

QUARTERLY BULLETIN

30 September 2010

Note from the Chief Executive of CCLA Income Update

As the new quarter begins so the economic recovery celebrates its first anniversary. However, despite a year of the upturn, the pace of progress remains pedestrian and economic conditions are still challenging in a number of areas. A repercussion of this for charity investors is that investment income, which had fallen sharply in the downturn, has been slow to recover.

The most glaring example of the problem is cash. Base rates have been held at 0.5% since March 2009 and expectations are that they will remain at, or very near, current levels until mid 2011 at least. Income from equity markets as a whole has also been a problem for many charities. The value of equity dividends fell in 2009 and overall payments are likely to be lower again this year too. The problem is particularly acute in the UK equity market, where a small number of stocks and sectors have provided the great bulk of dividend flows. For the unprepared, a mishap or misfortune in one of these can cause a sharp fall in dividend income. The effect of the dividend cut from BP, and before that the loss of income from the banks, provides a powerful illustration of the challenge for the investment manager, a challenge some have chosen to pass on to their clients.

With inflation sticky at elevated levels and other sources of charity income under pressure, we are acutely aware of the importance of maintaining and growing the income flow from charity investments. We are very pleased to be able to report that we have continued to deliver this much-needed income on all our long-term funds.

In the current environment, some charities need to enhance their income and for these we see two

opportunities that merit consideration: global equities and property.

Almost unnoticed, the yields available on some international markets have risen and now rival those in the UK. More importantly, dividend growth rates are higher, driven by faster profits earned in economies growing themselves much faster than ours. Our Global Equity Income Fund provides access to this growth and an attractive level of income.

Property is an area of the market where sentiment is cautious, held back by flat trends in valuations and rents. These are valid concerns but they are not the full story. Away from the generalities of the market, there are opportunities to acquire secure high yields on good quality properties that are let to tenants of real substance. The income on property is attractive not just in absolute terms but also relative to that from other asset classes, higher than that available from bonds and equities, and many times that available on cash. Our Property Fund is managed to deliver a high and sustainable income to investors.

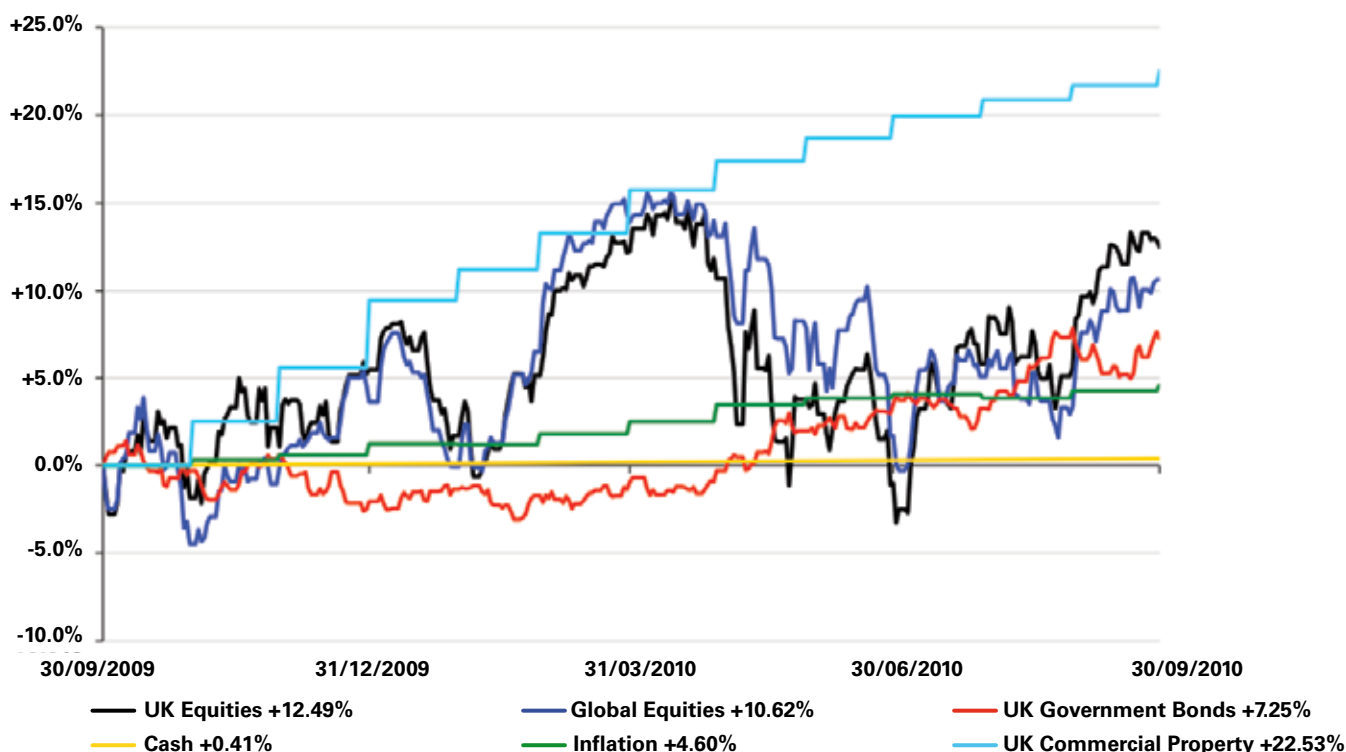
Any potential investment strategy must of course be considered carefully against the overall objectives of the charity and with due regard to the existing holdings. However, these areas merit consideration for charities seeking a higher income today and a rising income in the future.

