

QUARTERLY BULLETIN

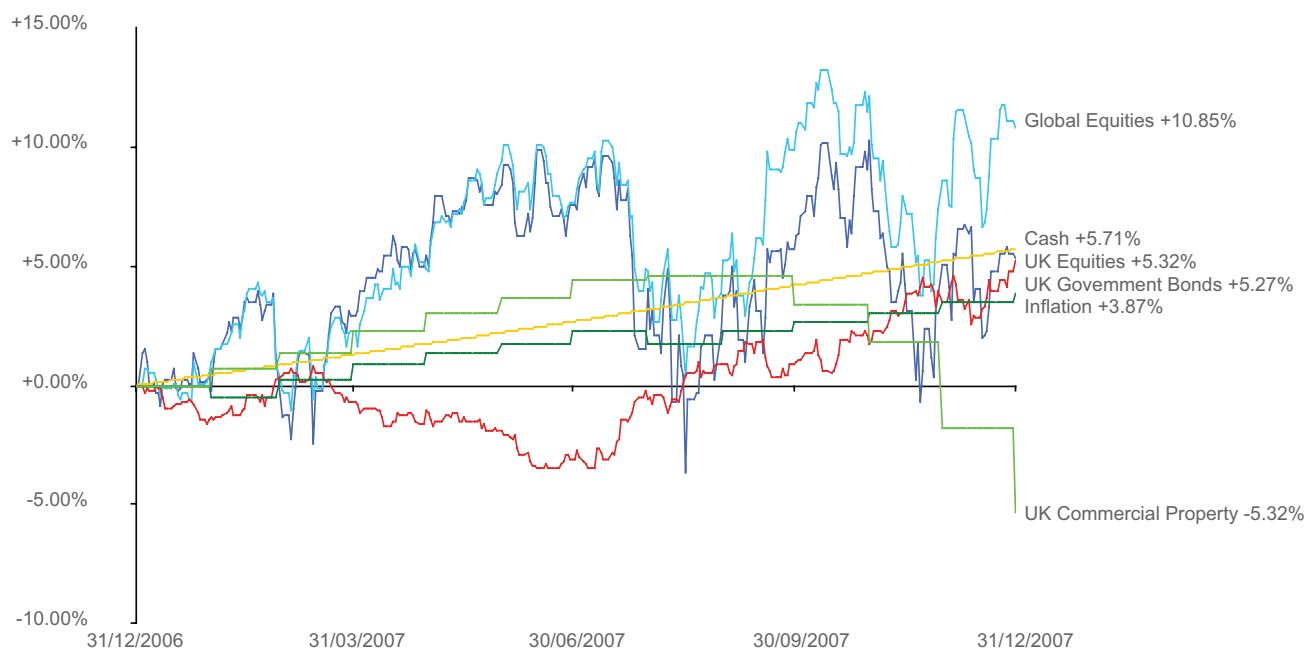
31 December 2007



for the Church of England

Market Review and Outlook

Markets at a Glance - 12 Months to 31 December 2007



Sources: Bloomberg, Datastream, IPD: FTSE All-Share Total Return Index, FTSE All-World Total Return Index, FTSE UK Govt All-Stocks Total Return Index, IPD Monthly Total Return Index (December return estimated by CCLA), 7 Day LIBID, Retail Price Index (December return estimated by CCLA).

