

QUARTERLY BULLETIN

30 September 2011

Note from the Chief Executive of CCLA Matching assets to objectives

Slow and hesitant economic growth, with the expectation that current weakness is more than just a passing soft patch, has led the Bank of England to announce an additional phase of quantitative easing, earlier than expected and on a larger scale than forecast. The government is clearly trying to stimulate growth but with quantitative easing is doing so using a strategy that many believe risks embedding higher levels of long-term inflation into the economy, particularly so given the poor recent performance in this area. Against a background of weak growth and extraordinary government action it is clear that expectations that interest rates will be increased at any time soon are wide of the mark. Base rates have been at 0.5% since March 2009 and must be expected to remain at or very near that level for some time to come - market expectations are for current levels to be held not just through to the end of 2011 or 2012 but also well into 2013. During this period cash held on deposit will be earning negative returns after inflation.

The uncertain economic environment, fears of another credit crunch together with poor political leadership in many parts of the world has also resulted in lower levels of stock markets both domestically and overseas, and a significant increase in day-to-day market volatility.

For charities this is a very challenging environment, and one where it is more important than ever that asset allocation matches needs. Too much held in cash is expensive, with only low rates of interest available, rates which are negative in real terms in an environment of relatively high inflation. Too little in cash is also risky however if money which needs to be available in the near term is held in equities or other long-term assets where day to day values are far from certain. CCLA's asset allocation review service is there to help trustees navigate through this maze.

Despite well publicised concerns about the future, volatile and generally lower markets mean that for far sighted trustees there are opportunities to secure great value in well selected equities, in companies that enjoy strong and growing cash flows and which can provide charities with dividends and earnings that over time should grow in real terms. Their attraction is particularly emphasised when compared with cash and UK government securities where the yield is dismal and returns cannot hope to combat the erosive effects of inflation.

Where charities have successfully matched their asset allocation to their long-term requirements, current market uncertainty is a storm that will pass. For those with more cash than they need, low market levels are a good opportunity to lock into yield and value levels that we believe will evaporate quickly as sentiment improves.