If you would like more information on these ideas or help to review your current asset allocation strategy, please do not hesitate to contact us.

Michael Quicke

Market Review and Outlook

Markets at a Glance – 12 Months to 30 September 2010



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* (*Latest monthly return estimated by CCLA).

Market Review & Outlook

- Global equity markets rose over the quarter, all but regaining the ground lost after the Greek debt crisis. The FTSE All-World Index produced a return for a sterling based investor of +8.77%, bringing the return for 2010 to date to +6.75% and for the past 12 months to +10.62%. All the main regional indices gave positive returns; Europe and Asia were strong performers, rising by +13.41% and +12.18% respectively. Local gains in the US were also attractive but were reduced for UK based investors by currency factors to +5.70%. Only Japan failed to participate significantly in the rally, held back by political concerns and evidence of a dull economy; the index returned just +0.13%. There were some very strong individual market performances; in Europe, Norway, Austria, Spain and Finland all returned more than +20%, as did Thailand and the Philippines in Asia. Only two countries gave negative returns; Pakistan, hit by natural disaster and Ireland, which faced more uncertainty about the cost of the bank rescue.
- Fixed interest markets too gave positive returns, buoyed by the push of new money from investors seeking returns greater than those available on cash and by the possibility of a further phase of quantitative easing (QEII). Gilts returned +3.60%, corporate bonds were stronger and returned +4.88%.
- The improvement in commercial property values lost momentum through the summer and by the end of the

- quarter prices were stable, income flows remained positive and were an important contributor to the +2.52% overall return. Underlying market conditions remained challenging, although the pace of rental decline eased once more.
- In currency markets sterling rallied against the US dollar by (+5.16%) but lost ground against both euro (-5.66%) and yen (-0.67%).
- 2010 has proved to be a see-saw year for investment markets, one where the tilting mechanism has been triggered by the strength of investor confidence in economic recovery. Positive signs of growth have been rewarded by rising equities, fresh concerns have seen equities fall back but fixed income markets rally, sometimes sharply. It seems likely that these broad conditions will remain in place a little longer. The current economic recovery simply lacks vigour, with growth modest and dependent on support from government actions. With the pace of improvement staying close to 'stall speed' the upswing will remain vulnerable to external threats and unforeseen developments. For this reason day-to-day volatility is expected to remain high for the near term. In time we expect growth to become self sustaining and faster paced.
- Against this background we believe that fixed interest securities are vulnerable and could ease back. Property values look secure but progress will be modest after the strong gains seen this year. Income is likely to be the main source of returns. Equities are good long term value; holders however must be prepared for near term volatility.

