



for the Church of England

# **The CBF Church of England Fixed Interest Securities Fund**

**Report and Accounts  
Half Year to 31 May 2008  
(unaudited)**

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### **Trustee and Manager**

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### **Description of The CBF Church of England Funds**

(outside back cover)

## **Disability Discrimination Act 1995**

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# The CBF Church of England Fixed Interest Securities Fund

## Report of the Trustee

### for the six months ended 31 May 2008

On behalf of the Trustee, I have pleasure in presenting the half year Report and Accounts of The CBF Church of England Fixed Interest Securities Fund (the Fund), which includes a separate report from CCLA Investment Management Limited (the Manager) as Manager of the Fund.

#### Structure and management

The Fund is a common fund established by the Church Funds Investment Measure 1958 (as amended from time to time), and the Trustee Act 2000 (together the Measure).

CBF Funds Trustee Limited (CBFFT), a company incorporated under the Companies Act, limited by guarantee and not having a share capital, is the Trustee and Operator of the Fund. CBFFT has an Audit Committee which meets twice each year to review the financial statements and monitor the control environment in which the Fund operates.

CBFFT has delegated to the Manager, which is authorised and regulated by the Financial Services Authority (FSA), the investment management, administration, registrar, secretarial and company secretarial functions of the Fund under Management Agreements dated 15 November 2006.

Under the provisions of the Financial Services and Markets Act 2000 (FSMA), CBFFT is not considered to be operating the Fund by way of business. In consequence, it is not required to be authorised and regulated by the FSA and the trustee directors of CBFFT are not required to be authorised by the FSA for this purpose.

Investments in the Fund are not covered by the Financial Services Compensation Scheme. The

Manager will pay fair compensation on eligible claims arising from its negligence or error in the management and administration of the Fund.

#### Charitable status of the Fund

The Fund is entitled to charitable status by virtue of section 24(9) of the Charities Act 1993. In the administration of the Fund, CBFFT is exempt from the jurisdiction of the Charity Commission by virtue of section 5(1) of the Church Funds Investment Measure 1958.

#### Investment objective of the Fund

The Fund aims to provide a relatively high income yield compared to equity investment and a total return in excess of its benchmark. The returns from fixed interest securities by their nature are not protected from the effects of inflation.

#### Total return benchmark

The total return performance benchmark for the Fund is the WM Co Charity Fund Service Universe for United Kingdom fixed interest stocks, including gross income reinvested before management expenses.

#### Responsibilities of the Trustee

CBFFT receives a report on the published accounts from the Manager twice a year and is wholly responsible for the Fund. CBFFT monitors the investment, property and cash management, administration, registration, secretarial and company secretarial services provided by the Manager under the respective Management Agreements. It meets quarterly with the Manager to monitor investment strategy, interest rate policy, investment diversification and risk and to review the Fund's performance. In addition, CBFFT reviews

# The CBF Church of England Fixed Interest Securities Fund

## Report of the Trustee

### for the six months ended 31 May 2008

the Annual Report and Accounts of the Fund prepared on its behalf by the Manager.

CBFFT is responsible for appointing an Audit Committee, the Auditor and the Safe Custody Agent. It reviews annually the objectives of the Fund in the light of current circumstances.

#### **RBS monitoring service**

CBFFT has appointed The Royal Bank of Scotland plc to monitor the Manager in respect of its activities related to the management and administration of the Fund and to provide formal six-monthly reviews of its findings to the Audit Committee. The Royal Bank of Scotland plc has not raised any material issues.

#### **Delegation of functions**

Following its regular meetings and consideration of the reports and papers it has received, CBFFT is satisfied that the Manager, to whom it has delegated the administration and management of the Fund, has complied with the terms of the Measure and with the relevant Management Agreements.

#### **Ethical investment**

CBFFT complies with the Ethical Investment Policy of the Church of England and therefore the Fund will not hold corporate bonds in any company otherwise excluded by The CBF Church of England Investment Fund.

#### **Controls and risk management**

CBFFT receives and considers regular reports from the Manager. Ad hoc reports and information are supplied as required.

The Manager has established an internal control framework to provide reasonable, but not absolute, assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the directors and senior management of the Manager on a continuing basis.

CBFFT receives internal audit reports on the controls of the Manager. During the period CBFFT, assisted by the Manager, reviewed the Fund's systems of internal control. At each of its meetings, the Audit Committee receives and reviews, a formal risk management report from the Manager. This sets out the main risks facing the Fund, the controls in place to mitigate those risks and the assessment of each risk in terms of both gross exposure and residual exposure after application of mitigating controls.

#### **Note to shareholders**

With effect from 1 December 2007, the Fund is required to account for income from debt securities on an effective yield basis.

Effective yield is a method of recognising income from debt securities that takes account of any difference (i.e. premium or discount) between the amount paid for the security and the amount that will be received if the security is held until its redemption date. It has the effect of adjusting the income arising from a debt security to a level aligned with the yield over the lifetime of the security by transferring any premium or discount to or from capital. As such it does not affect total return.

# The CBF Church of England Fixed Interest Securities Fund

## Report of the Trustee

### for the six months ended 31 May 2008

Prior to this change debt security income was generally accounted for and distributed on a coupon basis. The new rules require the accounting treatment to change to the effective yield method; however, it is permissible in certain circumstances to continue to distribute income on a coupon basis.