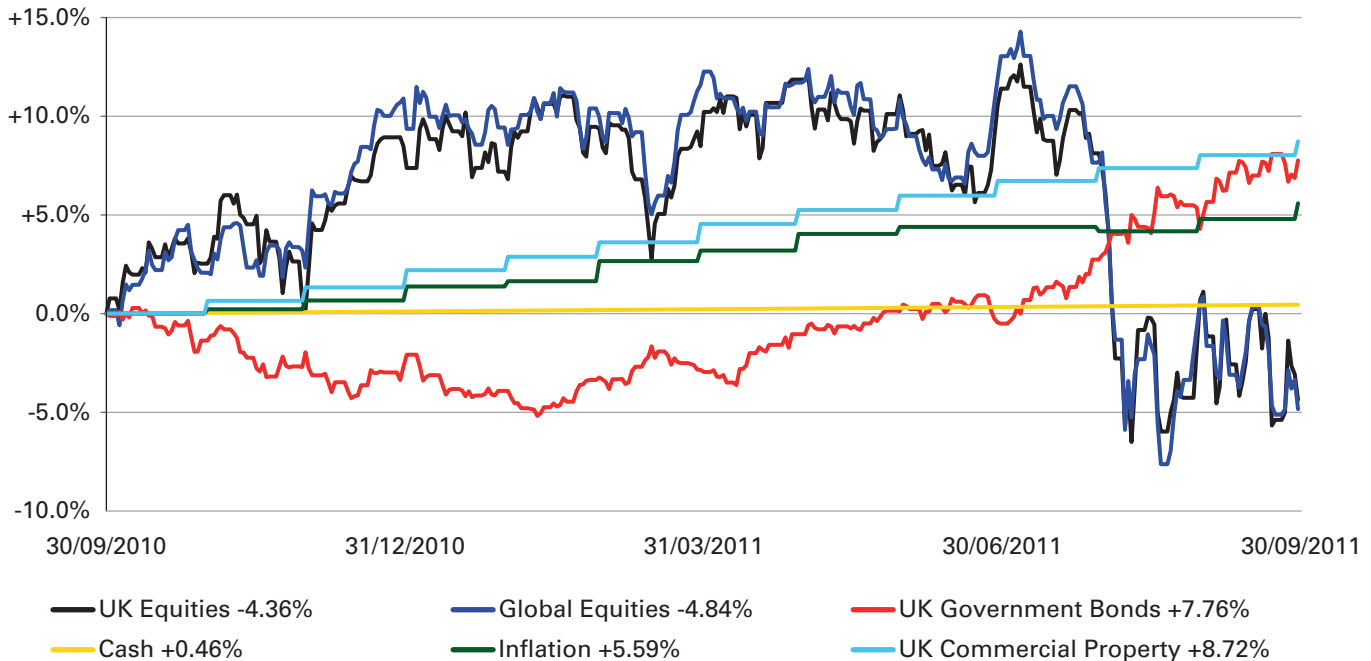
Michael Quicke



for the Church of England

Market Review & Outlook

Markets at a Glance - 12 Months to 30 September 2011



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

- Against a backdrop of a financial crisis in Europe and growing concerns about the resilience of the recovery in global economic activity, equity markets have fallen back significantly. The FTSE All-World Index gave a total return to a sterling based investor of -14.97%, bringing the return for 2011 to date to -12.98%. All of the major regional indices lost ground. The best performer was Japan, which declined by -3.14%, cushioned by a strong yen exchange rate. The US market fell by -11.34% and Asia by -17.94%. European equities were weaker still and recorded a -24.24% decline. In Asia eight individual markets fell by more than 10%, in Europe all the individual markets fell by more than 10% with Greece the worst performer, recording a return of -44.70%. The UK market was unable to stand apart from its peers and fell back by -13.50%. The UK equity return for 2011 to date is -10.93%, over the past year -4.36%.
- Fixed interest markets gave mixed returns. Government bonds (gilts) were well supported by investors seeking a safe haven investment and gave good positive returns. The FTSE Government All-Stocks Index returned +8.25%. Similar strength was enjoyed by top quality corporate bonds but lower rated issues were out of favour and fell over the period.
- Commercial property returns were positive overall but there were divergent trends between good quality, income secure properties, which were well supported and secondary assets, where both prices and rents came under pressure.
- The feature of currency markets was the weakness of the euro, against which sterling rose by +5.15%. Against the dollar and yen however sterling weakened, by -2.92% and -7.16% respectively.
- Economic growth continued but the pace of expansion moderated. Consumers generally lacked confidence, beset by low wage growth and high and rising unemployment. Credit availability was another concern, as banks restricted lending growth. The debt crisis in Greece remained unresolved with the focus on providing short term financing rather than on dealing with the fundamental problem of the debt mountain. With no immediate signs of a comprehensive solution concerns spread to other economies including Italy and Spain, forcing the ECB to support their bond markets in order to keep long term interest rates at acceptable levels. The UK was not immune to growth fears, estimates of economic growth for 2011 fell to little more than 1%. Inflation rose due to higher fuel prices but interest rates remained at very low levels, expectations for when they will rise were pushed forward, well beyond the end of 2012.
- Growth in the developed economies will continue, but at a modest rate. We expect concern over growth to lead to additional policy initiatives by governments which see economic expansion as the only lasting solution for excessive levels of debt. In the UK this will take the form of an extension to the gilt purchase programme employed previously by the Bank of England. Inflation is expected to fall back, interest rates to stay at current low levels. In terms of the various asset classes, we expect property values to be steady and returns to depend largely on income. We view fixed interest markets as very poor long term value but recognise that prices will be supported whilst growth and stability concerns persist. We believe equities have strong long term attractions for investors. In the near term however volatility will stay high and indices will remain vulnerable to any further deterioration in conditions.

