



for the Church of England

# **The CBF Church of England UK Equity Fund**

**Annual Report and Accounts  
Year to 30 November 2008**

## **Contents**

- 1** Report of the Trustee
- 4** Report of the Investment Manager
- 7** Statement of Ethical Investment Policy
- 9** Report of the Independent Auditors
- 11** Net asset value, share price range, net distribution, share prices and total expense ratio
- 13** Statement of total return
- 14** Statement of change in shareholders' net assets
- 15** Portfolio statement
- 17** Balance sheet
- 18** Summary of material portfolio changes
- 20** Notes to the accounts
- 28** Distribution table
- 29** Statement of Trustee and Manager responsibilities

### **Trustee and Manager**

(inside back cover)

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

(outside back cover)

## **Disability Discrimination Act 1995**

Extracts from the Report and Accounts are available in large print and audio formats.

# Report of the Trustee

## for the year ended 30 November 2008

On behalf of the Trustee, I have pleasure in presenting the Annual Report and Accounts of The CBF Church of England UK Equity 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 was established on 1 December 2004 as a common fund by the Church Funds Investment Measure 1958 (as amended from time to time), and the Trustee Act 2000 (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 September 2008.

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 invests mainly in UK equities with a wide diversification of holdings and may also invest in other assets. The Fund aims to provide an above average income yield and long-term protection of capital from inflation, whilst adopting the Ethical Investment Policy approved by the Board. The objective is reviewed annually.

The Fund aims to make a distribution giving a yield in excess of the dividend yield on the FTSE All-Share Index. The aim is to increase the annual distribution over the longer term.

### Total return benchmark

The total return performance benchmark of the Fund, (before management expenses and with gross income reinvested) is the FTSE All-Share Index adjusted for the effects of the Ethical Investment Policy.

### Responsibilities of the Trustee

CBFFT monitors the investment 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, dividend and interest rate policy, investment

# Report of the Trustee

## for the year ended 30 November 2008

diversification and risk and to review the Fund's performance. In addition, CBFFT reviews 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 & Responsible Investment**

CBFFT continues to be represented on the Church of England's Ethical Investment Advisory Group (EIAG) by Mrs Lesley Farrall. The EIAG co-ordinates, develops and recommends ethical investment policy for the

Church's three national investment bodies, (the Church Commissioners and Church of England Pensions Board being the other two), and communicates this to the wider Church through an Annual Report of its work, as well as other research and policy publications. The EIAG makes considered recommendations on a range of material ethical and responsible investment issues, but responsibility rests with the CBFFT for accepting and implementing any recommendations made by the EIAG. The EIAG Annual Report (available in July), and other publications associated with the Church and ethical investment are available in downloadable form from the Manager and Church of England websites.

During the past twelve months, the EIAG conducted a substantive review into the investment implications of climate change, leading to the adoption of a national Climate Change Investment Framework. A review of the Church's policy on human embryonic stem cell research was also conducted, which concluded that cybrid technology should be proscribed for investment purposes. The EIAG also considered human rights issues in Sudan and made a submission as part of the government's consultation on the ethical implications of new nuclear build. The EIAG, in liaison with the three national investment bodies, has initiated a review process of how it conducts its secretarial and research work, and this will be progressed during 2009.

# Report of the Trustee

## for the year ended 30 November 2008

The Manager supports CBFFT's ethical investment priorities via signatory status to the UN Principles of Responsible Investment (UNPRI) and the Carbon Disclosure Project (CDP) relating to climate change. The Manager is a member of the Institutional Investors Group on Climate Change (IIGCC) and signatory to the Investor Statement on Transparency in the Extractives Sector. The Manager is a corporate member of the Institute of Business Ethics.

### Corporate Governance

CBFFT receives and considers regular reports from the Manager on proxy voting, which is undertaken in an informed way across the UK equities portfolio. CBFFT has adopted a policy of supporting management, except where proposals are either not considered to be in shareholder interests, or reflect poor corporate governance practice.

In the year to 30 November 2008, the Manager voted at 66 UK company meetings. The CBF UK Equity Fund voted on 867 resolutions; 95% of votes were cast in support of management, 3% against, and 2% were cast in abstention. The majority of action was taken against company remuneration reports, long-term incentive schemes or for board composition reasons. Further information and statistical analysis on corporate governance and The CBF UK Equity Fund is available on the CBF Church of England Funds part of the CCLA website at [www.ccla.co.uk](http://www.ccla.co.uk).