The Board has determined that the objective of the Fund is best served by adopting a distribution policy that follows the coupon

basis for recognising income and, therefore, the income available for distribution will not be affected by the change in accounting policy.

R Broadhurst  
Chairman  
CBF Funds Trustee Limited

3 July 2008

# The CBF Church of England Fixed Interest Securities Fund

## Report of the Investment Manager

### for the six months ended 31 May 2008

- A sterling bond fund for long-term capital
- Gives no long-term protection of capital against inflation
- Aims to achieve good long-term performance

### Performance

Over the period under review, the Fund achieved a total return before management expenses of -0.09%, reflecting a decline in government and corporate bond prices. The Fund was correctly positioned in terms of duration though the portfolio's corporate bonds weighed on overall returns. The Fund's total return was therefore slightly lower than the FTSE Government All Stocks Index, which returned 0.12%. The value of an accumulation share fell from 314.50p to 313.55p, (a total return of -0.30% after management expenses). The value of an income share fell from 154.12p to 149.37p at 31 May 2008, (a capital return of -3.08%).

It is expected that the annual distribution rate for the year will remain unchanged at 8.8p per income share. At 31 May 2008 the income yield was 5.89%. The corresponding gross redemption yield, after management expenses, was 5.1%. The Fund's income yield is an indication of the expected level of income. The corresponding gross redemption yield is an estimate of total return over the long-term. The Fund's income and gross redemption yields are not guaranteed and will change over time, due to changes in interest rates and the average maturity date of the securities held by the Fund. When the Fund's income yield is higher than the gross redemption yield, some income is being paid at the expense of capital.

### Market review

Bond markets have endured a very volatile period; there were some exceptional differences in yields between UK gilt-edged stocks and corporate bonds, especially debt issued by financial institutions. The poor performance in bank debt came amid a series

### The CBF Church of England Fixed Interest Securities Fund

#### Annualised total capital and income return\*

To 31 May 2008	Six months %	1 year % p.a.	5 years % p.a.	10 years % p.a.
<u>Performance against market index (before expenses)</u>				
<b>The CBF Fixed Interest Securities Fund</b>	- 0.09	+4.80	+3.66	+5.52
FTSE UK Government All Stocks Index	+0.12	+5.66	+3.49	+5.25
<u>Performance after expenses</u>				
Income shares*	- 0.26	+4.53	+3.46	+5.33
Accumulation shares*	- 0.30	+4.38	+3.40	+5.28

\* Net asset value to net asset value plus income re-invested

# The CBF Church of England Fixed Interest Securities Fund

## Report of the Investment Manager

### for the six months ended 31 May 2008

of write-downs by a number of international banks, as they recapitalised their balance sheets, reduced dividends, shed assets, and absorbed structured investment vehicles and hedge funds. In response to the financial uncertainties, Central Banks have continued to be innovative in providing additional liquidity. The Bank of England hopes that the launch of a special liquidity scheme will ease the funding pressures; it allows banks to temporarily swap high quality assets that are currently illiquid for UK Treasury Bills. The Central Banks have also made other changes including interest rate cuts (the Bank of England Monetary Policy Committee reduced the official bank rate from 5.75% to 5.0%) and regulatory rule changes. The 'fire sale' of troubled US investment bank Bear Stearns to JP Morgan may have been an inflection point though; since the bank was sold there has been early signs of investor confidence returning to the corporate bond market. Credit spreads (the yield difference between corporate bonds and government bonds) have started to narrow from the historically wide levels seen in March. Worrying though for bond investors is the deterioration in the rate of inflation outlook as the rise in energy, commodity and food prices is beginning to feed through the economy. The unwelcomed prospect of inflation exceeding the Bank of England's upper target band of

3.0% for a sustained period has caused a correction in government bond yields. Having touched a low of 4.3% in March, the 10 year gilt yield had risen 0.7% to 5.0% at the end of the reporting period.

### Strategy

Just nine months ago, credit spreads were exceptionally narrow, but investors' attitude to risk changed dramatically as financial uncertainties developed and consequently credit spreads widened rapidly to historically wide levels. The severe weakness in the corporate bond market has, we believe, provided a good opportunity to increase the Fund's exposure to this asset class. We purchased a selected number of corporate bonds and preference shares across various industry sectors and of varying credit ratings. The Fund's overall credit weighting has increased from 16.8% to 27.0%. The Fund relative to the UK government bond index continues to have an overweight exposure to short dated securities and is underweight in longer maturities. The average term to maturity was 13.5 years at the period end.

### Outlook

The sudden worsening of the inflation outlook has resulted in a gilt market correction. Yields on short dated gilts have risen sharply and at current levels indicate that there will be

# The CBF Church of England Fixed Interest Securities Fund

## Report of the Investment Manager

### for the six months ended 31 May 2008

no further interest rate easing. We believe this correction may have now swung too far. The prospect for longer dated gilts is less optimistic. We expect the deterioration in public finances, at a time when the domestic economy is slowing, to mean that the already heavy funding programme of gilt issuance will have to be increased further. The increase in issuance comes at a time when we expect that

demand from pension funds for longer dated assets is likely to decrease.

C Peters  
Investment Director  
CCLA Investment Management Limited

3 July 2008

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#### **Risk warning**

The value of the Fund's shares and their income can fall as well as rise and an investor may not get back the amount originally invested. Past performance is no guarantee of future returns. The Fund's share value will reflect fluctuations in securities prices. The shares in the Fund are intended only for long term investment and are

not suitable for money liable to be needed in the near future. Shares are realisable only on each weekly dealing day. The Fund's income and gross redemption yields are not guaranteed and may change over time. When the Fund's income yield is higher than the gross redemption yield, income is being paid at the expense of capital.