Distributions for the Quarter to 31 August 2011

The CBF Church of England Fund	Distribution per Income Share	Payment Date	
Investment Fund	13.00p	30/09/11	<ul style="list-style-type: none"> The payment for the quarter is unchanged on that for the equivalent period last year. The payment for the past 12 months is 3.00% higher. At the end of the quarter the yield on the Fund was 4.83%, this compares with a yield of 3.66% on the FTSE All-Share Index.
Global Equity Income Fund	1.70p	31/10/11	<ul style="list-style-type: none"> The payment is unchanged on the equivalent distribution last year. Over the past 12 months the payment has been increased by 2.91%. The income yield on the Fund at the end of the quarter was 5.50% compared to a yield of 3.66% on the FTSE All-Share Index and 2.99% on the FTSE All-World Index.
UK Equity Fund	1.37p	31/10/11	<ul style="list-style-type: none"> The income payment to investors is maintained at the rate paid in the equivalent period last year. The payment for the past 12 months is 2.97% higher. As at 30th September the yield on the Fund was 4.99% compared to a yield of 3.66% on the FTSE All-Share Index.
Property Fund	2.05p	31/10/11	<ul style="list-style-type: none"> The income payment for this quarter is increased by 2.5%. Over the past year the payment has been increased by 2.63%.
Fixed Interest Securities Fund	2.20p	31/10/11	<ul style="list-style-type: none"> The income payment on the Fund is again maintained. Based on the price at the end of the quarter the income yield on the Fund was 5.48%, the gross redemption yield 2.37%*.

*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.

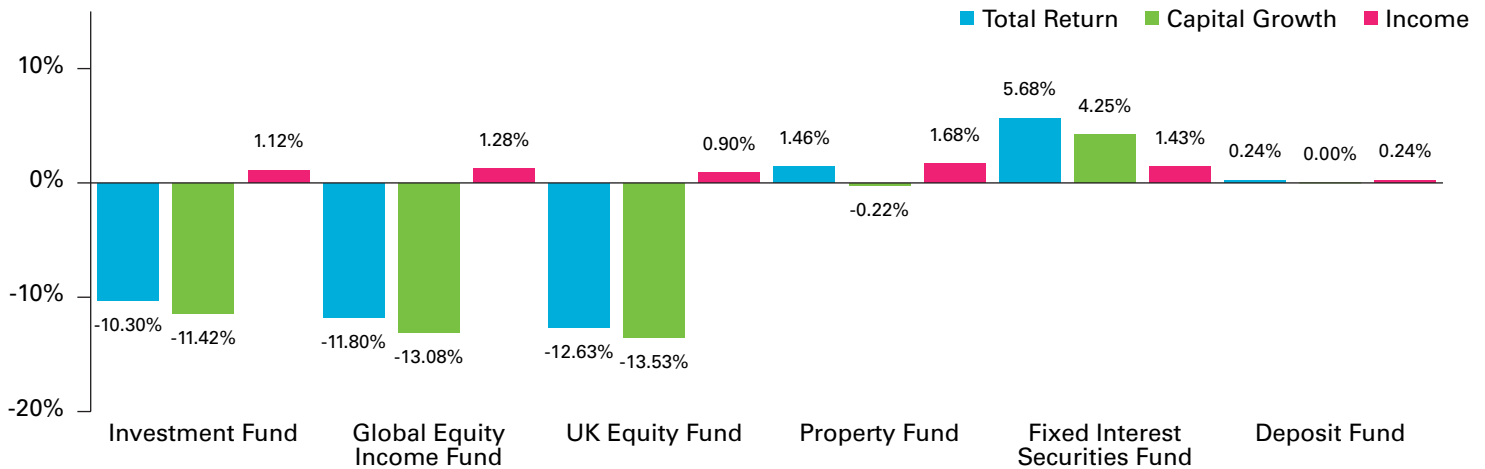
Interest for the Calendar Quarter to 30 September 2011

The CBF Church of England Deposit Fund

Average interest rate over the calendar quarter	0.72% (0.72% 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.
Interest rate at the calendar quarter end	0.75% (0.75% A.E.R.)**	<ul style="list-style-type: none"> Despite flat base rates the interest paid on the Fund has increased over the quarter. 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.