### Controls and risk management

CBFFT receives and considers regular reports from the Manager. Other 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 year 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 and residual exposure after application of mitigating controls.

R Broadhurst  
Chairman  
CBF Funds Trustee Limited

27 January 2009

# Report of the Investment Manager

for the year ended 30 November 2008

- Invested in quoted UK equities
- Managed in compliance with Church of England's ethical investment policy
- Yield comparable to FTSE All-Share Index
- Primarily intended for larger investors

The Accumulation Share price declined by 32.17% from 144.00p to 97.67p and the Income Share price declined by 35.02% from 138.53p to 90.01p. Over the year the income on the Income Shares was increased by 11.36% to 4.90p. Based on the net asset value on the year end this gives a yield on the Fund of 5.44% compared with an equivalent yield of 4.67% on the FTSE All-Share Index.

## Performance

Over the year to 30 November the Fund returned -31.73% before expenses. As discussed in more detail below it was a very difficult period for equity markets as investor confidence was undermined by the credit crisis and the move into recession of the economy. The FTSE All-Share Index produced a return of -32.24% over the same period.

## Market review

The domestic equity market began the year with a period of weak performance as investors became concerned about deteriorating economic prospects and the scale of the problem in credit markets. These themes, in various guises, dominated activity over the period and created a pattern of market returns

## The CBF Church of England UK Equity Fund Total capital and income return

To 30 November 2008	1 year % p.a.	3 year % p.a.
<u>Performance against market indices (before expenses)</u>		
<b>CBF UK Equity Fund</b>	-31.73	-4.07
FTSE All-Share Index~	-33.36	-5.64
FTSE All-Share Index	-32.24	-4.76
<u>Performance after expenses</u>		
Income shares*	-32.12	-4.56
Accumulation shares*	-32.17	n/a

\* Net asset value to net asset value plus income reinvested

~ Adjusted for ethical restrictions

# Report of the Investment Manager

for the year ended 30 November 2008

where occasional rallies punctuated but never fully reversed the overall trend to lower prices. The single event which had the greatest impact was the near collapse of the banking sector which, in the space of a few short weeks, saw Bradford & Bingley rescued, Alliance & Leicester agree to a takeover approach by Santander and HBOS forced into the arms of Lloyds TSB. It soon became clear that massive intervention by the government would be required to re-capitalise the sector and provide the loan guarantees needed to unfreeze the flow of credit in and around the sector. Royal Bank of Scotland and Lloyds TSB took advantage of the government facility, Barclays, equally in need, chose to seek an injection of new capital from a group of private investors. Towards the end of the period a further test emerged as a fresh flow of selling hit the market. Margin calls, deleveraging by hedge funds and client withdrawals from investment companies combined to force exposed investors to make sales of stock on to a market where there were few buyers. The result was to push prices down once again.

This was not an environment when any sector was obviously going to perform well. The worst performances came from the banks and mining companies, the second year in a row that the banks had significantly lagged the market. Other sectors which performed poorly were oils and telecoms. Relative strength was demonstrated by defensive areas such as beverages and tobacco.

Small companies, considered to be more exposed to the domestic economy, significantly underperformed the larger alternatives. The FTSE 100 Index of the largest companies provided a total return to investors of -30.46%, the FTSE UK Small Capitalisation Index (excluding investment trusts) returned -49.94%. After a dull start 'value' stocks came increasingly into preference and outperformed the 'growth' sectors with returns of -28.47% and -32.86% respectively.

Economic expectations reduced over the period and in particular over the second half of the year. Whereas mid-year forecasts for the full year were of reduced activity levels but maintained growth, by the final quarter it was recognised that activity was declining rapidly and that the UK was in a recession which was likely to extend at least into 2009 and quite possibly for the full year. Inflation risks have fallen along with activity and this trend too is expected to last into the New Year with inflation, as measured by the RPI, becoming negative by the final quarter.

## Strategy

Our strategy has been to seek long term growth in capital and income from a portfolio which emphasises companies which provide a reasonable level of yield and which are able to grow the payment to investors in the future. In terms of sector weightings the portfolio is strongly over-weighted to the utilities sector and has a positive relative exposure to technology. Sectors where the Fund is underweight include oil and gas, health care and consumer goods.

