

QUARTERLY BULLETIN

31 December 2010

Note from the Chief Executive of CCLA

Inflation – an increasing concern for the future

Inflation has been a persistent problem in recent years, rising in the UK when it has fallen elsewhere and remaining above the Bank of England's 2% target for 40 of the past 49 months, averaging almost 3% in the process.

For most of this time the Bank has steadfastly maintained that the upward pressure on prices is due to exceptional factors which will pass as excess capacity in the economy exerts a downward push on prices. This might happen, but so far the 'exceptional one-off factors' have proved to be remarkably persistent. Past weakness in sterling, rising commodity prices and higher taxes and duties have all contributed to higher price levels. Companies, rather than holding back price increases to gain market share, have instead passed them on with a consistency that asks questions about the true level of spare capacity available in the economy.

Looking into the future, the Bank of England now acknowledges that inflation will stay above target for some time and indeed could rise from current levels as the effects of higher VAT and fuel costs are reflected in the index. A 4% rate, as measured by the CPI, is quite possible in the next few months. Looking beyond these immediate pressures, we must consider the impact of rising activity levels in the world economy, not just those caused by the slow recovery in the developed world but also, and more importantly, the rapid secular growth in the emerging world. Higher demand for foodstuffs and other materials where supply is tight is likely to have a persistent rather than passing influence on prices.

The conventional policy response to rising inflation is to increase interest rates but significant increases in interest rates are not a realistic prospect in the UK with recovery still frail and about to face fresh headwinds from public sector spending cuts. A moderate level of inflation would also help wash away some of the excess debt that built up during the boom times, which may lead the authorities to turn a blind eye to the problem for the time being.

Inflation is a particular challenge for charities, especially for those with long term investment horizons. The real income and capital value of funds invested in cash and fixed interest will be eroded by the effects of inflation. Depending upon their circumstances, for their long-term funds, charities should have a clear focus on investments providing a growing level of income and capital value, such as well-selected equities and property.

In this environment, the most important matter for trustees in relation to their investments is to ensure that their asset allocation matches the requirements of their Charity. In order to support trustees in this challenge, CCLA is happy to provide free asset allocation guidance. Please let us know if you would like to make use of this service.