## The CBF Church of England Fixed Interest Securities Fund

# Net asset value, share price range, net distribution, share price and total expense ratio

### Net asset value

<i>At 30 November</i>	<i>Net asset value £'000</i>	<i>Income shares</i>		<i>Accumulation shares</i>	
		<i>Net asset value pence per share</i>	<i>Number of shares in issue</i>	<i>Net asset value pence per share</i>	<i>Number of shares in issue</i>
2005	88,327	163.81	53,103,468	299.54	447,560
2006	80,765*	160.27	48,819,835	309.25	470,141
2007	73,553*	154.12	46,906,124	314.50	401,152
At 31 May 2008	70,931*	149.37	46,664,589	313.55	392,049

\*The net asset value is calculated on the mid-market value basis compared to the balance sheet where the assets are valued on a bid-market value basis in accordance with the December 2005 IMA SORP.

### Share price range

<i>Year to 30 November</i>	<i>Income shares</i>		<i>Accumulation shares</i>	
	<i>Highest offer pence per share</i>	<i>Lowest bid pence per share</i>	<i>Highest offer pence per share</i>	<i>Lowest bid pence per share</i>
2003	173.26	159.85	269.07	249.57
2004	165.40	157.11	280.35	258.43
2005	166.53	158.45	300.49	278.46
2006	168.05	158.59	309.86	296.67
2007	161.08	148.76	317.68	295.17
To 31 May 2008	158.09	149.07	323.92	312.87

### Net distribution

<i>Year to 30 November</i>	<i>Income shares pence per share</i>	<i>Accumulation shares pence per share</i>
2003	10.80	16.31
2004	10.80	17.00
2005	9.30	16.97
2006	8.80	16.81
2007	8.80	17.72
To 31 May 2008	4.40	9.18

# The CBF Church of England Fixed Interest Securities Fund

## Net asset value, share price range, net distribution, share price and total expense ratio

### Share price at 31 May 2008

	<i>Bid price pence per share</i>	<i>Offer price pence per share</i>
Income shares	149.07	149.67
Accumulation shares	312.92	314.18

The share prices are published in the *Financial Times*, *The Church Times*, and on the Manager's website at [www.ccla.co.uk](http://www.ccla.co.uk).

The bid and offer prices are calculated on the net asset value minus or plus a 0.20% deduction or surcharge.

### Total expense ratio

	<i>31.5.2008</i>	<i>31.5.2007</i>
Total expense ratio (annualised)	0.30%	0.29%

The total expense ratio is the ratio of the Fund's total operating costs to its average net assets calculated over the period.

The CBF Church of England Fixed Interest Securities Fund  
**Statement of total return**  
for the six months ended 31 May 2008 (unaudited)

	Notes	31.5.2008		31.5.2007	
		£'000	£'000	£'000	£'000
Net losses on investments during the period	2		(1,898)		(4,420)
Income	3	1,922		2,308	
Expenses	4	(106)		(110)	
Net income for the period			<u>1,816</u>		<u>2,198</u>
<b>Total return before distributions</b>			<b>(82)</b>		<b>(2,222)</b>
Finance costs: distributions	6		<u>(2,096)</u>		<u>(2,148)</u>
<b>Change in net assets attributable to shareholders</b>			<b><u>(2,178)</u></b>		<b><u>(4,370)</u></b>

The notes on pages 14 to 21 form part of these accounts.

**Statement of change in shareholders' net assets**  
for the six months ended 31 May 2008 (unaudited)

	31.5.2008		31.5.2007	
	£'000	£'000	£'000	£'000
<b>Net assets at start of the period</b>		<b>73,571</b>		79,690
<b>Movement due to creations and cancellations of shares</b>				
Amounts receivable on creation of shares		420		829
Less: amounts payable on cancellation of shares		(815)		(2,888)
		<b>(395)</b>		<b>(2,059)</b>
Change in net assets attributable to shareholders		<b>(2,178)</b>		<b>(4,370)</b>
Retained distribution on accumulation shares		<b>36</b>		39
<b>Net assets at end of the period</b>		<b><u>71,034</u></b>		<b><u>73,300</u></b>

The CBF Church of England Fixed Interest Securities Fund  
**Portfolio statement**  
at 31 May 2008 (unaudited)

