the expansion rate by tightening bank lending criteria. The US economy expanded too, by 3.2% as companies continued to rebuild stocks and consumers accelerated spending. Company profits were strong over the quarter, on average beating estimates by 16%. Profit margins reached 50 year highs as cost cutting – and in particular workforce reduction – boosted returns.

Against these comparisons UK growth looked what it was – lacklustre. Early estimates suggested that activity levels rose by just 0.2% in the first quarter, impacted adversely by severe weather and the increase in the VAT rate back to 17.5%. Inflation in March was 3.4%, due more to comparison with a period in 2009 when fuel prices were declining rather than any current upward pressure on price levels.

Outlook

The shock of the Greek crisis has reminded investors everywhere about the scale of the debt burden within the world economy and the effects that reducing it will have on growth in the years ahead. Debt burdens are best resolved by growth – growth makes repayment easier and reduces the need for borrowing in the future – and so whilst spending cuts and tax increases are on most agendas, they have to be applied sensibly.

The two main drivers to investment markets are sentiment and value, sentiment a powerful short term factor, value more important for long term returns. If these relationships continue, and we expect them to, then volatility will stay high and markets are vulnerable in the immediate future until such time as investors become comfortable that Greece is not the forerunner of crises elsewhere.

At the same time values are improving. Economic recovery is underway and corporate profits are rising. In fact large parts of the corporate sector have been steadily improving their position for some months now. In time, as fears decline, so this improvement will come to the fore of investor attention again and so provide the foundation for an advance in prices once again.

In terms of the various investment sectors, we are supportive of property and expect valuations to improve further in the months ahead. The real attraction though is the high income offered by top quality assets in the sector. We expect equities to remain volatile and potentially vulnerable near term but see good long term attractions for high value, high yield companies, both in the UK and overseas. We expect bond yields to rise from current levels, within the fixed income market we continue to favour corporate bonds over UK government debt. Sterling is fair value on a purchasing power parity basis but rational comparisons such as this will not be at the forefront of markets at the moment; given the UK's debt position and uncertain political environment, the currency is vulnerable.

James Bevan

Chief Investment Officer CCLA



CCLA INVESTMENT MANAGEMENT LTD
80 Cheapside, London EC2V 6DZ

Client Service T: 0800 022 3505 F: 0844 561 5126
www.ccla.co.uk

Please note that the content of this report should not be interpreted as investment advice.

CCLA Investment Management Limited (registered in England No. 2183088 at 80 Cheapside, London EC2V 6DZ) is authorised and regulated by the Financial Services Authority and is the manager of the COIF Charity Funds (Registered Charity Nos. 218873, 803610, 1046249, 1093084, 1121433 and 1132054).