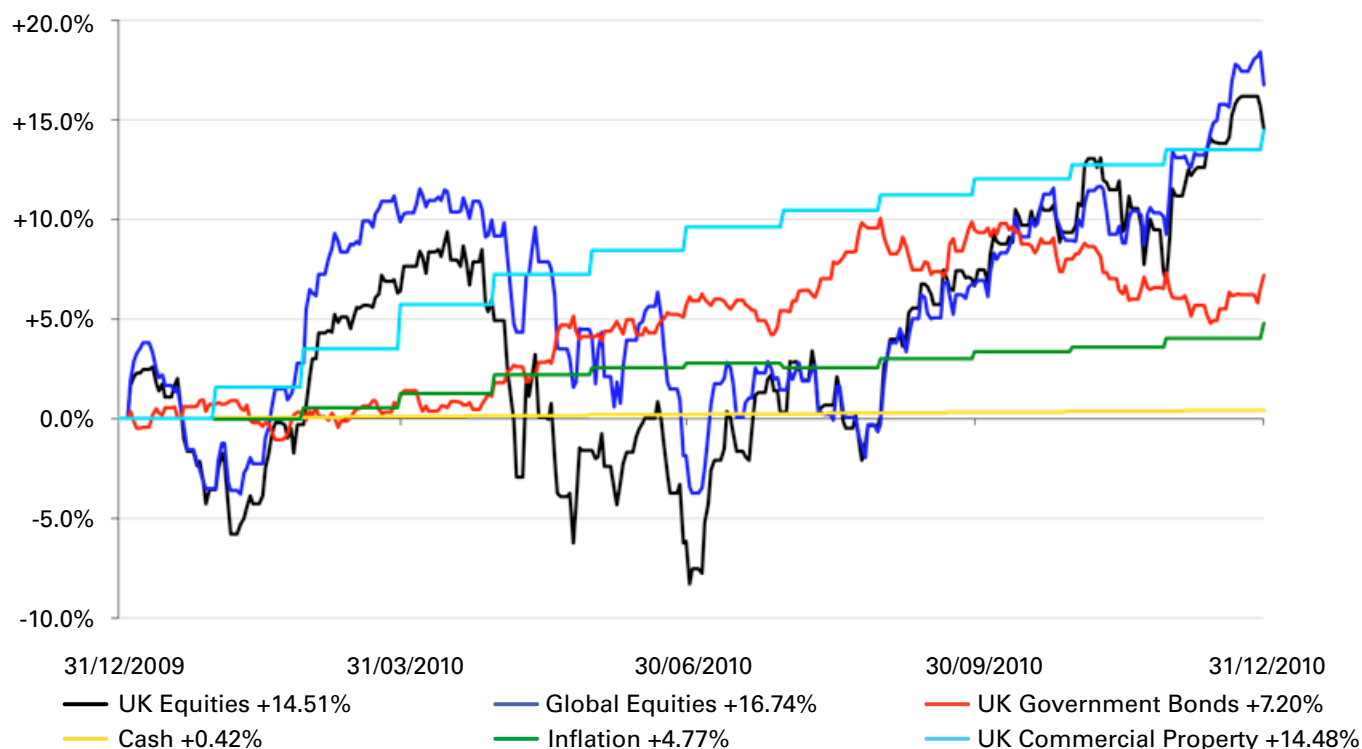
Michael Quicke



for Charities

Market Review and Outlook

Markets at a Glance – 12 Months to 31 December 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.

Market Review & Outlook

- In the final quarter of 2010 global equity markets made further progress, despite the shock to sentiment caused by the financial crisis in Ireland. The FTSE All-World Index gave a total return to a UK based investor of +9.36%, bringing the gain for the year as a whole to +16.74%. The bullish trends were enjoyed in all the major regions with Japan, buoyed by a rising market and strong currency, at the top of the list with a return of +12.84%. US equity markets rose strongly, +11.53% and Asia too saw some attractive individual market returns, sufficient to produce a gain of +8.27% from the region. European markets also rose (+4.64%) but within the region there were negative returns from some countries. Spain and Greece (-6.90% and -6.10% respectively) were the worst performers and Italy and Belgium were also down. Perhaps surprisingly, given the events of the quarter, the Irish equity market was comfortably in positive territory with a total return of +6.33%.
- Fixed interest returns overall were negative, but not substantially so. Investor enthusiasm for the safe haven characteristics of the sector ebbed as the risks of a double dip in economic activity were seen to reduce. There was no significant difference between the returns from government securities (-2.08%) and corporate issues (-2.35%), investor preference was for shorter dated issues and, for corporate bonds, those with the highest credit ratings.
- Commercial property continued to provide positive returns but, with capital values stable, the gains were substantially due to income. Underlying market conditions improved for prime, good quality properties but secondary locations saw continued downward pressure on rents.
- In currency markets sterling rallied modestly against the euro (+1.21%) but eased against the dollar (-0.66%) and more substantially against the yen (-2.98%).
- The broad economic trend for 2010 was of recovery, albeit one which lacked the strength of past upturns. As confidence increased that the uptrend was properly established so real assets, such as equities and property, moved higher. We expect a similar background to 2011, with economic growth continuing but not accelerating to any meaningful extent. The threats to this supportive picture come from the real risk of further sovereign debt problems in Europe and from policy errors, which could see governments removing economic support too soon, before the upturn becomes truly self-sustaining.
- We see this environment as one which is supportive for equities, we expect to see higher values overall but also expect that short term volatility will continue to challenge investor confidence from time to time. An expanding economy is less helpful for fixed interest stocks and we expect relative underperformance from this sector. Having risen strongly in 2010 our expectation is for a pause in the progress of the property sector, returns should be positive but sourced mainly from income flows.