	<i> Holding</i>	<i> Bid value £'000</i>	<i> % Fund</i>
<b>Government Bonds 69.54% (30.11.07, 79.86%)</b>			
Treasury 5.75% Stock 2009	1,300,000	1,314	1.85
Treasury 6.25% Stock 2010	3,865,000	3,978	5.60
Conversion 9% Stock 2011	8,270,000	9,186	12.93
Treasury 5% Stock 2012	310,000	311	0.44
Treasury 8% Stock 2013	2,700,000	3,074	4.33
Treasury 8% Stock 2015	3,910,000	4,629	6.52
Treasury 8.75% Stock 2017	585,000	740	1.04
Treasury 8% Stock 2021	1,395,000	1,776	2.50
Treasury 5% Stock 2025	425,000	426	0.60
Treasury 6% Stock 2028	8,665,000	9,843	13.86
Treasury 4.25% Stock 2036	2,100,000	1,977	2.78
Treasury 4.75% Stock 2038	10,345,000	10,624	14.96
Treasury 4.5% Stock 2042	1,520,000	1,510	2.13
<b>Debenture Stocks 2.12% (30.11.07, 2.16%)</b>			
Monks Investment Trust 11%			
Debenture Stock 2012	250,000	294	0.41
British Sugar 10.75% Debenture Stock 2013	500,000	590	0.83
BAA Lynton 10.25% Debenture Stock 2017	500,000	625	0.88
<b>Credit 24.38% (30.11.07, 14.59%)</b>			
EIB 9.5% Bond 2009	450,000	478	0.67
BMW 6.375% Bond 2010	1,020,000	1,016	1.43
Barclays 12% Bond 2010	1,000,000	1,109	1.56
Marks & Spencer 6.375% Bond 2011	645,000	625	0.88
Network Rail 4.75% Bond 2012	1,000,000	982	1.38
ICO 4.625% Bond 2012	1,080,000	1,045	1.47
Wal-Mart 4.75% Bond 2013	645,000	621	0.87
Royal Bank of Scotland 10.5% Bond 2013	1,000,000	1,147	1.62
Blue Circle 10.75% Bond 2013	830,000	935	1.32
Lloyds TSB 6.625% Bond 2015	350,000	348	0.49
Bank of Scotland 10.25% Bond 2015	600,000	678	0.95
NatWest 7.875% Bond 2015	580,000	616	0.87

The CBF Church of England Fixed Interest Securities Fund  
**Portfolio statement**  
at 31 May 2008 (unaudited)

	<i>Holding</i>	<i>Bid value £'000</i>	<i>% Fund</i>
Abbey National 7.5% Bond 2015	350,000	352	0.50
Aviva 9.5% Bond 2016	745,000	891	1.25
Centrica 5.5% Bond 2016	500,000	465	0.66
EIB 8.75% Bond 2017	1,000,000	1,235	1.74
Telefonica 5.375% Bond 2018	645,000	578	0.81
Bank of Scotland 10.5% Bond 2018	350,000	421	0.59
McDonald's 6.375% Bond 2020	700,000	690	0.97
British Telecom 8.625% Bond 2020	645,000	706	0.99
Atlantia 6.25% Bond 2022	645,000	608	0.86
Network Rail 4.75% Bond 2024	530,000	499	0.70
GlaxoSmithKline 5.25% Bond 2033	250,000	224	0.32
NatWest 11.5% Convertible Bond Undated	750,000	1,049	1.48
<b>Preference Shares 0.45% (30.11.07, 0.00%)</b>			
General Accident 7.875% Preference Shares	300,000	<u>323</u>	<u>0.45</u>
<b>PORTFOLIO OF INVESTMENTS</b>		68,538	96.49
<b>NET OTHER ASSETS</b>		<u>2,496</u>	<u>3.51</u>
<b>NET ASSETS</b>		<u>71,034</u>	<u>100.00</u>

The CBF Church of England Fixed Interest Securities Fund  
**Balance sheet**  
at 31 May 2008 (unaudited)

	Notes	31.5.2008		30.11.2007	
		£'000	£'000	£'000	£'000
<b>ASSETS</b>					
Portfolio of investments			<b>68,538</b>		71,079
Debtors	7	<b>2,567</b>		1,803	
Cash and bank balances	8	<b>1,640</b>		<u>1,729</u>	
Total other assets			<b>4,207</b>		3,532
<b>Total assets</b>			<b><u>72,745</u></b>		<u>74,611</u>
<b>LIABILITIES</b>					
Creditors	9	<b>684</b>		8	
Distribution payable on income shares		<b>1,027</b>		<u>1,032</u>	
<b>Total liabilities</b>			<b>1,711</b>		1,040
<b>Net assets attributable to shareholders</b>			<b><u>71,034</u></b>		<u>73,571</u>
Approved on behalf of the Trustee 3 July 2008				R Broadhurst, <i>Chairman</i> CBF Funds Trustee Limited	

The notes on pages 14 to 21 form part of these accounts.

**The CBF Church of England Fixed Interest Securities Fund**  
**Summary of material portfolio changes**  
**for the six months ended 31 May 2008 (unaudited)**

	<i>Cost £'000</i>
<b>Total purchases for the period (note 14)</b>	<b>17,908</b>
<b>Purchases:</b>	
Treasury 6.25% Stock 2010	3,674
Treasury 4.5% Stock 2042	2,155
ICO 4.625% Bond 2012	1,071
BMW 6.375% Bond 2010	1,037
Treasury 5.75% Stock 2009	1,023
Network Rail 4.875% Bond 2012	994
British Telecom 8.625% Bond 2020	747
McDonald's 6.375% Bond 2020	719
Conversion 9% Stock 2011	656
Atlantia 6.25% Bond 2022	644
Marks & Spencer 6.375% Bond 2011	641
NatWest 7.875% Bond 2015	631
Wal-Mart 4.75% Bond 2013	630
Treasury 8% Stock 2015	628
Telefonica 5.375% Bond 2018	598
Centrica 5.5% Bond 2016	478
Abbey National 7.5% Bond 2015	367
Lloyds TSB 6.625% Bond 2015	363
General Accident 7.875% Preference Shares	315
Aviva 9.5% Bond 2016	301
GlaxoSmithKline 5.25% Bond 2033	236
	<i>Proceeds £'000</i>
<b>Total sales for the period (note 14)</b>	<b>18,135</b>
<b>Sales/maturities:</b>	
Treasury 5% Stock 2008	6,284
Treasury 9% Stock 2021	2,574
Treasury 8% Stock 2015	1,760
Treasury 8% Stock 2013	1,502
Treasury 6.25% Stock 2010	1,071
Barclays 9.875% Bond 2008	1,000
BP Capital 5% Bond 2007	1,000
Conversion 9% Stock 2011	894
Treasury 5.75% Stock 2009	847
Treasury 4.5% Stock 2042	648
Treasury 8.75% Stock 2017	303
Treasury 6% Stock 2028	252

The above represents the total purchases and sales aggregated per investment during the period.

