

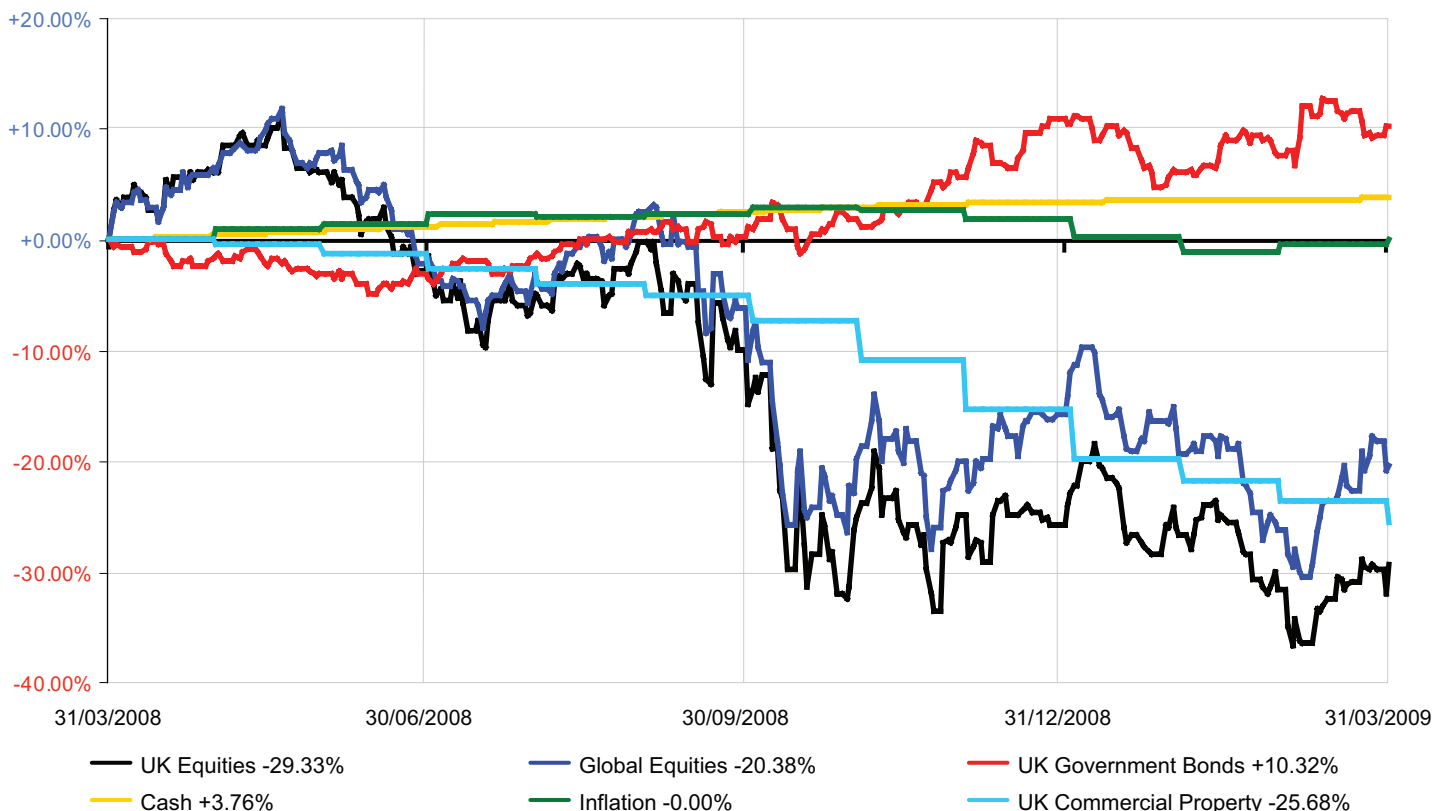
CCLA INVESTMENT MANAGEMENT LTD

MARKET REPORT MARCH 2009

Summary

- After a weak start to the month all major equity markets rallied to end higher over the period.
- In bond markets, gilts gave positive returns but corporate bonds eased lower.
- Property declined as valuations continued to move down to reflect prices being achieved in transactions.
- Sterling moved modestly higher against the dollar and yen but fell by -4.32% 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