Distributions for the Quarter

COIF Charities Fund	Distribution per Income Unit	Payment Date	
Investment Fund	15.19p	28/02/11	<ul style="list-style-type: none">The income environment has remained difficult with low interest rates and falling dividends in the UK a particular challenge. Despite this the payment on the Fund has been increased by +9.28% for the quarter. The payment for 2010 as a whole is +2.99% higher than that for 2009.
Ethical Investment Fund	2.39p	28/02/11	<ul style="list-style-type: none">The payment for the quarter is at the rate of 2.39p per unit. This brings the payment for the year to 7.02p, slightly above the total projected at the launch of the Fund.
Global Equity Income Fund	2.22p	28/02/11	<ul style="list-style-type: none">The income payment for the quarter is +25.42% higher than that of the previous period, this exceptional growth reflects the timing of income receipts from holdings overseas. For the year the payment is up +2.91% on the previous year's total.
Property Fund	2.17p	28/02/11	<ul style="list-style-type: none">The distribution to investors for this quarter is +2.36% higher than that on the previous period. For the year as a whole the income payment has been increased by +2.02%.
Fixed Interest Fund	1.80p	28/02/11	<ul style="list-style-type: none">The income payment to investors has again been maintained. Based on the year end price and annual distribution of 7.20p the income yield on the Fund is 5.67% and the gross redemption yield is 2.83%*.

*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

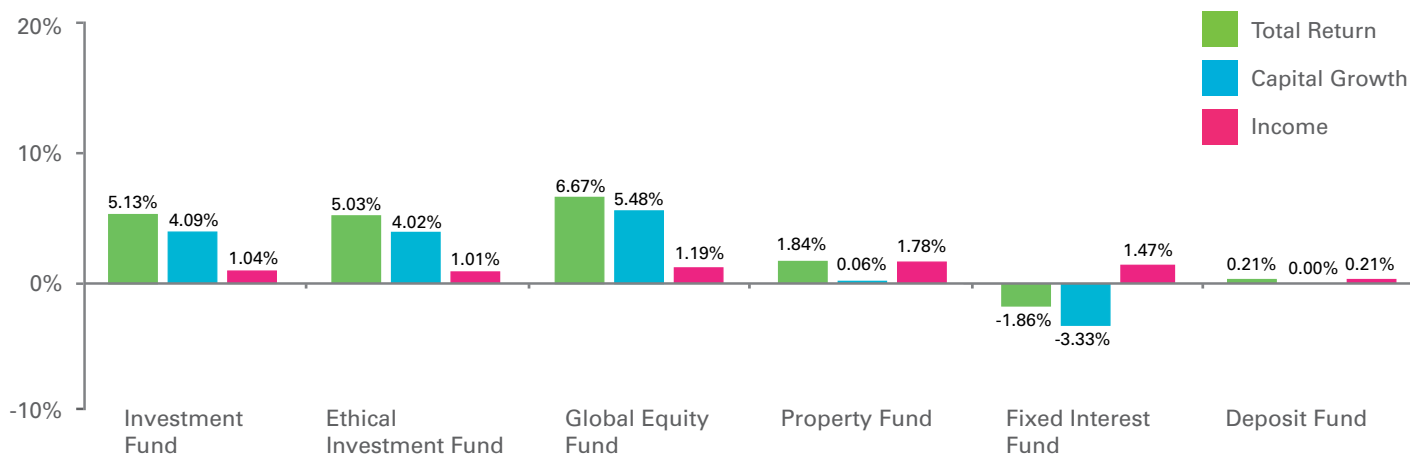
COIF Charities Deposit Fund

Average interest rate over the quarter	0.56% (0.57% A.E.R.)**	<ul style="list-style-type: none">The interest rate payable on the Fund will ultimately reflect the rates available from top quality borrowers in the money market. Over the period it has been possible to increase the rate payable to investors.
Interest rate at the quarter end	0.65% (0.65% 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)



Note: For the equity and balanced funds, we have changed the methodology of the calculation of gross performance. We are now utilising a system-based approach whereby the performances of individual assets held in the portfolio are calculated daily and then added together to produce an overall fund performance. This methodology has the advantage of helping us to understand the sources of relative returns within the funds so that we can more closely observe and control unintended risk.