# The CBF Church of England Fixed Interest Securities Fund

## Notes to the accounts

(unaudited)

### 1. Accounting policies

#### (a) Basis of accounting

The accounts have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the accounting policies set out below and the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in December 2005.

#### (b) Income recognition

Interest on Government stocks, debentures, convertible loan stocks, other fixed interest stocks, bank and The CBF Church of England Deposit Fund balances is accrued on a daily basis.

With effect from 1 December 2007, income on debt securities has been accounted for on an effective yield basis. Prior to this, income on debt securities was calculated on an accrual of coupon basis. In accordance with paragraph 1.15 of the IMA SORP 2005, the Fund has not restated comparative information to reflect this change in accounting policy. If comparative information had been restated the main adjustments required would be to decrease income on debt securities with a corresponding increase in net gains on investments. There would be no overall net impact on the total return before distributions or on the net assets of the Fund.

#### (c) Management expenses

The Manager's periodic charge, paid to the Manager is charged to the income of the Fund before distribution. The fee is based on a fixed percentage of the value of the Fund, which is currently 0.22% p.a. plus VAT, less a management fee rebate for the Fund's deposits in The CBF Church of England Deposit Fund. Each month, the value at the end of the previous month is taken to calculate the fee due. This fee covers the provision of investment services and other expenses incurred by the Manager. Audit, legal, safe custody fees and transaction charges, insurance and monitoring fee are charged separately to the income of the Fund before distribution.

#### (d) Distributions

Distributions are paid quarterly. The Fund utilises an income reserve to even out fluctuations in income which arise over the years (see note 10).

It is the Fund's policy to distribute net income to shareholders where income exceeds expenses at the end of the accounting period. For the purpose of calculating the distribution, income on debt securities is computed as the higher of the amount determined on an accrual of coupon basis and an effective yield basis. The Fund has therefore adopted a distribution policy that follows the coupon basis for recognising income. A reconciliation of the net distribution to the net income of the Fund as reported in the statement of total return is shown in note 6.

# The CBF Church of England Fixed Interest Securities Fund

## Notes to the accounts

(unaudited)

(e) Basis of valuation

Listed investments are valued at bid values at the close of business on the last business day of the accounting period. Any unlisted, de-listed, unquoted or suspended investments are stated at cost or valuation by the Manager and reviewed by the Trustee.

Suspended securities are valued by the Manager, having regard to the last dealing price on the date of suspension and subsequent available information. Suspended securities are written off after they have been carried at nil value for two years.

<b>2. Net losses on investments</b>	<b>31.5.2008</b>	31.5.2007
	<b>£'000</b>	£'000
The net losses on investments during the period comprise:		
Non-derivative securities	<u><b>(1,898)</b></u>	<u>(4,420)</u>
<b>3. Gross income</b>	<b>31.5.2008</b>	31.5.2007
	<b>£'000</b>	£'000
Interest on debt securities	<b>1,778</b>	2,253
Interest on The CBF Church of England Deposit Fund	<b>111</b>	39
Bank interest	<b>33</b>	16
	<u><b>1,922</b></u>	<u>2,308</u>
<b>4. Expenses</b>	<b>31.5.2008</b>	31.5.2007
	<b>£'000</b>	£'000
Payable to the Manager, associates of the Manager and agents of either of them:		
Manager's periodic charge – see note 1(c)	<b>95</b>	99
Manager's periodic charge rebate – see note 1(c)*	<b>(2)</b>	(2)
	<u><b>93</b></u>	<u>97</u>
Payable to the Trustee, associates of the Trustee and agents of either of them:		
Safe custody fees and transaction charges	<b>3</b>	3
Monitoring fee	<b>4</b>	4
	<u><b>7</b></u>	<u>7</u>

**The CBF Church of England Fixed Interest Securities Fund**  
**Notes to the accounts**  
**(unaudited)**

	<b>31.5.2008</b>	<i>31.5.2007</i>
	<b>£'000</b>	<i>£'000</i>
Other expenses:		
Insurance	<b>1</b>	1
Audit fee	<b>5</b>	3
Other expenses	<b>-</b>	2
	<u><b>6</b></u>	<u>6</u>
Total expenses	<u><b>106</b></u>	<u>110</u>

The above expenses include VAT where applicable.

\* This amount represents the rebate of management fees credited to the Fund's income for the Fund's deposit in The CBF Church of England Deposit Fund where management fees are charged to income.

## **5. Taxation**

The Fund is exempt from UK income and capital gains tax due to its charitable status pursuant to Sections 505 and 506 of the Income and Corporation Taxes Act 1988. Distributions are paid and reinvested income credited gross to shareholders on the basis that all recoverable UK taxation has been reclaimed.