# Report of the Investment Manager

for the year ended 30 November 2008

## Outlook

The economic background at least for the first half of 2009 is set, beyond that there is some hope that the benefits to trade from lower sterling, the general effect of tax cuts and the boost to consumer spending from lower interest rates – and in particular mortgages, will lead to an improving position in the later months of the year. Official interest rates have been cut substantially but have further to fall, the challenge for the authorities is to get market rates, which have remained stubbornly high due to cash shortages and an unwillingness to lend, to follow a similar path.

The domestic equity market has fallen very substantially since the start of 2008 and in so doing has discounted an economic and financial sector environment that is difficult and far from supportive to investors. At current

levels share prices offer good long term value, but whilst this is a necessary condition for recovery, it is not on its own sufficient and to be confident that the low point for this cycle has been reached there needs to be a reasonable expectation of an improvement in the economy. As discussed above, this is not an unreasonable hope at present but is far from certain. Overall we believe that the UK's equity market is in a bottoming phase but we are not yet confident that the trend will turn in the immediate future.

M Humphreys  
Fund Manager  
CCLA Investment Management Limited

27 January 2009

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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 share 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. They are realisable only on each weekly dealing day. The Fund mainly invests in stocks from a single geographical area which can lead to risk of concentration.

# Statement of Ethical Investment Policy

## to the Shareholders of The CBF Church of England UK Equity Fund

Ethical investment considerations form an integral part of the Church of England's witness and mission. Through its Ethical Investment Policy, the Church of England seeks a constructive engagement with the corporate world in order that responsible business practices and high standards of corporate behaviour are encouraged and supported. The Church of England is also mindful of the need to avoid undermining the credibility, effectiveness and unity of the Church's witness by profiting from, or providing capital to, activities that are materially inconsistent with Christian values.

The Ethical Investment Advisory Group (EIAG) of the Church of England carries out ethical investment research on behalf of the three national investment bodies of the Church of England, the Church Commissioners for England, The CBF Church of England Funds, and the Church of England Pensions Board (the national Church investment bodies). It develops policy recommendations, which once agreed by the national Church investment bodies, are then communicated to the wider Church. The General Synod, the Archbishops' Council and the Mission and Public Affairs Council are also represented on the EIAG to provide counsel and wider expertise. The legal authority for investment decisions rests solely with the national Church investment bodies, as well as individual parishes, cathedrals, dioceses and other associated Church of England organisations.

The national Church investment bodies are supportive of companies that seek to develop their businesses successfully and sustainably in the interests of shareholders. The use of positive

ethical criteria in assessing companies is firmly incorporated within the Ethical Investment Policy through a process of constructive engagement with business. Criteria have been identified across five broad areas as:

- responsible employment practices
- best corporate governance practice
- conscientiousness with regard to human rights
- sustainable environmental practice
- sensitivity towards the communities in which business operates

Companies are monitored according to this Statement of Ethical Investment Policy and, where appropriate, by developing an ongoing dialogue and engagement with them. The national Church investment bodies believe this to be the best means of exercising responsible stewardship and shareholder responsibility and of communicating Church concerns. Disinvestment, if recommended, remains the preserve of each national Church investment body, and is only considered if a company's activities fall outside of the Church's Ethical Investment Policy or if, after sustained dialogue, it does not respond positively to the Church's concerns.

Companies that promote pornography or supply armaments are avoided. Separate media and defence investment policies have been published outlining the criteria employed to determine whether companies breach the Church's policy in these areas.

# Statement of Ethical Investment Policy

## to the Shareholders of The CBF Church of England UK Equity Fund

Investment is also avoided in any company a major part of whose business activity or focus is in the following areas, where this is usually defined as exceeding 25% of Group turnover;

- gambling
- tobacco and tobacco related products
- alcoholic beverages (manufacture and licensed sale)
- non-offensive military equipment (see defence investment policy)
- weekly-collected home credit (doorstep lending)
- human embryonic cloning

The national Church investment bodies also reserve the right to avoid investment in companies whose management practices they judge to be unacceptable. Given the complexity of many companies, some will have business interests in areas the national Church investment bodies seek to avoid, and these are closely monitored to ensure they meet the Church's broader criteria. Advice may be offered in respect of all classes of asset under management including domestic and international securities, land and real estate.