Market Review & Outlook

- The early part of 2007 was characterised by optimism and speculative excess as investors sought to take advantage of low interest rates and readily available liquidity.
- Following a prolonged period of comparative stability, investors were increasingly tempted into making risky investments.
- The huge flows of money available to markets affected the broader economy, helping to fuel the rise in UK house prices and supporting the spending boom on the High Street.
- The rally in markets came to an abrupt halt in the middle of the year as a result of a rapid rise in loan defaults on subprime mortgages in the US. These provided a first indication of the extent of irresponsible lending and borrowing that had taken place.
- Investors in a range of high risk assets started to suffer significant losses, which were sufficient to undermine the confidence of lenders. This resulted in a general unwillingness amongst banks to lend to any but the safest of institutions, threatening to shut-off the daily money flows which the economy requires to function. Thankfully, central banks such as the Bank of England reacted quickly to shore up the global financial system, averting a serious crisis.
- Despite these challenges, over 2007 as a whole, the CBF Investment Fund, which contains a diversified spread of equities, bonds and property, delivered a reasonable income yield, grew income by more than inflation and provided growth to protect against the adverse effect of inflation. The Fund delivered an 8.1% increase in income and underlying capital growth of 2.4%, against core Consumer Price Index Inflation of 1.4% at 30 November, the most recent data available at the time of writing.
- Looking forward, the economic outlook for the developed economies has certainly been clouded by recent events and we should expect growth rates to decline as a result. In contrast, emerging economies are likely to continue to experience solid growth. These economies are important because they now contribute about half of activity in the world economy and about three quarters of the growth.
- The consensus expectation of analysts is that despite the more difficult environment, companies will deliver decent profits growth in 2008. This and other factors support the view that equities are cheap and offer good value to investors.
- However, while we can calculate 'value' we have no control over prices, which, in an environment where economic risks are greater than normal and investor sentiment is fragile, are likely to be volatile. As a result, the immediate outlook for bonds, equities and most other asset classes is uncertain.
- We believe that the best investment approach within equity markets is to focus on strong companies with good cash flows and solid asset backing, which can deliver increasing income over time.
- In bond markets, we believe that too little attention is being paid to the risk of higher inflation, which would be particularly negative for longer dated stocks. As a result we favour bonds with shorter dated maturities from high quality issuers.
- We expect that sentiment in the UK commercial property market will improve during 2008. We will continue to focus on growth areas of the market, paying particular attention to the level and quality of income flows.

Distributions for the Quarter to 30 November 2007

The CBF Church of England Fund	Distribution Per Income Share	Payment Date	
Investment Fund	12.5p	24/12/07	<ul style="list-style-type: none"> Dividends totalling 40.0p per Income Share were declared for the year to 30 November 2007. The overall income payment for the year was 8.1% higher than in the previous year. We anticipate that the level of income payment will increase significantly again in 2008 while we maintain a focus on delivering longer-term capital growth.
Global Equity Income Fund	-	-	<ul style="list-style-type: none"> The Fund launched during December 2007 and is on track to provide a yield to investors of at least 4% based on the launch price of 150p per Income Share. The estimated annual distribution for the year from launch is 6.0p per Income Share.
Fixed Interest Securities Fund	2.2p	31/01/08	<ul style="list-style-type: none"> Dividends totalling 8.8p per Income Share were declared for the year to 30 November 2007. Based on an Income Share price of 156.28p and an annual distribution of 8.8p, the income yield of the Fund is 5.63%. The corresponding gross redemption yield is 4.44%*. We expect to maintain this level of income payment in 2008.
Property Fund	1.85p	31/01/08	<ul style="list-style-type: none"> Dividends totalling 7.15p per Income Share were declared for the year to 30 November 2007. The overall income payment on the Fund was increased by 2.1%. We expect the level of income paid by the Fund will increase significantly in 2008.
UK Equity Fund	1.5p	31/01/08	<ul style="list-style-type: none"> Dividends totalling 4.4p per Income Share were declared for the year to 30 November 2007. The overall income payment was 12.8% higher than in the previous year. We anticipate that the level of income payment will increase further in 2008 while we maintain a focus on delivering longer-term capital growth.

*The gross redemption yield indicates what the total return would be if the Fund's investments were held to maturity, in other words, the aggregate of gross interest received and the capital gain or loss at redemption, annualised. Please note that forecast annual income and income yields are not guaranteed and will change over time due to changes in interest rates and the securities held by a fund.

Interest for the Quarter to 31 December 2007

The CBF Church of England Deposit Fund

Average interest rate over the calendar quarter	5.88% (6.01% A.E.R.)**	<ul style="list-style-type: none"> The interest rate on the Fund is dependent on UK money market levels. We expect that the Bank of England will reduce the Official Bank Rate over the course of 2008 as growth in the economy slows.
Interest rate at the calendar quarter end	5.88% (6.01% A.E.R.)**	

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

Fund Performance

The CBF Church of England Funds over the Quarter (gross)



*The Global Equity Income Fund was launched in December 2007, so there is no performance data for the full quarter.

