

QUARTERLY BULLETIN

31 December 2008

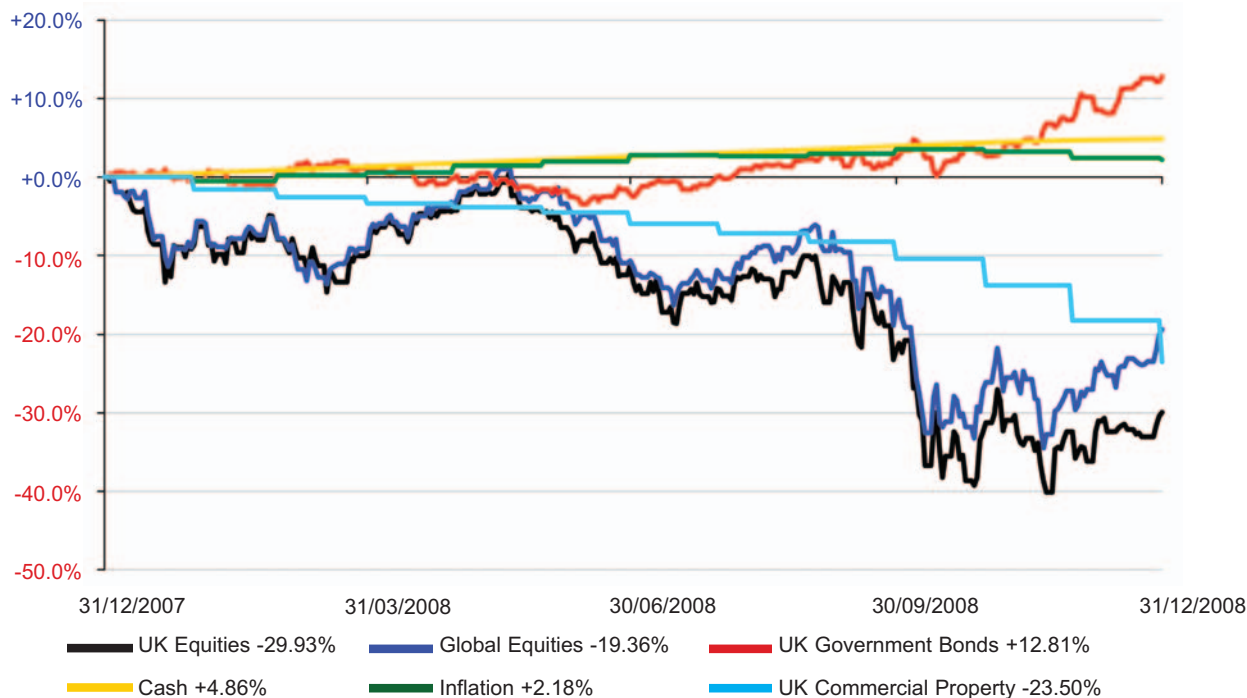


for Charities

Market Review and Outlook

Markets at a Glance - 12 Months to 31 December 2008

Equities, bonds, cash and property - 1 year returns



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

- The fourth quarter of 2008 was a period of sharp declines in most major equity markets, even though prices rallied strongly in the final few weeks. For UK based investors the falls in international markets were moderated by the decline in sterling.
- In the final three months of the year the FTSE All-World Index gave a return of -22.2% in US dollar terms, but -3.5% to a sterling based investor. The FTSE All-Share Index, a broad measure of the performance of the UK market, returned -10.2%. Fixed interest investments overall produced positive returns with government bonds (gilts) enjoying the best support. Commercial property however weakened, and indeed the pace of decline accelerated in the period as valuers reflected falling rents in their calculations. Sterling fell sharply, losing 18.0% against the US dollar, 17.3% against the euro and 29.9% against the yen.
- Events in the financial sector dominated news in the early days of the quarter as RBS, Lloyds TSB and HBOS were forced to take fresh capital from the government with Barclays choosing to seek funding from private investors. Gradually however the effects of the credit crisis on the economy as a whole became the dominant influence on investment markets.
- In the UK, the government announced a series of measures aimed at moderating the effects of what is likely to be a sharp and possibly protracted recession. These included a huge increase in borrowing and a temporary reduction in VAT. Similar programmes were announced in many economies overseas. Interest rates were cut across the global economy. These actions may hopefully have an impact during 2009 but have not been able to prevent the early effects of recession manifesting themselves in higher unemployment, reduced manufacturing output and falling commodity prices: the oil price fell below \$40 per barrel, having been over \$140 per barrel in the summer.
- Emerging economies have performed better but have not been immune from the problems of their customers. China announced that falling activity had cost the jobs of 10 million workers.