After a weak start to the period, international equity prices moved higher in March reflecting expectations of an improvement in global economic conditions. This followed the announcement of government initiatives in the US, Japan and the UK intended to improve liquidity by quantitative easing techniques and bank balance sheets by taking on the risks associated with bad or doubtful loans. These hopes for the future were in contrast to the contemporary position where data showed that economic activity was continuing to decline at a rapid pace. This slowdown has developed very swiftly, so much so that although economic forecasts have been reduced, the changes have been reactive, following rather than leading the trend in the economy. An example of this is the IMF Economic Survey which, in the space of two months, moved from forecasting growth for the world economy as a whole to forecasting an overall decline in activity, the first for 60 years.

In March the return on the FTSE All World Index to a sterling based investor was +7.91%. The twelve month return on the same basis was -20.38%. In the UK the FTSE All Share Index gave a return of +3.28%. In an unusual set of returns both smaller companies (+1.89% on the FTSE UK Small Capitalisation Index) and large companies (+2.99% on the FTSE 100 Index) lagged the market as a whole, with the explanation a strong performance from medium sized companies. In international markets Asian indices enjoyed the greatest gains, rising by 13.96%. European markets

rose by 8.18%, US markets by 8.11%, and Japan by 1.87%. The range of returns from individual markets was wide. In Europe Austria was the best performer (+23.17%) and Denmark the worst (+1.50%). In Asia South Korea led the way up (+26.18%) whilst prices in Malaysia fell by -1.68%.

UK government securities advanced with the return on the FTSE Government All Stocks Index +2.49%. Top quality corporate bonds also advanced but lower quality issues fell back and the maturity ranges dominated by banks and property company debt, where financial concerns rose again, lost more substantially. The 5-7 year range of maturities fell by -4.80%, the 7-10 year range fell by -5.05%.

The downtrend in the property market continued as the process of reducing valuations down to the levels actually being achieved in the market gathered pace. Sentiment was also affected by growing evidence of falling rental levels in the office and the retail sectors.

Although the month saw important announcements of programmes to improve liquidity and improve bank balance sheets, which gave hope of better times to come, the actual data that emerged over the period was poor. A feature of this downturn has been the swift increase in the numbers unemployed. In the UK the total of those without work rose above 2 million, 4.3% of the workforce. Conditions are worse in many overseas markets; in the US, 8.1% of the workforce is without work, in Spain the unemployment rate is 14.0%.

Rapid cutbacks in labour forces reflect actions by companies to reduce costs in the face of lower demand. Stocks are also being reduced, to the extent that inventory reduction is thought to account for about half the fall in activity. The range of statistics to illustrate the slowdown is wide ranging – Eurozone industrial production fell by 3.5% in January, UK car manufacturing was 59% lower in February than it was a year before, Japan's exports were 49% down in February on a year on year basis. Varied though these data are they give a similar message of a rapidly slowing world economy. Not surprisingly, against this background, both the Bank of England and European Central Bank reduced interest rates to 0.5% and 1.5% respectively. UK inflation, as measured by the Retail Price Index, was flat but on a CPI basis was higher than expected. This index does not have the benefit of falling housing costs and instead reflected higher food costs and the effects of sterling's fall on goods imported from overseas.

Outlook

For the near term the downtrend in activity will continue but over time a slower pace of stock reduction, the benefits for overseas trade from a weaker currency and for householders from lower mortgage costs, will have an effect. The government has done much, but it has also done just about all it can afford to do without compromising the confidence of the international community in the UK. The contribution from all these factors combined will determine the timing and vigour of the upswing. The consensus view is for growth in 2010, but on a modest scale only.

This has been a better month for markets but it is important not to read too much into one period of strength after all, despite the rise in March the UK equity market is still down by 11% in 2009 to date. Volatility is likely to remain elevated for some time yet and this will unsettle many investors, keeping confidence frail. Looking through this however and focussing instead at the valuations on which equity markets trade it is possible to see attractive opportunities for the longer term investor.

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