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The Church of England Ethical Investment Advisory Group was established in 1994 and includes representation from the Church Commissioners for England, The CBF Church of England Funds, the Church of England

Pensions Board, the General Synod, the Archbishops' Council, and the Mission & Public Affairs Council.  
E-mail: [ethics@ccla.co.uk](mailto:ethics@ccla.co.uk)  
Website: [www.cofe.anglican.org/info/ethical](http://www.cofe.anglican.org/info/ethical)

# Report of the Independent Auditors

## to the Shareholders of The CBF Church of England UK Equity Fund

We have audited the financial statements of The CBF Church of England UK Equity Fund for the year ended 30 November 2008 which comprise the statement of total return, the statement of change in shareholders' net assets, the portfolio statement, the balance sheet, the summary of material portfolio changes, the related notes, and the distribution table. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the shareholders of the Fund, as a body, in accordance with the Church Funds Investment Measure 1958, as amended. Our audit work has been undertaken so that we might state to the shareholders of the Fund those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the shareholders of the Fund, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Trustee and Auditors

The Trustee is responsible for the preparation of the annual report and the financial statements in accordance with Accounting Standards (United Kingdom generally accepted accounting practice) as set out in the Statement of Trustee and Manager responsibilities in relation to the financial statements. Our responsibility is to audit the financial statements in accordance with United Kingdom legal and regulatory requirements and International Standards on Auditing (United Kingdom and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with United Kingdom generally accepted accounting practice, the Church Funds Investment Measure 1958, as amended, and the Trustee Act 2000. We also report to you if, in our opinion, the Report of the Investment Manager is not consistent with the financial statements, if the Manager has not kept proper accounting records for the Fund, if the financial statements are not in agreement with those accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Investment Manager and the other items set out on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (United Kingdom and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Trustee in the preparation of the financial statements, and of whether the accounting policies are

# Report of the Independent Auditors

## to the Shareholders of The CBF Church of England UK Equity Fund

appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements:

- give a true and fair view in accordance with United Kingdom generally accepted accounting practice of the financial position of the Fund at 30 November 2008, and of the net income and the net losses on the scheme property of the Fund for the year then ended; and

- have been properly prepared in accordance with United Kingdom generally accepted accounting practice, the Church Funds Investment Measure 1958, as amended, and the Trustee Act 2000.

Ernst & Young LLP  
Registered Auditor  
London

27 January 2009

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The maintenance and integrity of the CCLA Investment Management Limited web site is the responsibility of the directors; the work carried out by the auditors of The CBF Church of England UK Equity Fund does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have

occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

## Net asset value

At 30 November	Net asset value* £'000	Income shares		Accumulation shares	
		Net asset value pence per share	Number of shares in issue	Net asset value pence per share	Number of shares in issue
2006	134,834*	131.06	102,296,803	131.56	31,532
2007	146,907*	138.53	105,739,878	144.00	298,602
2008	96,017*	90.01	106,149,435	97.67	316,327

\*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 Statement of Recommended Practice for Authorised Funds which was issued by the Investment Management Association (IMA) in December 2005.

## Share price range

Year to 30 November	Income shares		Accumulation shares	
	Highest offer pence per share	Lowest bid pence per share	Highest offer pence per share	Lowest bid pence per share
2005	117.98	100.00	-	-
2006	135.98	116.41	135.09	116.41
2007	147.74	130.38	150.21	130.85
2008	141.33	79.73	146.91	85.10

## Net distribution

Year to 30 November	Income shares pence per share	Accumulation shares pence per share
2005	3.50	-
2006	3.90	0.75
2007	4.40	4.49
2008	4.90	7.20

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

## Share prices at 30 November 2008

	<i>Bid price pence per share</i>	<i>Offer price pence per share</i>
Income shares	89.56	90.46
Accumulation shares	97.18	98.16

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 0.5% deduction or surcharge respectively.

The Fund's income shares were first issued on 1 December 2004, the date of the launch of the Fund. The Fund's accumulation shares were first issued on 23 October 2006 at a price of 133.24p.