Source: CCLA. Gross returns before management fees and expenses. Please note that past performance is no guarantee of future returns. Investments in long term funds can go up and down in value and you may not get back the amount originally invested.

Performance Comment

The CBF Church of England Investment Fund

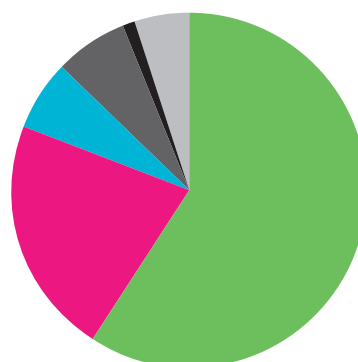
- The Fund produced a modestly positive performance over a volatile final quarter of the year. Over the year as a whole the Fund produced a solid total return and delivered an increase in income well above the rate of inflation.
- The Fund performed in line with its benchmark. A strong performance in UK equities was offset primarily by the Fund's overweight exposure to property relative to the benchmark.
- The Fund's UK equities outperformed the FTSE All-Share Index by a good margin over the period despite volatile conditions in the second half of the year.
- The property held by the Fund performed significantly better than the IPD property index over the quarter as a result of holding strong positions in areas that performed relatively well, such as Central London offices, and the focus on rental growth. The property sector overall however weakened sharply in the second half of the year, following a prolonged period of strong performance.
- We believe that the level of exposure to property within the Fund remains appropriate to meet long term objectives and expect that the short-term relative underperformance of the asset class will be unwound as sentiment improves.

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

	2003	2004	2005	2006	2007
Fund	+16.6%	+11.3%	+19.8%	+14.3%	+6.0%
Benchmark	+17.4%	+11.3%	+20.4%	+12.5%	+6.1%

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

Asset Allocation as at 31 December 2007



Overseas Equities %

Europe	6.9
USA	7.6
Japan	2.4
Pacific Ex Jap	4.1
Other	0.9
	<u>21.9</u>

UK Equities 59.2%	Property 6.6%
Overseas Equities 21.9%	Infrastructure 1.0%
Fixed Interest 6.3%	Cash 5.0%

Source: CCLA. Performance shown before management fees and expenses: net returns will differ after the deduction of fees and charges. Please note that past performance is no guarantee of future returns. Investments in long term funds can go up and down in value and you may not get back the amount originally invested.

Performance Comment (cont)

The CBF Church of England Global Equity Income Fund

- The Fund was created on 4 December 2007. It is invested in a diversified portfolio spread across a wide range of sectors and countries. Because of the short period since launch it is not meaningful to produce performance data.
- The Fund will be launched officially in February. For more information, please call Client Services on 0800 022 3505.

The CBF Church of England Fixed Interest Securities Fund

- Bonds moved higher over the period as investors sought the security of lower risk assets in uncertain market conditions and as expectations increased that the Official Bank Rate would fall.
- As would be expected against this background, government securities (gilts) performed better than corporate bonds issued by companies and shorter dated bonds outperformed those with a longer period to maturity.
- The returns of the Fund were slightly below those of the benchmark due to the small exposure to corporate bonds. These have been beneficial holdings for the Fund for some time but fell back in the second half of the year as the credit crisis undermined investor confidence.

The CBF Church of England Property Fund

- Commercial real estate prices weakened sharply in the second half of the year, leading to a negative return for the year as a whole.
- As a result of holding strong positions in areas that performed relatively well, such as Central London offices, and the focus on rental growth, the Fund fell by significantly less than the benchmark.

The CBF Church of England UK Equity Fund

- The Fund outperformed the benchmark by a good margin over the period despite volatile conditions in the second half of the year. Overall total returns for the year were positive.
- Sector and stock selection were both sources of outperformance. In a year where it has been at least as important to avoid the losers as to find the winners, we performed well in the financial area and in sectors such as travel and leisure.
- The ethical policy had a significant negative effect on returns.