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

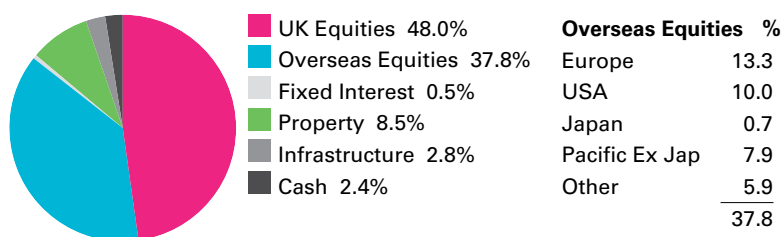
- Fund returns were positive over the quarter with the equity component the dominant source of returns. 2010 has proved to be a rewarding year, particularly for long term investors.
- Despite a continuing difficult income environment the Fund's distribution to investors was increased by 2.99%.
- Overall returns on the Fund were on track to meet the investment objectives but below those of the comparator index. This reflected mainly the relative returns of the equity portfolio where the higher value stocks held returned less than the market as a whole.

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

	2010*	2009	2008	2007	2006
Fund	+12.4%	+14.9%	-22.0%	+5.8%	+14.0%
Comparator	+14.4%	+21.2%	-22.6%	+4.9%	+12.9%

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 31 December 2010



COIF Charities Ethical Investment Fund

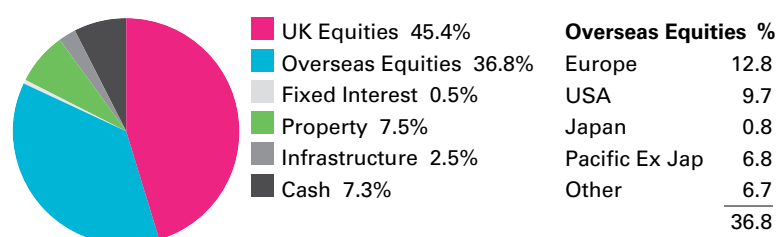
- Fund returns were positive over the quarter with the equity component the dominant source of returns. 2010 has proved to be a rewarding year, particularly for long term investors.
- Despite a continued difficult income environment the distribution on the Fund was slightly above that forecast at launch.
- Overall returns on the Fund were on track to meet the investment objectives but below those of the comparator index. This reflected mainly the relative returns of the equity portfolio where the higher value stocks held returned less than the market as a whole.

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

	2010*	2009	2008	2007	2006
Fund	+11.6%	n/a	n/a	n/a	n/a
Comparator	+14.4%	n/a	n/a	n/a	n/a

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 31 December 2010



* Note: In quarter four we changed the methodology to calculate gross performance; for more information please see the note under the heading, Fund Performance.

Source: CCLA. Performance shown before management fees and expenses: net returns will differ after the deduction of fees and charges. 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 (cont)

COIF Charities Global Equity Income Fund

- International equity markets moved higher over the quarter and over 2010 as a whole as investors became more optimistic about the depth and sustainability of the economic recovery.
- Income however remained a difficult area with some significant cuts in payments during the year. Despite this the Fund managed to increase its distribution to investors. At the end of the year the income yield on the Fund was 5.08% compared with a yield of 2.29% on the FTSE All-World Index and 2.89% on the FTSE All-Share Index.
- Returns on the Fund have been positive and in line with those of the comparator.