## Total expense ratio

	<i>30.11.2008</i>	<i>30.11.2007</i>
Total expense ratio	0.62%	0.47%

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

# Statement of total return

## for the year ended 30 November 2008

	Notes	30.11.2008		30.11.2007	
		£'000	£'000	£'000	£'000
Net (losses)/gains on investments during the year	2		(52,166)		7,892
Income	3	6,436		4,688	
Expenses	4	(772)		(685)	
Net income for the year			<u>5,664</u>		<u>4,003</u>
<b>Total return before distributions</b>			<b>(46,502)</b>		11,895
Finance costs: distributions	6		(5,221)		(4,582)
<b>Change in net assets attributable to shareholders</b>			<u><b>(51,723)</b></u>		<u>7,313</u>

# Statement of change in shareholders' net assets

## for the year ended 30 November 2008

	30.11.2008		30.11.2007	
	£'000	£'000	£'000	£'000
Net assets at start of the year		146,912		134,453
<b>Movements due to creations and cancellations of shares</b>				
Amounts receivable on creation of shares	904		5,163	
Less: amounts payable on cancellation of shares	(322)		(25)	
		582		5,138
Change in net assets attributable to shareholders		(51,723)		7,313
Retained distribution on accumulation shares		22		8
<b>Net assets at end of the year</b>		<u>95,793</u>		<u>146,912</u>

The notes on pages 20 to 27 form part of these accounts.

# Portfolio statement

at 30 November 2008

	<i>Bid</i>			<i>Bid</i>		
	<i>value</i>	<i>%</i>		<i>value</i>	<i>%</i>	
<i>Holding</i>	<i>£'000</i>	<i>Fund</i>	<i>Holding</i>	<i>£'000</i>	<i>Fund</i>	
<b>UNITED KINGDOM 97.07%</b>						
<b>(30.11.07, 98.07%)</b>						
<b>Oil &amp; gas producers 15.68%</b>						
BG	325,213	2,990	3.12			
BP	954,491	5,025	5.25			
Royal Dutch Shell B	299,086	5,123	5.35			
Tullow Oil	360,437	1,881	1.96			
<b>Oil equipment services 1.21%</b>						
Hunting	279,976	1,156	1.21			
<b>Chemicals 2.48%</b>						
Elementis	927,904	425	0.44			
Johnson Matthey	225,899	1,954	2.04			
<b>Mining 4.19%</b>						
BHP Billiton	160,413	1,906	1.99			
Randgold Resources	87,757	2,106	2.20			
<b>General industrials 2.76%</b>						
Rexam	759,219	2,640	2.76			
<b>Support services 3.01%</b>						
Interserve	949,596	1,959	2.05			
Rentokil Initial	2,598,783	923	0.96			
<b>Food producers 5.13%</b>						
Cadbury	454,787	2,506	2.62			
Unilever	160,847	2,400	2.51			
<b>Pharmaceuticals &amp; biotechnology 5.49%</b>						
AstraZeneca	92,702	2,266	2.36			
GlaxoSmithKline	267,753	2,998	3.13			
<b>Food &amp; drug retailer 2.34%</b>						
Tesco	759,468	2,242	2.34			
<b>Travel &amp; leisure 7.06%</b>						
Compass	727,944	2,228	2.33			
FirstGroup	386,257	1,814	1.89			
Go-Ahead	149,576	1,874	1.96			
National Express	150,000	846	0.88			
<b>Fixed line telecom 3.53%</b>						
BT	2,504,549	3,384	3.53			
<b>Mobile telecom 3.48%</b>						
Vodafone	2,621,918	3,334	3.48			
<b>Electricity 6.53%</b>						
British Energy	359,181	2,692	2.81			
International Power	636,669	1,639	1.71			
Scottish & Southern Energy	174,995	1,928	2.01			
<b>Gas, water &amp; multiutilities 11.25%</b>						
National Grid	904,000	6,111	6.38			
Pennon	546,044	2,478	2.59			
Severn Trent	191,699	2,187	2.28			
<b>Banks 5.89%</b>						
HSBC	789,034	5,640	5.89			
<b>Life insurance 8.42%</b>						
Aviva	705,511	2,822	2.95			
Friends Provident	3,485,443	2,555	2.67			
Standard Life	1,025,155	2,683	2.80			
<b>Real estate 0.94%</b>						
Savills	377,141	901	0.94			
<b>Equity investments 1.71%</b>						
Merchants Trust	605,000	1,641	1.71			

# Portfolio statement

at 30 November 2008

	<i> Holding</i>	<i> Bid value £'000</i>	<i> % Fund</i>
<b>Software &amp; computer 2.27%</b>			
Invensys	1,327,276	2,178	2.27
<b>Preference shares 3.70%</b>			
HBOS 9.25%			
Preference Shares	4,055,000	<u>3,548</u>	<u>3.70</u>
<b>PORTFOLIO OF INVESTMENTS</b>		92,983	97.07
<b>NET OTHER ASSETS</b>		2,810	2.93
<b>NET ASSETS</b>		<u>95,793</u>	<u>100.00</u>