Performance Comment



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

The CBF Church of England Investment Fund

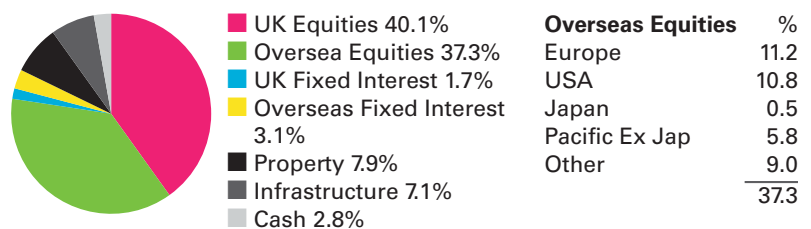
- Equity markets retreated over the quarter on a scale which, despite gains from other asset classes, was sufficient to take into negative territory the returns for both the past three and twelve months.
- Lacklustre dividend increases, low interest rates and falling bond yields maintained pressure on investment income flows but despite this the payment on the Fund was maintained.
- Fund total returns are in line with, but slightly below, those of the comparator. This reflects the relatively high equity exposure of the portfolio.

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

	2011	2010	2009	2008	2007
Fund	-1.7%	+12.7%	+5.8%	-18.5%	+11.0%
Comparator	-1.5%	+12.5%	+7.9%	-17.4%	+10.5%

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 2011



The CBF Church of England Global Equity Income Fund

- Global equity markets were weak over the quarter with all the major indices producing negative returns. The FTSE All-World Index gave a return to a sterling based investor of -14.97%, a degree of weakness that pushed the returns over the past year into negative territory.
- Dividend growth has remained patchy however we have maintained the dividend payment on the Fund.
- The total return on the Fund is superior to those on the FTSE All-World Index and the FTSE All-Share Index.

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

	2011	2010	2009	2008	2007
Fund	-2.9%	+12.1%	+8.6%	n/a	n/a
Comparator	-4.4%	+12.5%	+10.8%	n/a	n/a

Comparator – FTSE All-Share Index.

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)

The CBF Church of England UK Equity Fund

- The UK equity market fell back sharply over the quarter with a total return of -13.50%. The return over the past 12 months is now negative at -4.36%.
- The dividend payment on the Fund has been maintained.
- The Fund has shown a strong relative performance over the past year and over the most recent quarter.

The CBF Church of England Property Fund

- The Property Sector has produced positive returns over the period but on a modest scale. In a lacklustre environment for valuations the main contributor to returns has been income.
- The best performing sectors have been Central London offices and retail warehouses. Secondary property has been weak, reflecting increased supply but insufficient buying support.
- At the time of writing the returns on the Fund's benchmark are not available. Our estimates suggest that the Fund is in line with the benchmark over the past year and the most recent period.

The CBF Church of England Fixed Interest Securities Fund

- Fixed income markets have provided positive returns over both the past 12 months and the most recent quarter, buoyed by inflows from cautious investors.
- The income payment has been maintained. We expect the payment for the year to be the same as that for 2010.
- The Fund has achieved a good total return but has nevertheless underperformed its benchmark. This reflects a defensive investment strategy in a market which we believe has become overvalued.

The CBF Church of England Deposit Fund

- Official base rates have remained unchanged at 0.5%, a level first reached in March 2009.
- The Fund has maintained a premium income over the period, increasing slightly the amount paid to investors without reducing the focus on security of capital.
- Official interest rates are expected to remain at current levels for the foreseeable future.

Longer term total return performance (gross)

12 months to end September:

	2011	2010	2009	2008	2007
Fund	-2.1%	+15.1%	+3.6%	-20.9%	+11.5%
Benchmark	-5.9%	+11.6%	+10.5%	-23.1%	+11.1%

Benchmark – FTSE All-Share Index Adjusted for Ethical Restrictions.