- The data from the global economy will continue to worsen in the months ahead but whilst the news will in many instances be grim, we must remember that investment markets work as discounting mechanisms, reflecting not what is happening today but what is expected to happen in the future. The sharp falls in equity markets over the past year, when the UK fell by 29.9%, the USA by 36.8%, Europe by 42.6% and Japan by 42.1%, should be seen as investors reflecting in their valuations of investments the difficult economic circumstances now unfolding.
- In fixed income markets we see corporate bonds as attractive relative to government securities. The sector will be attractive to many as a source of income.
- Property values have yet to stabilise but are increasingly supported by the high yields now available.
- Equities are at valuation levels which historically have proved to be excellent buying opportunities. We think the market is in a long term bottoming phase but expect day to day price fluctuations to stay high.

Distributions for the Quarter

COIF Charities Fund	Distribution per Income Unit	Payment Date	
Investment Fund	12.60p	27/02/09	<ul style="list-style-type: none"> The payment is unchanged on that for the comparable period of 2007. The dividends for the past four quarters amount to 41.86p compared to 37.50p at this stage of 2007, equivalent to an 11.63% increase over the year.
Global Equity Income Fund	1.58p	27/02/09	<ul style="list-style-type: none"> This is the final payment of the Fund's first year, there is therefore no comparable past period. The payment means that the Fund has generated the 6.00p per Income Unit forecast at launch.
Property Fund	1.90p	27/02/09	<ul style="list-style-type: none"> This payment is 5.56% higher than that for the comparable period last year. The dividends for the past four quarters amount to 7.20p, this is 7.46% greater than the total payment to investors at this stage last year.
Fixed Interest Fund	1.80p	27/02/09	<ul style="list-style-type: none"> The distribution to investors has been maintained and is unchanged on that for the comparable period in 2007. Based on an Income Unit price of 130.98p at the end of December and an annual distribution of 7.20p the income yield on the Fund is 5.50% and the corresponding gross redemption yield is 3.79%*.