COIF Charities Property Fund

- 2010 was a strong year for commercial property returns although the rise in valuations was concentrated in the earlier months of the year.
- In occupier markets, rental values have remained under downward pressure, despite this the Fund has increased its income payment for both the quarter and the year.
- Benchmark performance data is still awaited but our expectations are that the Fund has continued to outperform.

COIF Charities Fixed Interest Fund

- Although returns for the quarter were slightly negative, over the year fixed interest markets gave positive returns to investors, longer dated stocks performed best and corporate bonds outperformed government issues.
- Income payments have been maintained at an attractive level. We expect to maintain this level of income for the year ahead.
- We have moved the portfolio into a defensive position in anticipation of a less supportive environment in 2011. This has restrained short term performance with the result that total returns are below those for the benchmark.

COIF Charities Deposit Fund

- Interest rates have remained at very low levels, the Official Base Rate has been held at 0.5% since March 2009.
- The interest rate payable on the Fund was increased in the quarter as the managers took advantage of some market opportunities.
- Our priority remains capital security, as a result we avoid offers of higher rates when we consider that the risks associated with them are too great.

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

	2010	2009	2008	2007	2006
Fund	+14.9%	+17.6%	-24.2%	n/a	n/a
Comparator	+14.5%	+30.1%	-29.9%	n/a	n/a

Comparator – FTSE All-Share Index.

Note: In quarter four we changed the methodology to calculate gross performance; for more information please see the note under the heading, Fund Performance.

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

	2010	2009	2008	2007	2006
Fund	+15.2%	+6.9%	-22.6%	-3.1%	+20.6%
Comparator	n/a	+3.1%	-22.6%	-3.7%	+18.2%

Comparator – IPD Quarterly Universe (Current Quarter not yet available).

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

	2010	2009	2008	2007	2006
Fund	+6.6%	+2.3%	+9.9%	+5.1%	+1.0%
Benchmark	+7.8%	+1.2%	+9.3%	+4.7%	+0.6%

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

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

	2010	2009	2008	2007	2006
Fund	+0.7%	+1.5%	+5.8%	+5.9%	+4.8%
Benchmark	+0.5%	+0.6%	+4.8%	+5.8%	+4.7%

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 objective of the Fund is to provide substantial real total returns over time with income protected against the erosive effects on spending power of inflation. To achieve this, the portfolio will have a high weighting to real assets such as equities and property.
- Fixed interest investments represent only a modest proportion of total assets. We see the sector as over-valued at current levels and a potential source of weakness in the year ahead.
- The infrastructure holdings have been reduced as prices moved above underlying asset values.
- We are optimistic on the prospects for the year ahead. We expect capital gains and a further increase in the income payments.

COIF Charities Global Equity Income Fund

- The approach of the Fund is to seek out good quality companies which pay an attractive level of income and which can increase the income payment over time.
- The portfolio is built on a 'bottom-up' basis and has no pre-determined allocation to particular sectors or even countries.
- The search for value and income will normally mean that the shape of the portfolio varies substantially from conventional market capitalisation based indices. At the end of December the Fund had above index weightings relative to those of a capitalisation based index in Asia, Europe and the UK. The exposure to the US was below index and there was no exposure to Japan.
- We expect equity markets to make further progress in the year ahead.

COIF Charities Property Fund

- The Fund provides investors with access to a diversified portfolio of property assets which are actively managed to take advantage of the opportunities which arise from time to time in the sector.
- The current focus is on good quality properties in prime locations with strong tenants. Income security is an important part of our selection criteria; we expect the contribution from income to dominate returns in the immediate future.
- Occupier markets are improving slowly; we expect capital values to remain near current levels for the immediate future, overall returns however should be positive.

COIF Charities Fixed Interest Fund

- Fixed interest markets are in our view a little overvalued at current levels and so we have been moving the portfolio into a more defensive position.
- We have retained a relatively high weighting to good quality corporate bonds which provide a higher income than the government stock alternatives.
- We expect to maintain the income payment on the Fund in the year ahead.