## **6. Finance costs**

Distributions

Distributions take account of income received on the creation of shares and income deducted on the cancellation of shares, and comprise:

	<b>31.5.2008</b>	<i>31.5.2007</i>
	<b>£'000</b>	<i>£'000</i>
29 February – interim distribution	<b>1,047</b>	1,067
31 May – interim distribution	<b>1,044</b>	1,065
	<u><b>2,091</b></u>	<u>2,132</u>

**The CBF Church of England Fixed Interest Securities Fund**  
**Notes to the accounts**  
**(unaudited)**

	<b>31.5.2008</b>	31.5.2007
	<b>£'000</b>	£'000
Add: income deducted on cancellation of shares	<b>7</b>	23
Deduct: income received on creation of shares	<b>(2)</b>	(7)
Net distribution for the period	<b><u>2,096</u></b>	<u>2,148</u>
Net income for the period	<b>1,816</b>	2,198
Amortisation under effective yield (FRS 26)	<b>416</b>	-
Transfer to income reserve – see note 10	<b>(66)</b>	(50)
Income not distributed	<b>(70)</b>	-
Net distribution for the period	<b><u>2,096</u></b>	<u>2,148</u>

Details of the distribution per share are set out in the distribution table on page 22.

<b>7. Debtors</b>	<b>31.5.2008</b>	30.11.2007
	<b>£'000</b>	£'000
Sales awaiting settlement	<b>647</b>	-
Accrued income	<b>1,919</b>	1,803
Prepayments	<b>1</b>	-
	<b><u>2,567</u></b>	<u>1,803</u>

<b>8. Cash and bank balances</b>	<b>31.5.2008</b>	30.11.2007
	<b>£'000</b>	£'000
Cash in The CBF Church of England Deposit Fund	<b>1,467</b>	1,428
Cash at bank	<b>173</b>	301
	<b><u>1,640</u></b>	<u>1,729</u>

<b>9. Creditors</b>	<b>31.5.2008</b>	30.11.2007
	<b>£'000</b>	£'000
Purchases awaiting settlement	<b>676</b>	-
Accrued expenses	<b>8</b>	8
	<b><u>684</u></b>	<u>8</u>

# The CBF Church of England Fixed Interest Securities Fund

## Notes to the accounts

(unaudited)

### 10. Income reserve

The income reserve, accumulated out of income, is used to smooth fluctuations in the income received in the Fund. The income reserve is included in the total value of the Fund attributable to income shareholders.

	<b>31.5.2008</b>	<i>31.5.2007</i>
	<b>£'000</b>	<i>£'000</i>
Income reserve at the start of the period	<b>1,208</b>	1,088
Transfer to income reserve	<b>66</b>	50
Income reserve at the end of the period	<b><u>1,274</u></b>	<u>1,138</u>

### 11. Financial instruments

Fair value

Securities held by the Fund are valued at bid-market value (see note 1(e)). Bid-market value is considered to be a fair representation of the amount repayable to shareholders should they wish to sell their shares. Other financial assets and liabilities of the Fund are included in the balance sheet at their fair value.

The main risks arising from the Fund's financial instruments and the Manager's policies for managing these risks are summarised below. These policies have been applied throughout the period and the comparative period.

Market price risk

This is an actively-managed Fund, which invests in Sterling fixed interest securities. Investors are thus exposed to market price risk, which can be defined as the uncertainty about future price movements of the financial instruments the Fund is invested in. Market price risk arises mainly from economic factors including investor confidence and is not limited to interest rate and currency movements. This exposure to market price risk may result in substantial fluctuations in the share price from time to time, although there will generally be a close correlation in the movement of the share price to the markets the Fund is invested in. The Fund seeks to minimise the risks by holding a diversified portfolio of investments in line with the Fund's investment objectives. Risk is monitored at both the asset allocation and stock selection levels by Directors of the Manager on a regular basis.

Currency risk

There is no exposure to foreign currency fluctuations as all investments, income and short-term debtors and creditors are denominated in Sterling.

# The CBF Church of England Fixed Interest Securities Fund

## Notes to the accounts

(unaudited)

### Credit risk

The Fund's transactions in securities expose it to the risk that the counterparty will not deliver the investment for a purchase or the cash for a sale. To minimise this, the Fund only deals with an approved list of brokers maintained by the Manager.

### Liquidity risk

Financial instruments held by the Fund, excluding short-term debtors and creditors, are made up of Sterling fixed interest securities and Sterling cash deposits. These assets are generally liquid and enable the Fund to meet the payment of any redemption of shares that shareholders may wish to make.

### Interest rate risk

The Fund invests in fixed interest securities. The income may be affected by changes to interest rates relevant to particular securities or as a result of the Manager being unable to secure similar returns following the disposal or redemption of securities. The value of fixed interest securities may be affected by interest rate movements or the expectation of such movements in the future.