*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

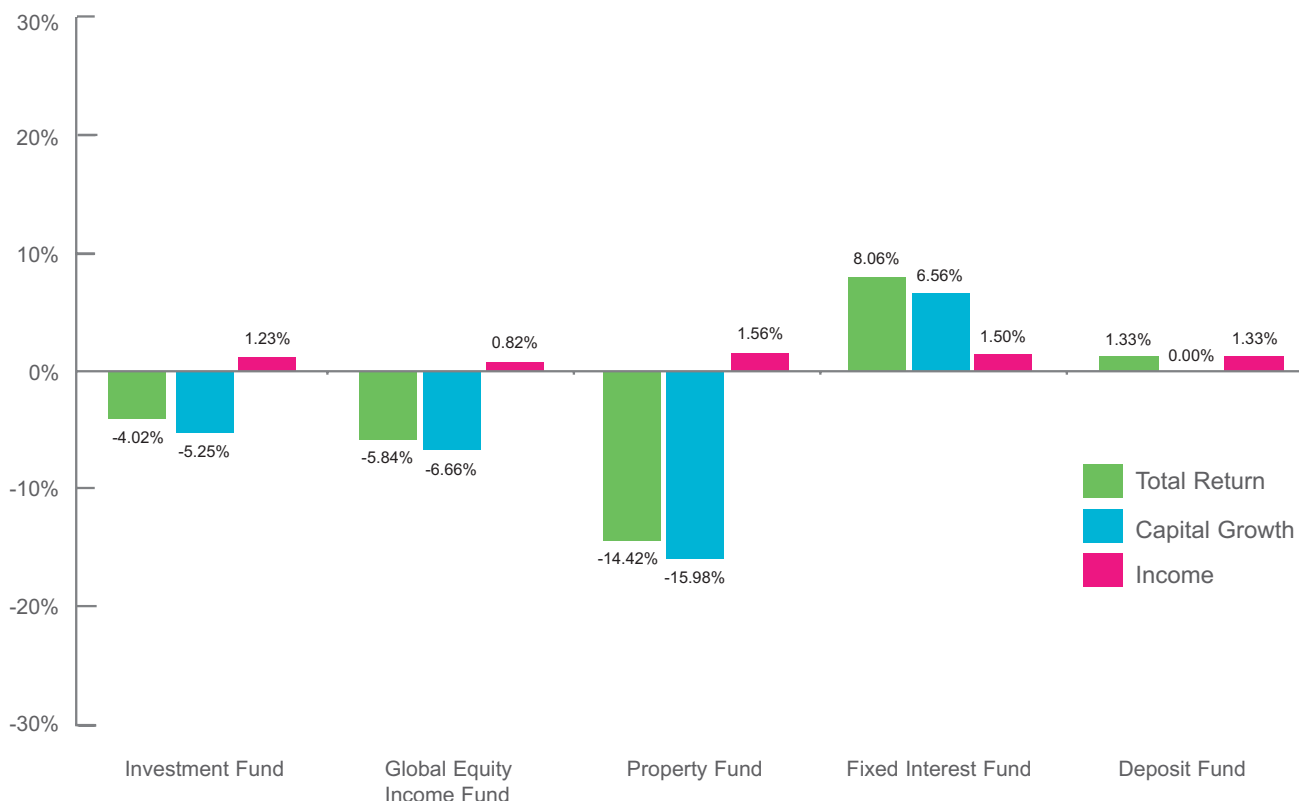
COIF Charities Deposit Fund

Average interest rate over the quarter	4.89% (4.98% A.E.R.)**	<ul style="list-style-type: none"> The interest rate payable on the Fund is dependent on the rates available on the UK money markets. Although interest rates have already fallen sharply, we expect them to decline further from current levels.
Interest rate at the quarter end	3.50% (3.55% A.E.R.)**	<ul style="list-style-type: none"> The present high demand for credit has meant that money market interest rates sit at a premium to official rates, to the benefit of the Fund. We expect a premium to continue in the near term although not at the high levels seen in the past. The Fund is rated AAA/V1 by Fitch Ratings. This reflects the high credit quality of the 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

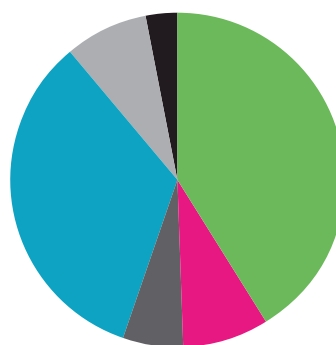
- The income payment to investors has been maintained at 12.60p. For the year the payment has risen to 41.86p, an increase of 11.63% on the payment for 2007.
- Overall, investment markets have remained weak over the quarter. Equity markets in particular retreated sharply although weak sterling has cushioned the falls from markets overseas. Bright spots were few although government bonds produced positive returns, supported by investors seeking safe haven investments.
- The Fund has produced returns below those on the WM CFS Universe. This, however, is not a reflection of poor returns from the securities selected but rather results from the differences in asset allocation between the Fund and the WM Universe at a time when the variation in the returns from different asset classes has been substantial. The Investment Fund has a higher weighting to equities and property. These have fallen in value in 2008 but are expected to provide superior growth over time.

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

	2008	2007	2006	2005	2004
Fund	-22.0%	+5.8%	+14.0%	+19.8%	+11.1%
Benchmark	-19.3%	+6.2%	+12.5%	+20.4%	+11.3%

Benchmark - WM Co. CFS Universe, Total Assets (Current Quarter Estimated)

Asset Allocation as at 31 December 2008



Overseas Equities %

Europe	10.4
USA	12.8
Japan	4.3
Pacific Ex Jap	5.7
Other	0.4
Total	33.6

UK Equities	41.3%	Overseas Equities	33.6%
Fixed Interest	8.2%	Property	8.0%
Infrastructure	5.9%	Cash	3.0%

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

- The income payment for the quarter is 1.58p. Over the year the Fund has achieved the income target of 6.00p per Income Unit set at launch.
- Equity markets have been weak over the period although the fall in sterling has moderated the declines of international indices. With investor confidence frail, large companies have typically outperformed their smaller counterparts whilst value stocks have been in favour relative to growth stocks.
- The objective of the Fund is to produce a high income, growing over time, from an international portfolio of investments. Over the year since launch the Fund has produced overall returns comfortably better than those from the domestic equity market.