Distributions for the Quarter

COIF Charities Fund	Distribution per Income Unit	Payment Date	
Investment Fund	10.23p	30/11/10	<ul style="list-style-type: none"> Despite a challenging income environment the payment for the quarter has been maintained. The payment over the past 12 months is +3.11% above that of the previous period. We expect the payment for 2010 to exceed that for 2009 and anticipate further growth in 2011.
Ethical Investment Fund	1.62p	30/11/10	<ul style="list-style-type: none"> This is the third payment to investors since the launch of the Fund on 31st December 2009. The full year payment is estimated at 6.96p per unit, we expect to grow the income to investors in 2011.
Global Equity Income Fund	1.60p	30/11/10	<ul style="list-style-type: none"> The income payment for this period has been increased by +2.56%, the payment over the past 12 months however is -1.33% lower due to timing differences in the receipt of income. The payment for 2010 as a whole will however show an increase.
Property Fund	1.90p	30/11/10	<ul style="list-style-type: none"> The payment for this quarter is +5.56% above the previous distribution to investors. The payment for the past 12 months is higher by +4.44%.
Fixed Interest Fund	1.80p	30/11/10	<ul style="list-style-type: none"> The income payment to investors is unchanged. Based on the price at the end of September and an annual distribution of 7.20p the income yield on the Fund is 5.48% and the gross redemption yield is 2.46%*.

* The gross redemption yield indicates what the total return would be if the Fund's investments were held to maturity, in other words, the aggregate of gross interest received and the capital gain or loss at redemption, annualised. Please note that forecast annual income and income yields are not guaranteed and will change over time due to changes in interest rates and the securities held by a fund.

Interest for the Quarter

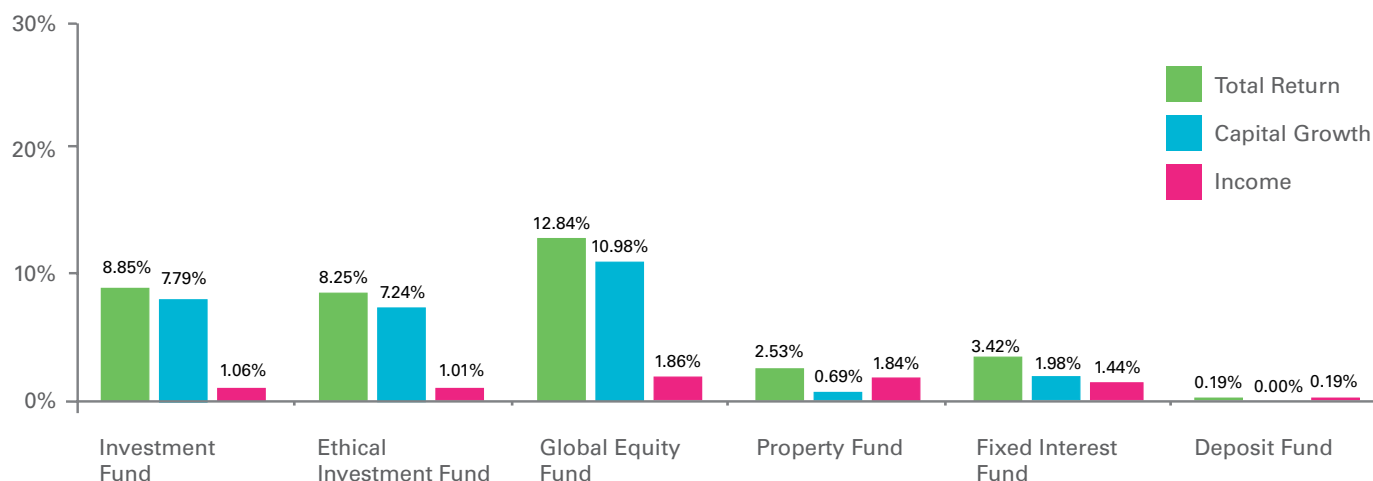
COIF Charities Deposit Fund

Average interest rate over the quarter	0.50% (0.50% A.E.R.)**	<ul style="list-style-type: none"> The interest rate payable on the Fund is ultimately dependent on the rates available in the money markets. Over the period these interest rates have been relatively stable.
Interest rate at the quarter end	0.50% (0.50% A.E.R.)**	<ul style="list-style-type: none"> The Fund is rated AAA/V1 by Fitch Ratings: this reflects the quality of the lending portfolio and its low volatility.