# Balance sheet

## at 30 November 2008

	Notes	30.11.2008		30.11.2007	
		£'000	£'000	£'000	£'000
<b>ASSETS</b>					
Portfolio of investments			<b>92,983</b>		144,072
Debtors	7	<b>1,712</b>		1,224	
Cash and bank balances	8	<b>5,215</b>		<u>3,211</u>	
<b>Total assets</b>			<b><u>6,927</u></b>		<u>4,435</u>
			<b>99,910</b>		148,507
<b>LIABILITIES</b>					
Creditors	9	<b>2,525</b>		9	
Distribution payable on income shares		<b>1,592</b>		<u>1,586</u>	
<b>Total liabilities</b>			<b>4,117</b>		1,595
<b>Net assets attributable to shareholders</b>			<b><u>95,793</u></b>		<u>146,912</u>
Approved on behalf of the Trustee 27 January 2009			R Broadhurst, <i>Chairman</i> CBF Funds Trustee Limited		

The notes on pages 20 to 27 form part of these accounts.

# Summary of material portfolio changes

for the year ended 30 November 2008

	<i>Cost</i> <i>£'000</i>
<b>Total purchases for the period (note 14)</b>	<b>117,543</b>
<b>Major purchases:</b>	
Royal Bank of Scotland	7,045
BT	6,019
Randgold Resources	4,539
National Grid	4,401
Royal Dutch Shell B	4,281
Standard Life	4,196
Rentokil Initial	3,918
Vodafone	3,764
Friends Provident	3,679
United Utilities	3,585
Interserve	3,525
Johnson Matthey	3,299
Pennon	3,241
HBOS 9.25% Preference Shares	3,195
GlaxoSmithKline	3,092
Tullow Oil	3,021
Invensys	2,956
Unilever	2,856
Cadbury	2,767
Lloyds TSB	2,686

The above summary represents the 20 largest purchases aggregated per investment during the year.

# Summary of material portfolio changes

for the year ended 30 November 2008

	<i>Proceeds</i> <i>£'000</i>
<b>Total sales for the period (note 14)</b>	<b>116,466</b>
<b>Major sales:</b>	
Royal Dutch Shell B	7,651
Vodafone	7,312
GlaxoSmithKline	4,293
Reckitt Benckiser	4,212
Rio Tinto (UK)	3,950
Unilever	3,557
Anglo American	3,548
BHP Billiton	3,541
BP	3,365
United Utilities	3,210
Xstrata	3,188
Tesco	3,040
AMEC	2,949
Royal Bank of Scotland	2,813
Barclays	2,525
Marks & Spencer	2,437
Randgold Resources	2,355
Standard Chartered	2,221
Man	2,205
Lloyds TSB	2,196

The above summary represents the 20 largest sales aggregated per investment during the year.

# Notes to the accounts

## 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

Dividends on ordinary stocks, including special dividends where appropriate, are credited to income on the dates when the investments are first quoted ex-dividend. Interest on bank and The CBF Church of England Deposit Fund balances is accrued on a daily basis. Underwriting commission is recognised when an issue takes place and is taken to income, except where the Fund is required to take up all or some of the shares underwritten, in which case a proportion of the commission is taken to capital.

### (c) Stock dividends

The ordinary element of stocks received in lieu of cash dividends is recognised as income of the Fund. Any enhancement above the cash dividends is treated as capital.

### (d) Special dividends, share buy-back or additional share issue

Whether a special dividend, share buy-back or additional share issue is income or capital by nature depends upon the facts of each individual case. It is likely that where the receipt of a special dividend results in a significant reduction in the capital value of the holding, then the special dividend is regarded as capital by nature. Otherwise, the special dividends are regarded as income.

### (e) Expenses

The Manager's periodic charge, paid to the Manager, is charged to the capital of the Fund. The fee is based on a fixed percentage of the value of the Fund. In January 2008 this increased from 0.40% p.a. plus VAT to 0.50% p.a. plus VAT. The Fund received a management fee rebate credited to the income expenses of the Fund for its deposits in The CBF Church of England Deposit Fund, where management fees are charged to income. 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, transaction charges, insurance fees and monitoring fees are charged separately to the income of the Fund before distribution.