Longer term total return performance (net)

12 months to end September:

	2011	2010	2009	2008	2007
Fund	+7.5%	+24.6%	-18.8%	-16.0%	+9.6%
Benchmark	n/a	+18.9%	-23.6%	-20.9%	+7.3%

Benchmark – IPD Balanced Property Unit Trust Index (Current Quarter not yet available).

Longer term total return performance (gross)

12 months to end September:

	2011	2010	2009	2008	2007
Fund	+5.9%	+7.2%	+11.3%	+5.0%	+0.8%
Benchmark	+7.1%	+8.4%	+11.9%	+4.6%	+0.3%

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

Longer term total return performance (gross)

12 months to end September:

	2011	2010	2009	2008	2007
Fund	+0.9%	+0.7%	+2.7%	+6.1%	+5.6%
Benchmark	+0.5%	+0.5%	+1.3%	+5.5%	+5.5%

Benchmark – 7 Day LIBID.

Strategy and Outlook

The CBF Church of England Investment Fund

- The Fund seeks to provide an attractive level of income and capital growth from a diversified portfolio based substantially on real assets such as equities and commercial property.
- Our central expectation is for continued expansion in the world economy, but within this for the growth in the developed economies to be slow and halting. Modest overall growth and the continuing financial crisis in Greece, which seems still some way from resolution, will mean that short term asset price volatility will stay high.
- Price trends are very hard to forecast in an environment where short term news flows and sentiment, rather than the underlying fundamentals, are the main influence on market levels. It may therefore be that recent trends, where long term assets are eschewed in favour of safe havens, persist for the time being. Taking a long term view however we see excellent value in strong companies with growing franchises and which are paying investors a good and sustainable dividend flow. We see bonds as expensive relative both to history and other assets and so are underweight to this sector.

The CBF Church of England Global Equity Income Fund

- Our expectation is for economic growth to continue but at a pedestrian pace, constrained by a weak financial sector and continued pressure on consumer expenditure. Against this background we favour companies with strong franchises able to grow their businesses even in a challenging environment and which we can buy at a discount to our calculation of their intrinsic value. This naturally creates biases to sectors which are currently out of favour or fashion with investors.
- In terms of geographical weightings the portfolio currently has a relatively high weighting to the UK and Europe. The United States is represented below index weightings and there is a minimal exposure to Japan. At the sector level there are substantial relative holdings in telecommunications, utilities and healthcare, underweight positions in oil and gas and technology.

The CBF Church of England UK Equity Fund

- Our expectation is for the domestic UK economy to grow only slowly in the period ahead but for profit growth to continue, supported by rising prices and the contribution to earnings from activities in faster growing economies overseas.
- Our policy will be to focus the portfolio on well positioned companies able to withstand uncertainty and grow against an unsupportive background. Our strategy is to select holdings on their individual merits rather than follow the shape of a market index, for that reason the portfolio will have a natural bias to lower rated stocks and sectors.
- Within the Fund currently there are above average weightings in sectors including industrials and consumer services. Oil and gas and consumer goods are held below the index neutral weighting.

The CBF Church of England Property Fund

- The Fund provides a diversified exposure to the commercial property sector in the UK. The portfolio invests in good quality assets with a high yield where there is a potential to add value by management action.
- We expect that high quality assets in good locations will continue to enjoy strong support, London offices and retail warehouses are particularly well placed at the moment. The outlook for secondary assets however is quite different, with too much stock available and weakness in both prices and rent levels.
- Overall our view is that it is too soon in the economic cycle to expect a general improvement in capital values however the income attractions of the sector are substantial.

The CBF Church of England Fixed Interest Securities Fund

- The main objective of this Fund is to provide a high and consistent income from a portfolio of government bonds (gilts) and good quality corporate bonds.
- The portfolio currently has a relatively defensive structure, maintaining the income yield to investors but with a bias towards shorter dated bonds which are less exposed to adverse changes in investor sentiment.
- The exposure to corporate bonds is approximately 36% of the value of the Fund; this is likely to increase as economic expectations improve.