COIF Charities Deposit Fund

- Although official base rates have been held at 0.5% for some time, from time to time higher rates have been available. Typically these have been for term deposits or from institutions where credit ratings have been reduced. In most cases these bids have failed our security and quality tests.
- We expect interest rates to stay low for the medium term.

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 and address excessive remuneration.
- 4 Selecting some investments that deliver social or environmental benefits plus market-level risk-adjusted returns.
- 5 Responsibilities under the UK Stewardship Code and the UN Principles for Responsible Investment.

Quarterly highlights

- We held a “Whose Ethics?” trustee lunch in National Ethical Investment Week (NEIW) and attended the House of Commons reception. NEIW 2011 is 16-22 October.
- Team members met with an executive member of the BP Board and discussions with the company are ongoing.
- We have been invited to attend a meeting at the Charity Commission about the consultation draft of their latest guidance on charities and investment matters. The consultation closes on 28 February and the draft is available on the Charity Commission’s website.

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 BSKyB and Sysco. We didn’t support the re-election of directors at Sysco because a 2008 shareholder proposal gaining majority support had been ignored, and decided to vote against the BSKyB bonus proposals because they are unlimited.
- CCLA’s quarterly record for the 439 resolutions voted across all markets was 17% abstentions or votes against management (mainly remuneration related).

Ethical constraints

- We confirm that the funds have been managed to the client-driven policies this quarter.
- 9.1% of the FTSE All World Developed index by market capitalisation was excluded from the Ethical Fund, and only 3.1% for the other COIF Funds with exposure to corporate securities. In the latter case this was entirely driven by company involvement in weapons banned by international treaties or the tobacco screen.

CCLA’s Statement in Response to the UK Stewardship Code

CCLA seeks sustainable investment returns on behalf of our charity and not-for-profit clients. Sustainable investing aims to meet long-term needs and our Investment Funds’ long term performance goals reflect this. We are owned by our clients and have no external financial shareholders. Our integrated approach to stewardship, which is summarised below, reflects this unusual context. It also covers wider stewardship issues of interest to our church and charity clients.

Monitoring all our investee companies is a routine part of CCLA’s wider investment process. We have also developed bespoke voting templates with like-minded investors, and vote all our domestic and overseas holdings. The templates cover routine corporate governance issues like board structure to client concerns about excessive remuneration. Our UK service provider is PIRC, with which we work with in collaboration with other like-minded investors. Voting decisions that are not covered by the templates are taken by portfolio managers and we aim to write to companies when we abstain or vote against management.

In addition to the above routine monitoring and voting, we pay particular attention to the longer-term stewardship of companies that makes up more than 1% of our Investment Fund portfolios. Our Chief Investment Officer (CIO) chairs regular minuted meetings that prioritise these companies for active engagement based on any concerns we have about strategy, performance, governance and management of environmental or social risks.

We are prepared to escalate our engagement when it is in our clients’ interests to do so. For our main holdings this will usually be led by our CIO. We are prepared to act collectively with other investors when this is a cost effective way of protecting long-term shareholder value. Potential collaborators should contact Helen Wildsmith, Head of Ethical & Responsible Investment in the first instance. When appropriate we are prepared to co-file shareholder resolutions and express our concerns publicly.

We also monitor companies against wider stewardship issues of concern to our church and charity clients and support the secretariat to the Church of England’s Ethical Investment Advisory Group (EIAG). EIAG advice or the client-driven policies covering our charity funds might lead to divestment based on a company’s failure to respond to persistent engagement.

Our annual voting record is available on our website and we will continue to include highlights of our stewardship work in our quarterly client reporting. From 2011 we will publish an annual Stewardship Report, which will include a summary of all our engagement.

Our stewardship activities are an integral part of how we manage funds on behalf of our charity and not-for-profit clients. As such they are covered by our internal auditing programme and reflected in our procedures.



for Charities

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