The interest rate profile of the Fund's financial assets and liabilities at 31 May 2008 was as set out below:

<i>Currency</i>	<i>Floating rate financial assets* £'000</i>	<i>Fixed rate financial assets £'000</i>	<i>Financial assets not carrying interest £'000</i>	<i>Total £'000</i>
<b>Sterling</b>	<b>1,640</b>	<b>68,538</b>	<b>2,567</b>	<b>72,745</b>

<i>Currency</i>	<i>Floating rate financial liabilities £'000</i>	<i>Fixed rate financial liabilities £'000</i>	<i>Financial liabilities not carrying interest £'000</i>	<i>Total £'000</i>
<b>Sterling</b>	<b>-</b>	<b>-</b>	<b>1,711</b>	<b>1,711</b>

**The CBF Church of England Fixed Interest Securities Fund**  
**Notes to the accounts**  
**(unaudited)**

30 November 2007

<i>Currency</i>	<i>Floating rate financial assets* £'000</i>	<i>Fixed rate financial assets £'000</i>	<i>Financial assets not carrying interest £'000</i>	<i>Total £'000</i>
Sterling	1,729	71,079	1,803	74,611

<i>Currency</i>	<i>Floating rate financial liabilities £'000</i>	<i>Fixed rate financial liabilities £'000</i>	<i>Financial liabilities not carrying interest £'000</i>	<i>Total £'000</i>
Sterling	-	-	1,040	1,040

\* The floating rate financial assets of the Fund earn interest at rates based on either LIBOR or base rate.

All financial liabilities are due to be settled within one year, or on demand.

There were no derivatives held by the Fund at 31 May 2008 (30.11.2007, £nil).

The fixed rate element of the portfolio at 31 May 2008 is further analysed in the following table:

<i>Currency</i>	<i>Fixed rate financial assets £'000</i>	<i>Weighted average interest rate %</i>	<i>Weighted average period for which the rate is fixed Years</i>
<b>Sterling</b>	<b>67,489</b>	<b>5.36</b>	<b>13.2</b>
<b>Sterling – undated</b>	<b>1,049</b>	<b>7.96</b>	<b>-</b>

30 November 2007

<i>Currency</i>	<i>Fixed rate financial assets £'000</i>	<i>Weighted average interest rate %</i>	<i>Weighted average period for which the rate is fixed Years</i>
Sterling	69,838	4.90	12.6
Sterling – undated	1,241	6.85	-

# The CBF Church of England Fixed Interest Securities Fund

## Notes to the accounts

(unaudited)

### 12. Commitments and contingent liabilities

There were no commitments or contingent liabilities at 31 May 2008 (30.11.2007, £nil).

### 13. Related party transactions

The Manager's periodic charge is paid to the Manager, a related party to the Fund. The amounts paid in respect of the Manager's periodic charge are disclosed in note 4. There were no outstanding balances due to the Manager at 31 May 2008 (30.11.2007, £nil). There were no other transactions entered into with the Manager during the period.

CBFFT, as Trustee, is a related party to the Fund. The amounts paid in respect of the Trustee's administration fee are disclosed in note 4. There were no outstanding balances due to CBFFT at 31 May 2008 (30.11.2007, £nil). There were no other transactions entered into with CBFFT during the period.

At 31 May 2008 a cash balance of £1,467,451 (30.11.2007, £1,427,690) was held in The CBF Church of England Deposit Fund.

### 14. Portfolio transaction costs

	<b>31.5.2008</b>	<i>31.5.2007</i>
	<b>£'000</b>	<i>£'000</i>
Analysis of total purchase costs:		
Purchases in period before transaction costs	<b>17,906</b>	2,219
Commissions	<b>2</b>	-
Total gross purchases	<b><u>17,908</u></b>	<u>2,219</u>
Analysis of total sale costs:		
Gross sales in period before transaction costs	<b>18,135</b>	4,207
Commissions	<b>-</b>	(1)
Total net sales	<b><u>18,135</u></b>	<u>4,206</u>

The CBF Church of England Fixed Interest Securities Fund  
**Distribution table**  
for the six months ended 31 May 2008 (unaudited)

<i>Period ended</i>	<i>Date paid/payable</i>	<i>Dividends paid/payable pence per share</i>	
		<b>2008</b>	2007
<b>Income shares</b>			
29 February 2008	30 April 2008	<b>2.20</b>	2.20
31 May 2008	31 July 2008	<b>2.20</b>	2.20
		<b><u>4.40</u></b>	<u>4.40</u>
			<i>Income accumulated pence per share</i>
		<b>2008</b>	2007
<b>Accumulation shares</b>			
29 February 2008		<b>4.62</b>	4.49
31 May 2008		<b>4.56</b>	4.46
		<b><u>9.18</u></b>	<u>8.95</u>

# The CBF Church of England Fixed Interest Securities Fund

## Statement of Trustee and Manager responsibilities

The Trustee shall comply with the duty of care when exercising their powers and discharging their duties under the Church Funds Investment Measure 1958 as amended by the Church of England (Miscellaneous Provisions) Measure 1995 and the Trustee Act 2000 (together the Measure) to:

- make and revise the written statement of the investment objectives of the Fund and details of such investment objectives will be included in the Scheme Information;
- determine the criteria and methods for evaluating the performance of the Fund;
- appoint the Auditor of the Fund and settle their terms of engagement;
- determine the rate of remuneration of the Manager in accordance with the Measure and the Scheme Information;
- supervise and oversee the Manager's compliance with the Measure and the Scheme Information. In particular, the Trustee shall be satisfied on a continuing basis that the Manager is competently exercising the powers and discharging the duties conferred or imposed on it by or pursuant to the provisions of the Measure, and ensure the Manager is maintaining adequate and proper records;
- appoint, supervise and oversee any Registrar or other delegate whom it has appointed in accordance with the provisions of the Scheme;
- review the custody and control of the property of the Fund and the collection of all income due to the Fund in accordance with the Measure;
- apply interest payments to depositors based on their average daily balance in the Fund; and
- take all steps and execute all documents which

are necessary to ensure that the deposits and withdrawals for the Fund are properly completed.