COIF Charities Property Fund

- The income payment to investors has been increased by 5.56% on the comparable period for 2007. Over the year the payment has been increased by 7.46%.
- Commercial property prices weakened further in the quarter as falling rental values and increased tenant insolvencies were reflected in valuations.
- The return on the Fund over the year is -22.6% in line with the benchmark return of -23.5%.

COIF Charities Fixed Interest Fund

- The income payment to investors has been maintained at 1.80p per Income Unit.
- Fixed income securities produced positive returns over the period with government stocks (gilts) performing best as investors favoured low risk investment strategies.
- Over the year the Fund has produced a return of 9.9%. This compares to an estimated return of 6.1% on the benchmark.

COIF Charities Deposit Fund

- At the end of the period the rate paid to investors was 3.50% (3.55% AER)*. Interest rates fell sharply over the quarter as the Bank of England reduced base rates as a reaction to falling inflation and reduced level of economic activity.
- The Fund has benefited from money market rates being substantially above official interest rates and has passed this advantage on to investors. This symptom of the credit crisis is expected to continue in the months ahead, albeit to a reduced degree.
- The prime focus of the Fund is on security. The list of counterparties is reviewed on a daily basis and there are strict limits and controls on the amounts which can be invested with them.

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

	2008	2007	2006	2005	2004
Fund	-24.2%	n/a	n/a	n/a	n/a
Comparator	-29.9%	n/a	n/a	n/a	n/a

Comparator - FTSE All-Share Index

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

	2008	2007	2006	2005	2004
Fund	-22.6%	-3.1%	+20.6%	+15.3%	+17.4%
Benchmark	-23.5%	-4.3%	+17.9%	+18.8%	+18.7%

Benchmark - IPD Monthly & Quarterly Valued Funds Excluding the Smallest & Largest 5% (Current Quarter Estimated)

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

	2008	2007	2006	2005	2004
Fund	+9.9%	+5.1%	+1.0%	+7.8%	+6.7%
Benchmark	+6.1%	+4.0%	+1.1%	+7.8%	+6.6%

Benchmark - WM Co. CFS Universe, UK Bonds (Current Quarter Estimated)

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

	2008	2007	2006	2005	2004
Fund	+5.8%	+5.9%	+4.8%	+4.8%	+4.5%
Benchmark	+4.8%	+5.8%	+4.7%	+4.7%	+4.4%

Benchmark - 7 Day LIBID

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

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.

Strategy and Outlook

COIF Charities Investment Fund

- The investment objective for the Fund is to provide an average return over a business cycle of inflation plus 5%. Within that overall total, income should be maintained in real terms.
- The Fund's portfolio has a high exposure to those asset classes which will provide the strongest long term returns together with a rising income. Equities are the largest single asset category and there are important holdings in property and infrastructure. Bonds and cash are also held, but these are a smaller proportion of the overall asset allocation.
- There is a substantial exposure to overseas investment markets. We believe that the holdings in faster growing economies and the extra opportunities available internationally improve the potential long term return of the Fund. Recent weakness in sterling has increased the returns from overseas markets.
- Most investment markets have fallen substantially over the past year, to valuations which, in the past, have proved to be very rewarding levels to invest at. Economic data, however, is likely to be disappointing for much of 2009 and day to day fluctuations in share prices are expected to remain at elevated levels. In our opinion, for those able to take the long term view, there are some attractive opportunities in a number of investment markets.

COIF Charities Global Equity Income Fund

- The portfolio is built up of holdings in companies which offer a good level of yield and which can grow their dividends in the future. The Fund does not have any predetermined exposure to sectors or countries, weightings are built on the basis of the merits of the companies, subject to prudent controls on risk.
- The portfolio enjoys a wide geographic diversification and in international markets is able to invest in sectors which are only represented to a modest extent in the UK equity market.
- Equity markets have fallen substantially over the past year to levels of valuation which have historically been attractive, however the risks in the economy have also risen and adverse news is likely to be a feature for most of the year ahead. The Fund has excellent long term prospects but for the near term high day-to-day volatility is likely to continue.