**A.E.R. = Annual Equivalent Rate, which illustrates what the annual interest rate would be if the quarterly interest payments were compounded.

Fund Performance

COIF Charity Funds over the Quarter (gross)



Source: CCLA. Gross returns before management fees and expenses. Please note that past performance is no guarantee of future returns. Investments in long term funds can go up and down in value and you may not get back the amount originally invested.

Performance Comment

COIF Charities Investment Fund

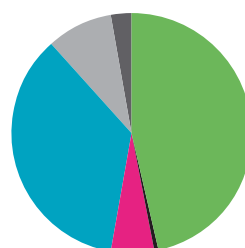
- All major investment categories have given positive returns over both the most recent quarter and the past 12 months.
- Income however has remained a difficult area with some high profile dividend cuts exacerbating the problem. Despite this we are on target to increase the payment for 2010 and expect to do so again in 2011.
- Returns on the Fund are in line with those on the comparator index. The portfolio has good positions in some high quality investments which we expect to provide strong returns over the long term.

Longer term total return performance (gross) 12 months to end September:

	2010	2009	2008	2007	2006
Fund	+12.5%	+4.8%	-18.5%	+11.2%	+13.2%
Comparator	+12.5%	+7.9%	-17.4%	+10.5%	+13.0%

Comparator – Composite: FTSE All-Share 60%, FTSE World ex UK 20%, IPD All Properties 10% & FTSE UK Government All Stocks 10%.

Asset Allocation as at 30 September 2010



UK Equities 46.6%	Overseas Equities 35.6%
Fixed Interest 0.5%	Property 8.9%
Infrastructure 5.8%	Cash 2.6%

Overseas Equities %

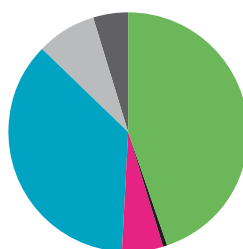
Europe	11.9
USA	11.6
Japan	1.1
Pacific Ex Jap	6.8
Other	4.2
	<u>35.6</u>

COIF Charities Ethical Investment Fund

- All major investment categories have given positive returns over both the most recent quarter and the past 12 months.
- Income however has remained a difficult area with some high profile dividend cuts exacerbating the problem. Despite this we are on target to meet the income payment forecast at the launch of the Fund.

Past performance data will be shown once the Fund has existed for 12 months.

Asset Allocation as at 30 September 2010



UK Equities 44.9%	Overseas Equities 36.3%
Fixed Interest 0.5%	Property 8.2%
Infrastructure 5.6%	Cash 4.5%

Overseas Equities %

Europe	11.4
USA	11.4
Japan	1.0
Pacific Ex Jap	6.6
Other	5.9
	<u>36.3</u>

Performance Comment (cont)

COIF Charities Global Equity Income Fund

- Global equity markets have made good progress over the past year, boosted by a recovery in values in the most recent quarter.
- The overall dividend environment has remained challenging but the Fund is on track to make an increased payment for the current year, with further progress expected in 2011.
- Performance is slightly below that of the comparator, the All-Share Index, a contributory factor in this is the recent bounce in sterling. The Fund has outperformed the FTSE All-World Index of global investment markets.

COIF Charities Property Fund

- The commercial property market has enjoyed strong returns over the past year although in recent weeks progress has ground to a stop.
- The income payment to investors is increased over the past year; we expect the payment for 2010 as a whole to be higher than that for the preceding year.
- Benchmark performance data is not available as we go to press; the indications are however that the Fund has continued to outperform the comparator.

COIF Charities Fixed Interest Fund

- Fixed income markets have produced positive returns with the best performances coming from the longer dated segment of the market.
- The income distribution has been maintained, we expect to continue this level of payment to investors over the balance of 2010 and in 2011.
- With fixed income markets becoming increasingly expensive relative to other asset classes we have moved the portfolio into a more defensive structure.