### Preparation of accounts

The Trustee of the Fund is required, by the Measure, to prepare accounts which give a true and fair view of the financial position of the Fund at each half year and year end valuation date. The net income for the period, together with a report on the operation of the Fund is also required. In preparing these accounts, the Trustee:

- selects suitable accounting policies that are appropriate for the Fund and applies them on a consistent basis;
- complies with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the Investment Management Association (IMA) in December 2005;
- follows generally accepted accounting principles and applicable United Kingdom accounting standards;
- keeps proper accounting records which enables them to demonstrate that the accounts, as prepared, comply with the above requirements;
- makes judgments and estimates that are prudent and reasonable; and
- prepares the accounts on the basis that the Fund will continue in operation unless it is inappropriate to presume this.

The Trustee is also required to manage the Fund in accordance with the Measure and has delegated to the Manager the day-to-day management, accounting and administration of the Fund, as permitted by the Measure. The Manager is required to carry out these duties in accordance with the Measure and take reasonable steps for the prevention and detection of fraud and other irregularities.



# CCLA INVESTMENT MANAGEMENT LIMITED

## The CBF Church of England

### Fixed Interest Securities Fund

#### Trustee – CBF Funds Trustee Limited

R Broadhurst (Chairman)

J Clunie\*

L Farrall

N Pearson

S Steele

Rev Dr R Turnbull\*

R Williams\*

*\*Members of the Audit Committee*

#### Secretary

J Fox

#### Investment Manager, Administrator and Registrar

##### CCLA Investment Management Limited

*Authorised and regulated by  
the Financial Services Authority*

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London EC2V 6DZ

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[www.ccla.co.uk](http://www.ccla.co.uk)

##### Directors responsible for the Fund

M Quicke (Chief Executive)

J Bevan (Chief Investment Officer)

S Curran (Chief Operating Officer)

C Peters (Investment Director)

A Robinson (Director Market Development)

##### Fund Manager

C Peters

##### Head of Operational Risk, Internal Audit and Compliance

A Kemp

##### Company Secretary

J Fox

##### Banker and Monitoring Service

The Royal Bank of Scotland plc  
62/63 Threadneedle Street  
London EC2R 8LA

##### Safe-Custody Agent

The Northern Trust Company  
50 Bank Street, Canary Wharf  
London E14 5NT

##### Solicitors

Bates Wells & Braithwaite LLP  
2-6 Cannon Street  
London EC4M 6YH

Farrer & Co LLP  
66 Lincoln's Inn Fields  
London WC2A 3LH

##### Independent Auditor

Ernst & Young LLP  
1 More London Place  
London SE1 2AF



## **CCLA INVESTMENT MANAGEMENT LIMITED**

### **The CBF Church of England Funds**

The CBF Church of England Funds provide Church of England parishes, dioceses and other church charitable trusts with a ready-made service to look after their money and investments. These Funds aim to provide prudent management of church money avoiding unnecessary risks but at the same time seeking to deliver satisfactory investment results.

#### **A CHOICE OF FUNDS**

The six CBF Church of England Funds aim to meet most of the investment and deposit needs of a Church trust.

##### **Investment Fund**

- A suitable 'all-in-one' long-term fund for most church organisations
- Highly diversified and well-balanced spread of investments
- Designed to help meet growth and income requirements
- Focus on delivering attractive, growing income
- Aligned with the Church of England's Ethical Investment Policy

##### **Global Equity Income Fund**

- Attractive income now
- Rising income in the future
- Strong growth opportunities from the global economy

##### **UK Equity Fund**

- The only UK equity fund entirely aligned with the Church of England's Ethical Investment Policy
- High quality, well-diversified portfolio
- Designed to help meet growth and income requirements
- Usually held with other investments such as overseas equities, bonds and cash to give a broad spread of assets and achieve overall objectives

##### **Fixed Interest Securities Fund**

- Long-term investment focused on income
- Gross income paid quarterly
- Usually held with other investments such as equities and cash to give a broad spread of assets and achieve combined income and growth objectives

##### **Property Fund**

- High quality, well-diversified commercial and industrial property portfolio
- Focus on delivering attractive income
- Actively managed to add value
- Usually held with other investments such as equities, bonds and cash to give a broad spread of assets and achieve combined income and growth objectives

##### **Deposit Fund**

- A great rate
- Interest paid gross
- No minimum balance
- Easy access
- Simple operation
- Excellent service
- Free BACS transfers
- AAA/V1 credit rating\*

\* The Deposit Fund has been awarded an AAA/V1 money market fund rating from the credit rating agency Fitch Ratings.

The Funds are common funds established under the Church Funds Investment Measure 1958 (as amended from time to time). CBF Funds Trustee Limited, a company incorporated under the Companies Act is the Trustee and Operator of the Funds. CCLA Investment Management Limited manages the investment of the Funds. The value of the investments may fall as well as rise and an investor may not get back the full amount originally invested.

CCLA Investment Management Limited (registered in England No. 2183088 at 80 Cheapside, London EC2V 6DZ) is authorised and regulated by the Financial Services Authority. CBF Funds Trustee Limited is a Registered Charity No. 1116932 and is registered in England as a company limited by guarantee (No. 5957490).

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