The CBF Church of England Deposit Fund

- The Fund returned 1.6% over the quarter which was slightly ahead of the inter-bank wholesale benchmark rate.
- Despite the Bank of England cutting interest rates by 0.25% in December, we were able to maintain the Fund's daily declared interest rate at 5.88% (6.01% A.E.R.)* throughout the quarter.

Past performance data will be shown once the Fund has existed for 12 months.

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

	2003	2004	2005	2006	2007
Fund	+3.5%	+6.6%	+7.9%	+1.1%	+4.7%
Benchmark	+3.2%	+6.6%	+7.8%	+1.1%	+5.3%

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

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

	2003	2004	2005	2006	2007
Fund	+11.7%	+17.5%	+17.3%	+20.9%	-2.9%
Benchmark	+10.2%	+18.2%	+18.9%	+19.8%	-7.0%

Benchmark - HSBC/AREF/IPD Balanced Property Unit Trust Index (Current Quarter Estimated)

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

	2003	2004	2005	2006	2007
Fund	n/a	n/a	+20.7%	+17.2%	+6.6%
Benchmark	n/a	n/a	+21.3%	+16.7%	+4.0%

Benchmark - FTSE All-Share Index Adjusted for Ethical Restrictions

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

	2003	2004	2005	2006	2007
Fund	+3.7%	+4.5%	+4.8%	+4.8%	+5.9%
Benchmark	+3.5%	+4.4%	+4.7%	+4.7%	+5.8%

Benchmark - 7 Day LIBID

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

Source: CCLA. Except for the Property Fund which is shown net, performance is shown before management fees and expenses: net returns will differ after the deduction of fees and charges. Please note that past performance is no guarantee of future returns. Investments in long term funds can go up and down in value and you may not get back the amount originally invested.

Strategy and Outlook

The CBF Church of England Investment Fund

- The Fund remained overweight in equities and property and underweight in bonds and cash over the period.
- We reduced the Fund's exposure to UK equities and added to the weighting in US equities, which now offer better value than in recent years following a prolonged period of relative underperformance. We also made purchases in a broad range of overseas markets towards the end of the year with a view to reducing the reliance on UK equities.
- Taking account of the risks to the global economy, we will focus significantly on companies with strong free cashflow, robust sales and secure balance sheets. We anticipate that this will permit the Fund to offer both a higher immediate yield but also good long term growth in dividends and underlying capital.
- With a view to adding value and controlling overall long term risks, we will complement the equity exposure with real estate, infrastructure and fixed interest investments.
- With property and infrastructure, we will focus on attractive income flows underpinned by sound long term growth prospects, accepting that there may be short term volatility in prices. With fixed interest we will be largely focused on shorter dated securities, reflecting the higher yields available and the reduced risks associated with any rise in inflation.

The CBF Church of England Global Equity Income Fund

- The focus of the portfolio is on good value companies that pay a high dividend to investors and which have the scope to increase dividends in the future. The portfolio is invested in over 100 companies spread across the major investment markets of the world.
- The portfolio invests in a broad range of sectors and includes exposure to attractive areas of the global economy which only have a small weighting in the UK market.
- The recent increase in market uncertainty has provided attractive opportunities to buy excellent companies at low valuations. Short term market moves are always unpredictable but we are confident that the Fund is building a foundation for good long-term returns.

The CBF Church of England Fixed Interest Securities Fund

- We believe that there is still too little focus on the risk of inflation rising. For this reason we would expect to see higher yields on longer dated bonds in due course.
- We also expect that demand from sovereign wealth and pension funds for longer dated assets will wane in 2008, which in our view will eradicate some of the demand and supply imbalances in the bond market.
- There is still scope for shorter dated bond yields to fall further against a background of easier monetary policy.
- Against this background, we expect to position the Fund more towards the short end of the market than the long end, and more towards gilts rather than corporate bonds.

The CBF Church of England Property Fund

- Our strategy is to select properties in growth sectors and markets, taking account of active management potential. This produced good performance in the period of strong growth experienced in recent years and is now providing some protection against the current downturn in valuations.
- The implementation of our policy has produced a portfolio overweight in the office sector, with a strong exposure to offices in central London, in particular in the West End, which has been the best performing part of the market.
- We are seeking to realise the income growth potential within the Fund and are placing greater emphasis on income flows and income quality.