COIF Charities Deposit Fund

- Short term interest rates have remained at historically low levels. Base Rate has been at 0.5% since March 2009.
- We expect rates to stay low at least until the middle of 2011, a reflection of pedestrian levels of economic growth.
- Our focus remains firmly on capital security. We note that higher interest rates are sometimes available in the market but consider the premium on offer unattractive relative to the risks involved.

Longer term total return performance (gross) 12 months to end September:

	2010	2009	2008	2007	2006
Fund	+11.9%	+6.6%	n/a	n/a	n/a
Comparator	+12.5%	+10.8%	n/a	n/a	n/a

Comparator – FTSE All-Share Index.

Longer term total return performance (gross) 12 months to end September:

	2010	2009	2008	2007	2006
Fund	+29.2%	-19.9%	-16.6%	+10.4%	+20.0%
Comparator	n/a	-18.5%	-17.3%	+7.7%	+20.9%

Comparator – IPD Quarterly Universe (Current Quarter Not Yet Available).

Longer term total return performance (gross) 12 months to end September:

	2010	2009	2008	2007	2006
Fund	+7.2%	+12.0%	+5.7%	+0.8%	+3.8%
Benchmark	+8.4%	+11.9%	+4.6%	+0.3%	+3.6%

Benchmark – Composite: Barcap £ Gilt 80% and £ Agg 100mm Non Gilt 20%.

Longer term total return performance (gross) 12 months to end September:

	2010	2009	2008	2007	2006
Fund	+0.7%	+2.7%	+6.0%	+5.6%	+4.7%
Benchmark	+0.5%	+1.3%	+5.5%	+5.5%	+4.6%

Benchmark – 7 Day LIBID.

Strategy and Outlook

COIF Charities Investment Fund and the COIF Charities Ethical Investment Fund

These two funds have similar objectives and follow similar strategies, they differ in the ethical and responsible policies followed which will create some differences in the portfolios of stocks held.

- The Fund has a high weighting to real assets such as equities, at home and overseas, and commercial property. We believe that it is assets of this type which are most likely to provide long term returns consistently above inflation. They are also the only real source of rising income.
- The portfolio has a low exposure to fixed income markets. This reflects concerns about the sector's ability to generate attractive returns above the inflation rate and thus protect real values.
- Recent changes to the portfolio have seen some profit taking on the infrastructure investments with the proceeds allocated to the equity element.
- The income payment for 2010 will be above that paid for 2009; we expect to increase the payment again in 2011. The payment on the Ethical Fund will match the forecast amount.

COIF Charities Global Equity Income Fund

- The portfolio is built 'from the bottom up' in that we select stocks on their individual merits rather than to fit a pre-determined allocation to any sector or even country.
- This search for good quality stocks which are out of favour with investors means that the holdings and weightings will differ significantly from those of conventional international market indices.
- At the end of September the Fund had an above average weighting to Europe but had moved to a reduced weighting in Asia after profit taking. There were no holdings in Japan. At the sector level there were positive exposures to financials, healthcare, oil and gas, and telecommunications.

COIF Charities Property Fund

- After sharp improvements in market valuations earlier this year prices have now stabilised. We expect the sideways trend to remain in place for the next few months, which means that income will be the critical component of total returns.
- The current economic situation means that there are opportunities to buy excellent properties on high yields, providing a secure long term income flow for the Fund. Our focus is always at the individual property level rather than on any particular market sector.
- We expect valuation growth to pick up next year as economic improvement gradually feeds through.

COIF Charities Fixed Interest Fund

- Bond markets have moved higher in recent weeks supported by economic concerns but also by the weight of money from investors seeking returns greater than those available on cash.
- We believe that bond market valuations are increasingly stretched, with the sector offering poor value against a backdrop of sticky inflation and in an environment of slowly improving economic activity.
- We have a relatively high weighting to the corporate bond sector to benefit from the higher income it provides but otherwise have begun to bias the portfolio towards more defensive strategies.

COIF Charities Deposit Fund

- There has been a two tier market for cash deposits. Base rates have stayed low but from time to time there have been higher bids for term deposits, typically from banks eager to rebuild market share, or from institutions forced to pay more because of their reduced credit rating. We have avoided these bids and maintained a clear focus on capital security.
- We expect rates to stay low for some time yet.