### (f) 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).

# Notes to the accounts

(g) Basis of valuation

Listed investments are valued at bid-market values at the close of business on the last business day of the accounting period. Any unlisted, delisted, 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 and take into account the last dealing price on the date of suspension and subsequent information available. Suspended securities are written off after they have been carried at nil value for two years.

<b>2. Net (losses)/gains on investments</b>	<b>30.11.2008</b>	<i>30.11.2007</i>
	<b>£'000</b>	<i>£'000</i>
The net (losses)/gains on investments during the year comprise:		
Non-derivative securities	<b><u>(52,166)</u></b>	<u>7,892</u>
<b>3. Income</b>	<b>30.11.2008</b>	<i>30.11.2007</i>
	<b>£'000</b>	<i>£'000</i>
UK dividends	<b>6,242</b>	4,486
Interest on The CBF Church of England Deposit Fund	<b>92</b>	113
Bank interest	<b>21</b>	85
Underwriting commission	<b>81</b>	-
Other income	<b>-</b>	4
	<b><u>6,436</u></b>	<u>4,688</u>
<b>4. Expenses</b>	<b>30.11.2008</b>	<i>30.11.2007</i>
	<b>£'000</b>	<i>£'000</i>
Payable to the Manager, associates of the Manager and agents of either of them:		
Manager's periodic charge – see note 1(e)	<b>748</b>	664
Manager's periodic charge rebate – see note 1(e)*	<b><u>(5)</u></b>	<u>(5)</u>
	<b><u>743</u></b>	<u>659</u>

# Notes to the accounts

	<b>30.11.2008</b> <b>£'000</b>	30.11.2007 £'000
Payable to the Trustee, associates of the Trustee and agents of either of them:		
Safe custody fees and transaction charges	<b>9</b>	10
Monitoring fee	<b>8</b>	6
Trustee's administration fee	<b>-</b>	<u>2</u>
	<u><b>17</b></u>	<u>18</u>
Other expenses:		
Audit fee	<b>9</b>	6
Insurance	<b>2</b>	2
Other expenses	<b>1</b>	-
	<u><b>12</b></u>	<u>8</u>
Total expenses	<u><b>772</b></u>	<u>685</u>

The above expenses include VAT where applicable.

\* This amount represents the rebate of management fees credited to the Fund's income for its holding 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>30.11.2008</b> <b>£'000</b>	30.11.2007 £'000
29 February – interim distribution	<b>746</b>	614
31 May – interim distribution	<b>1,460</b>	1,254
31 August – interim distribution	<b>1,420</b>	1,161
30 November – final distribution	<b>1,597</b>	1,589
	<u><b>5,223</b></u>	<u>4,618</u>

# Notes to the accounts

	<b>30.11.2008</b>	30.11.2007
	<b>£'000</b>	£'000
Add: income deducted on cancellation of shares	1	-
Deduct: income received on creation of shares	(3)	(36)
Net distribution for the year	<u>5,221</u>	<u>4,582</u>
Net income for the year	<b>5,664</b>	4,003
Transfer to income reserve – see note 10	<b>(1,191)</b>	(88)
Manager's periodic charge – see note 1(e)	<b>748</b>	664
Trustee's administration fee charged to capital	-	3
Net distribution for the year	<u>5,221</u>	<u>4,582</u>

Details of the distribution per share are set out in the distribution table on page 28.

## 7. Debtors

	<b>30.11.2008</b>	30.11.2007
	<b>£'000</b>	£'000
Sales awaiting settlement	<b>1,050</b>	580
Accrued income	<b>661</b>	643
Prepayments	<u>1</u>	<u>1</u>
	<u>1,712</u>	<u>1,224</u>

## 8. Cash and bank balances

	<b>30.11.2008</b>	30.11.2007
	<b>£'000</b>	£'000
Cash in The CBF Church of England Deposit Fund	<b>5,127</b>	2,251
Cash at bank	<u>88</u>	<u>960</u>
	<u>5,215</u>	<u>3,211</u>

## 9. Creditors

	<b>30.11.2008</b>	30.11.2007
	<b>£'000</b>	£'000
Purchases awaiting settlement	<b>2,514</b>	-
Accrued expenses	<u>11</u>	<u>9</u>
	<u>2,525</u>	<u>9</u>

# Notes to the accounts

## 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>30.11.2008</b>	<i>30.11.2007</i>
	<b>£'000</b>	<i>£'000</i>
Income reserve at the start of the year	<b>686</b>	598
Transfer to income reserve	<b><u>1,191</u></b>	<u>88</u>
Income reserve at the end of the year	<b><u>1,877</u></b>	<u>686</u>

## 11. Financial instruments

### Fair value

Securities held by the Fund are valued at bid-market value (see note 1(g)). 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.