The CBF Church of England UK Equity Fund

- During the year we reduced the Fund's exposure to the real estate sector, following a period of strong performance.
- In utilities, takeover proceeds received in respect of our holdings in AWG and Scottish Power were reinvested over the remainder of the year in Severn Trent, Scottish and Southern Energy and Kelda (subsequently also in receipt of a takeover bid).
- We reduced the Fund's position in pharmaceuticals, where news flow and earnings momentum remain poor, and added substantially to a number of high quality defensive stocks, including Vodafone and Unilever.
- In financials, we sold or reduced holdings in stocks linked to the housing sector such as Northern Rock and HBOS, and reinvested in more broadly based banks such as HSBC and Lloyds TSB.

The CBF Church of England Deposit Fund

- Our strategy with the Deposit Fund has been to maintain a well diversified exposure to high quality borrowers.
- The high current declared rate has been achieved through blending deposits made in the wholesale markets, seeking to add value against inter-bank benchmark rates. Given the need to preserve liquidity, the overwhelming majority of deposits are short dated, but opportunities are and will be taken to secure added value by having some longer dated deposits where we anticipate that the rates available are an attractive option.
- Capital protection has been pursued through diversification and a focus on borrower quality.
- The Fund maintains its 'triple A' rating from Moody's, the highest available from that agency.
- We expect that the Bank of England will cut interest rates further as the domestic economy falters, although they will remain mindful of the risks of rising inflationary pressures.

Responsible Investment Report

Our work has three strands -

- 1 Engagement on issues of corporate social responsibility with a view to optimising long term economic returns in the context of Christian mission and witness.
- 2 Engagement on corporate governance to protect and enhance shareholder value.
- 3 Setting appropriate constraints on investment and exposure to activities considered unacceptable by the Church of England's Ethical Investment Advisory Group (EIAG) and The CBF Funds Trustees.

1. Corporate Social Responsibility (CSR)

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

- "Fairtrade begins at home: Supermarkets and the effect on British farming livelihoods". The SRI Unit published its report in November. Three calls to action were made: to consumers to question the impact on farmers of very low prices and the nature of special promotions; to supermarkets to examine their buying practices; and to government to recognise the Code of Practice is not working and to consider the need for an independent ombudsman with arbitration and regulatory powers. The SRI Unit looks set to meet with some of the major food retailers in the New Year to discuss the findings. Copies of the report are available on request.
- Cocoa and child labour. The SRI Unit met with three chocolate manufacturers and the Biscuit Cake Chocolate & Confectionary Association to discuss progress on the industry's work to eliminate child labour from African cocoa farms.
- Sustainable palm oil. We met with J Sainsbury to discuss its commitment to source sustainable palm oil for all own brand products. There is a great need to ensure palm oil is not generated from plantations that are a product of the destruction of Indonesian and Malaysian rainforests. It is hoped that this year the Roundtable on Sustainable Palm Oil will be able to provide certification for palm oil plantations and processors adhering to high sustainable production standards.

2. Corporate Governance

- CCLA opposed just one resolution during the quarter, at Wolseley. We had continuing concerns about the company's remuneration policy which offers some employees up to 600% of salary for achieving performance hurdles which we do not view as demanding.
- CCLA abstained from voting on eight motions at Resolution and two at Friends Provident. This was due to competing bids for Resolution.
- CCLA supported all proposals at Mouchel Parkman, notwithstanding some residual concerns. We asked the company to ensure that hurdles attached to its Coinvestment Plan remain challenging, given they are substantially below broker forecasts.
- CCLA often engages with companies on issues which we consider important but which are not of a sufficiently material nature to make us vote against or abstain from a motion. This is one of the key ways in which we exercise responsible stewardship on behalf of clients.

3. Ethical constraints

- We confirm that the funds are managed in accordance with the constraints and restrictions proposed by the EIAG and as endorsed by The CBF Funds Trustees.



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