Responsible Investment Report

Our work has five strands:

- 1 Engagement, focused on social and environmental issues that are a priority for our clients.
- 2 Setting constraints on investment and exposure to activities considered unacceptable by our clients.
- 3 Proxy voting on corporate governance issues to protect shareholder value.
- 4 Selecting some investments that deliver social or environmental benefits plus market-level risk-adjusted returns.
- 5 Compensating portfolios for any change in risk and return characteristics.

Quarterly Highlights

- We sponsored an EIRiS Foundation and Association of Charitable Foundations learning event for some of the UK's largest charitable foundations at Windsor Castle. The main areas of discussion were high impact investing and the systemic risks to the economy over the coming decades (e.g. resource constraints).
- We convened a lunch about energy efficiency investing in the UK and overseas, and we are still assessing some of the opportunities for our portfolios.
- We are continuing to build global coalitions to support our client-driven engagement programmes focusing on human rights and climate change (see below).

Voting in more detail

- Historically CCLA has only voted at UK company meetings. Given that equity portfolios have become more global in recent years this domestic focus was no longer satisfactory from a stewardship perspective and we now vote globally in collaboration with like-minded investors.
- Notable AGMs this quarter included Tesco and H.J. Heinz. We didn't support the re-election of the combined Chief Executive and Chairman at H.J. Heinz, and joined 47% of shareholders in not supporting Tesco's remuneration report.
- CCLA's quarterly record for the 817 resolutions voted across all markets was 14% abstentions or votes against management (mainly remuneration related).

Ethical constraints

- We confirm that the funds have been managed to the new client-driven policies this quarter.
- 8.7% of the FTSE All-World Developed index by market capitalisation was excluded from the new Ethical Fund, and only 3.1% for the other COIF Funds with exposure to equities. In these latter cases this is almost entirely driven by company involvement in weapons banned by international treaties or the tobacco screen.

Focus on Collaborative Engagement with Companies

In Summary:

- By working together investors can have greater influence on companies and governments.
- The Carbon Disclosure Project (CDP) now acts on behalf of investors with assets of \$64 trillion and the United Nations Principles of Responsible Investment (PRI) has reached a \$22 trillion investor signatory base.
- We have been actively helping to align some of these collaborative initiatives in order to help address COIF clients' main international engagement concerns: climate change disclosure; human rights; and employment practices.

Carbon Disclosure Project 2010

- The 2010 CDP responses from Global 500 companies suggest there has been a shift in emphasis from an approach to climate change dominated by risk, to one that now also embraces opportunity. Nearly half of the Global 500 companies are embedding climate change and carbon management into group business strategy.
- The majority of Global 500 company engagement with governments focuses on encouraging policy makers to implement, or strengthen, regulation that drives mitigation or adaptation to a changing climate.
- 76% of the Global 500 utility sector now disclose carbon intensity targets, and this sector had the highest number of companies in CDP's new Carbon Performance Leadership Index (including National Grid, which is a top 10 holding in the COIF Investment and Ethical Funds).

Human Rights and Employment Practices:

- We are delighted to report that the COIF Funds currently do not hold shares in any of the extractive companies that rank amongst the "worst of the worst" in terms of violating the Universal Declaration of Human Rights. We will, however, continue to monitor this sector very closely.
- We have identified two US companies that may not meet our core labour standards. We will update clients about our ongoing research in the next quarterly update.
- PRI signatories are increasingly aligning engagement with the UN Global Compact, which focuses on international norms in areas such as human rights and core labour standards.

What Next?

- We are working to strengthen co-ordinated PRI signatory follow up with Global 500 companies in carbon intensive sectors with poor carbon disclosure records. We also undertake engagement work for the Church Investors Group that focuses on the same issues in the FTSE350.
- We hope to replicate in the US, a FTSE4Good initiative focused on the engagement priorities of our COIF clients.



for Charities

**80 Cheapside
London EC2V 6DZ**

Client Service
Freephone: 0800 022 3505
Fax: 0844 561 5126
www.ccla.co.uk

A17/OCT10