The CBF Church of England Deposit Fund

- The prime objective of the Fund is to provide a high level of security for cash investments, coupled with ease of access and an interest rate which is fully competitive in the market. Investments are made only with an approved list of borrowers, the numbers of which have declined steadily in recent times reflecting the increased risks in the investment markets. The Fund invests only in bank deposits and call accounts.
- We expect interest rates to remain at very low levels for the foreseeable future. The Fund will therefore place some longer term deposits to support the income paid to investors.

Responsible Investment Report

Our work has five strands:

- 1 Engagement, focused on social and environmental issues in the context of Christian mission and witness.
- 2 Setting appropriate constraints on investment and exposure to activities considered unacceptable by the Church of England's Ethical Investment Advisory Group (EIAG) and the CBF Funds Trustee.
- 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

- The EIAG has recommended new policies on high interest rate lending and pornography to the three national investing bodies (including the CBF Funds). Further details will be available next quarter.
- The EIAG and the Church Investors Group (CIG) have continued to strengthen their approach to collaborative engagement (see overleaf).
- CCLA has sponsored this year's Church Action Guide for National Ethical Investment Week (16th - 22nd October). It is available at www.neiw.org/church-guide.

Voting in more detail

- CCLA aims to vote at all UK and overseas company meetings where we have portfolio holdings.
- Our quarterly record for the 798 resolutions voted across all markets was 14% abstentions or votes against management (mainly remuneration related).
- At H J Heinz we voted against directors who have ignored a shareholder proposal that received support from a majority of shareholders in 2010.
- The Association of British Insurers, whose members hold about a quarter of the domestically-owned shares in UK companies, released its updated guidance on executive remuneration and its first report on board effectiveness.
- The EIAG's review of its corporate governance and executive remuneration policies is ongoing.

Ethical constraints

- The EIAG is currently undertaking a comprehensive review of some of the restricted investment categories (currently embryonic stem cells). This process is supported by the CBF Funds Trustee, and clients are invited to send comments to the Secretary (edward.mason@churchofengland.org)
- 5.6% of the FTSE All-World Developed Index by market capitalisation was restricted from investment this quarter.

Background and summary:

- 1 The CBF Funds are long-standing members of the £12bn Church Investors Group (CIG), which has over 30 members connected with the Churches of Britain and Ireland.

- 2 CCLA provides the CIG secretariat and represents the CBF Funds on the CIG Steering Group.
- 3 CCLA has led the high profile collaborative engagement with BP, which CIG has undertaken on behalf of its members, US church and other institutional investors.
- 4 Last month the CIG hosted a historic global conference in Paris for church investors from four continents.

BP Collaborative Engagement Update:

- Since the BP AGM in April, the company has held two half-day investor seminars on safety and operational risk with presentations from members of the executive team and board. Both seminars were repeated in New York.
- The latest seminar covered: BP's decision to move to fewer strategic contractors; its large recruitment and capabilities building programme; its focus on the cultural and leadership aspects of the change programme; and board level engagement in the key issues, including remuneration and performance management.
- Smaller engagement meetings have focused on the challenges of the transition to a low carbon economy.

Historic Global Church Investors Meeting:

- 40 participants from 10 countries representing 33 institutions met in Paris in mid-September.
- Local engagement expertise can be combined with aggregated global church shareholdings to create a powerful lever for improving corporate governance and environmental and social performance. Recent examples include BP (UK-led) and now NewsCorp (US-led).
- One example of future work relates to next year's London Olympics. US faith investors are working through the Interfaith Center on Corporate Responsibility (ICCR) to reduce corporate complicity in human trafficking and modern day slavery. CIG has now agreed to take this forward with UK-listed hotel groups.

Further details and next steps:

- Further details about the CIG's work can be found at www.churchinvestorsgroup.org.uk
- CIG members and other institutional investors are planning in depth engagement with the largest UK-listed extractives and utilities companies based on the Carbon Disclosure Project's carbon performance bands. We would like to see more companies achieve an "A".
- ICCR's Executive Director is joining CIG's November biannual meeting to continue discussions started in Paris.



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