### Risk

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 year and comparative year.

### Market price risk

This is an actively-managed Fund, which invests in UK equities. 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 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.

# Notes to the accounts

## Currency risk

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

## 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 UK equities 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 majority of the Fund's financial assets are equities which do not earn interest or have maturity dates.

The interest rate risk profile of the Fund's financial assets and liabilities at 30 November 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>5,215</b>	<b>3,548</b>	<b>91,147</b>	<b>99,910</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>4,117</b>	<b>4,117</b>

# Notes to the accounts

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	3,211	-	145,296	148,507

<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	-	-	1,595	1,595

\* 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 30 November 2008 (30.11.2007, £nil).

## 12. Commitments and contingent liabilities

There were no commitments or contingent liabilities at 30 November 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 30 November 2008 (30.11.2007, £nil). There were no other transactions entered into with the Manager during the year.

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 30 November 2008 (30.11.2007, £nil). There were no other transactions entered into with CBFFT during the year.

# Notes to the accounts

At 30 November 2008 a cash balance of £5,126,890 (30.11.2007, £2,250,755) was held in The CBF Church of England Deposit Fund.

The CBF Church of England Investment Fund had a 93.93% holding of the total shares on issue in the Fund as at 30 November 2008 (30.11.2007, 94.30%).

<b>14. Portfolio transaction costs</b>	<b>30.11.2008</b>	<b>30.11.2007</b>
	<b>£'000</b>	<b>£'000</b>
Analysis of total purchase costs:		
Purchases in period before transaction costs	<b>117,472</b>	30,260
Commissions	<b>71</b>	60
Total gross purchases	<b><u>117,543</u></b>	<u>30,320</u>
Analysis of total sale costs:		
Gross sales in period before transaction costs	<b>116,531</b>	26,548
Commissions	<b>(65)</b>	(46)
Total sales net of transaction costs	<b><u>116,466</u></b>	<u>26,502</u>

# Distribution table

## for the year ended 30 November 2008

<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>0.70</b>	0.60
31 May 2008	31 July 2008	<b>1.37</b>	1.20
31 August 2008	31 October 2008	<b>1.33</b>	1.10
30 November 2008	30 January 2009	<b>1.50</b>	<u>1.50</u>
		<b><u>4.90</u></b>	<u>4.40</u>
		<i>Income accumulated pence per share</i>	
<b>Accumulation shares</b>			
29 February 2008		<b>0.92</b>	0.49
31 May 2008		<b>2.24</b>	1.66
31 August 2008		<b>2.64</b>	1.39
30 November 2008		<b>1.40</b>	<u>0.95</u>
		<b><u>7.20</u></b>	<u>4.49</u>

# 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;
- make distributions to investors holding income shares and make allocations to investors holding accumulation shares in proportion to their respective shares in the property of the Fund; and
- take all steps and execute all documents which are necessary to ensure that the purchases and sales of investments 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. The accounts show the net asset value of the shares in the Fund as at the date to which the accounts are prepared, the amount of income per share, and the amount of income, if any, to be transferred to capital pursuant to paragraph 11 of the Schedule to the Measure. 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;

# Statement of Trustee and Manager responsibilities

- 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**  
**UK Equity 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

**Manager, Administrator and Registrar**

**CCLA Investment Management Limited**

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**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**

N Debenham (to 31 December 2007)

M Humphreys (from 1 January 2008)

**Company Secretary**

J Fox

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

A Kemp

**Socially Responsible Investment**

H Wildsmith

**Banker and Monitoring Service**

The Royal Bank of Scotland plc

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London EC2R 8LA

**Safe-Custody Agent**

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**Solicitors**

Farrer & Co LLP

66 Lincoln's Inn Fields

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**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 is rated AAA/V1 by Fitch Ratings. This reflects the high credit quality of the portfolio and its low volatility.

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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