COIF Charities Property Fund

- Commercial property values have continued to fall and indeed the pace of decline accelerated over the final quarter of the year. Activity in the sector remained at low levels but increasingly valuers factored into their assumptions falling rental values and increased tenant insolvencies as well as the general deterioration in the economy.

- Against this difficult background our policy has been to seek improved returns by activities such as refurbishment and keeping voids to as low a level as possible.
- The Fund was fully invested for most of the period although a sale was completed during December, thereby reducing the exposure to retail shops.
- Income yields on good quality properties, with strong tenants, are now significantly higher than those on cash or government bonds. There are opportunities in a number of areas with retail warehouses looking particularly attractive.

COIF Charities Fixed Interest Fund

- Government securities (gilts) have produced steady returns as investors have sought safe haven investments with a predictable level of income.
- Corporate bonds have done less well although the best quality issues and those with a relatively short time before redemption have also produced positive returns.
- Our stance towards the government securities market is now cautious, having seen that sector perform well and ahead of a substantial increase in supply as the government massively expands spending to support the economy.
- We are adding to good quality corporate bonds to take advantage of the attractive yields available in this area of the market.

COIF Charities Deposit Fund

- The prime focus of the Fund is on security. The portfolio is deposited with a diversified list of top quality borrowers. The list is actively managed on a daily basis to reflect any changes in standing or circumstance.
- This approach is reflected in the AAA/V1 rating which has been awarded to the Fund by Fitch Ratings. This is the highest credit rating available.
- The portfolio is substantially invested in short term deposits to ensure a high level of liquidity. From time to time however opportunities are taken to add some slightly longer deposits where these provide an improvement in income. Strategies such as this have helped protect the income yield to investors in recent months.
- Although the official bank rate has fallen sharply, to 2%, we expect that it will decline further in the time ahead and remain at low levels for the medium term.

Responsible Investment Report

Our work has three strands -

- 1 Engagement on issues of corporate social responsibility with a view to optimising long term economic returns.
- 2 Engagement on corporate governance including proxy voting on issues to protect and enhance shareholder value.
- 3 Setting appropriate constraints on investment and exposure to activities considered unacceptable by the independent Board.

1. Corporate Social Responsibility (CSR)

Key issues that we have covered over the last three months include:

- Signing the Investor Statement on a Global Agreement on Climate Change. The Energy & Climate Change Minister, Ed Miliband, replied that “statements like yours are very helpful in demonstrating UK businesses are also taking a lead and working towards the same goal, and I look forward to working with you over the critical next twelve months”.
- We met with Nestlé’s CSR team to discuss how they manage their global social and environmental risks.
- We convened an investor meeting with Anglo American’s Chairman, Sir Mark Moody-Stuart. The wide ranging discussion covered social and environmental issues relating to the company’s mining operations in Africa and elsewhere. Mining opportunities have occasionally been declined because CSR risks were considered to be too high.

2. Corporate Governance

- The Fund voted at 13 UK company meetings during the three months under review.
- Proxy voting statistics can be found at www.ccla.co.uk
- During the quarter, CCLA voted against remuneration at Wolseley, and abstained from supporting the remuneration reports at Close Brothers and Associated British Foods. We opposed proposals at BHP Billiton to increase substantially awards available under the annual bonus scheme at the expense of incentivising long term performance, which we did not view to be in shareholder interests.
- However, we did support the Board of BHP Billiton by opposing the election of a shareholder director.
- In volatile markets where corporate performance may be under pressure, investors will be closely monitoring the decisions taken by remuneration committees to ensure executive awards remain appropriate, stretching and linked to the delivery of superior performance.
- Overall in 2008, CCLA either opposed or abstained 6% of resolutions at 138 UK company meetings, the majority against executive remuneration or long-term incentive schemes.

3. Ethical constraints

- We confirm that the funds are managed in accordance with the principles set by the Board.



for Charities

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