

QUARTERLY BULLETIN

31 March 2008

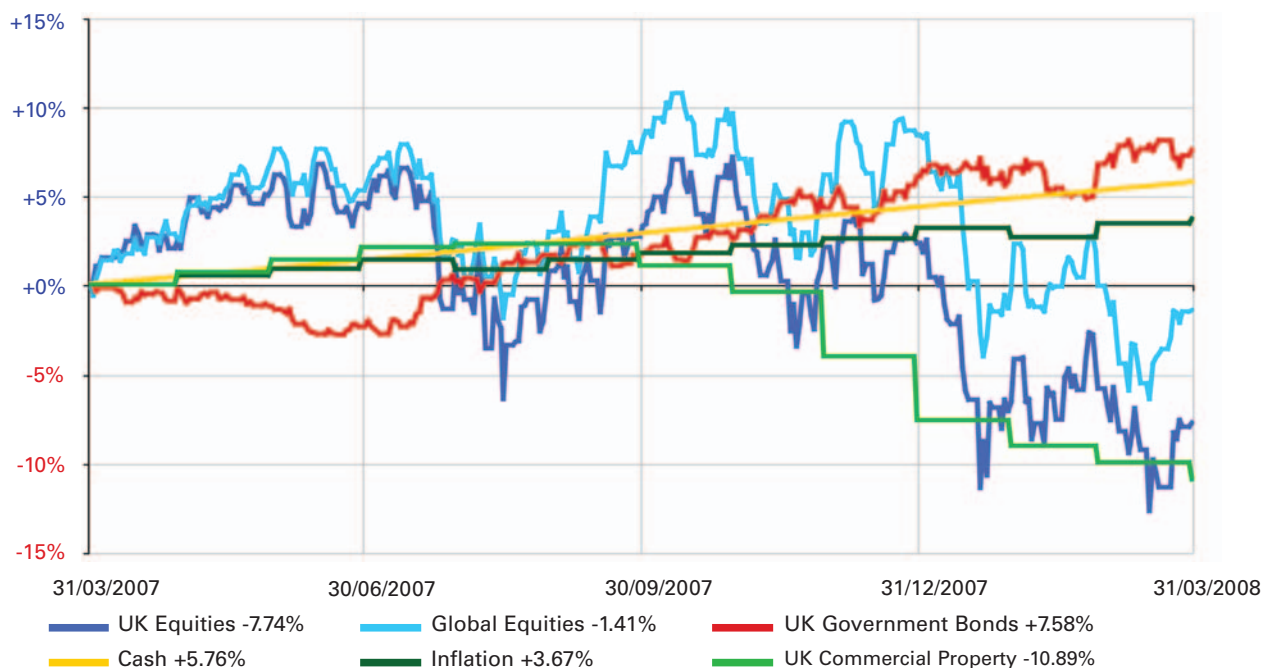


for the Church of England

Market Review and Outlook

Markets at a Glance - 12 Months to 31 March 2008

Equities, bonds, cash and property - 1 year returns



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

Market Review & Outlook

- Clouds gathered over investment markets at the start of the year as investors became more pessimistic for both the growth prospects for the world economy and the likely effects of the credit crunch. January saw volatile conditions with equity prices moving sharply lower over the month. The catalyst was concern over economic trends in the USA as estimates of fourth quarter growth emerged at just 0.6%. This is an erratic data series, but the contrast with the 4.9% expansion in the third quarter was clearly unsettling.
- The US authorities demonstrated their commitment to addressing the crisis with an economic package to help consumers and with two cuts in interest rates. A positive effect of this was a more stable investment environment in February.
- In March, however, confidence was rattled again by the collapse of Bear Stearns, a major US investment bank, which underlined fears of further problems in the financial system. Despite another cut in US interest rates, investors simply lacked enthusiasm to take markets higher and most equity indices edged down.
- In fixed income markets, government stocks made some headway, pushed higher by investors seeking respite from the equity environment, but risk concerns meant that corporate bonds did less well. Property remained under downward pressure although the pace of decline diminished.
- Looking ahead, we expect to see a further slackening in the rate of expansion in the world economy. There is a chance that the United States will experience a recession. Emerging economies will do better but are unlikely to avoid entirely a slowdown in their major customers.
- Much will depend on how the financial crisis develops. We have seen a strong commitment by the authorities in the US to take the steps necessary to ease the situation. These actions will slow the pace of reduction in activity and help avoid 'accidents' along the way, they will not change the overall trend though; the economy has grown too quickly for many years and now needs to adjust to a gentler pace.
- Whilst investment markets have become more pessimistic about the future, away from the financial sector trading has remained as normal for many companies. With share prices lower but profits growing, equity markets should find support on a valuation basis.
- In fixed interest markets we remain concerned that too little attention is being given to the risk that inflation could stay a problem for the medium term. We expect to maintain a defensive strategy.
- In the property sector the downward pressure on prices has reduced but it is too early to expect a rising trend. Our emphasis will be on the quality and level of income and on properties where we can create value by management activity.
- The CBF Investment Fund has maintained a diversified portfolio over the period. The Fund holds a careful balance of domestic and international shares, property, government bonds and new investments such as infrastructure. It remains an appropriate choice for both current and future beneficiaries. Over the period the income payable rose by 20%, substantially above the rate of inflation.

Distributions for the Quarter to 29 February 2008

| The CBF Church of England Fund | Distribution Per Income Share | Payment Date | |
|--------------------------------|-------------------------------|--------------|---|
| Investment Fund | 6.00p | 31/03/08 | <ul style="list-style-type: none"> The focus has been on increasing the level of income paid by the Fund within a policy which supports longer-term capital growth. The dividend declared shows a 20% increase over the comparable period of 2007. |
| Global Equity Income Fund | 1.00p | 30/04/08 | <ul style="list-style-type: none"> The Fund was launched in December 2007. The expectation is that it will pay a distribution for the year of 6p, to give a yield of 4% on the launch price of 150p. The payment reported here is the inaugural income distribution to investors. It has been achieved at a time when income flows within equity markets are low. |
| Fixed Interest Securities Fund | 2.20p | 30/04/08 | <ul style="list-style-type: none"> The dividend payment has been maintained at the level paid each quarter during 2007. On an Income Share price of 155.29p and a projected full year distribution of 8.8p, the Fund provides investors with an income yield of 5.67%. The corresponding gross redemption yield is 4.49%*. We expect to maintain the quarterly dividend at this level over 2008. |
| Property Fund | 1.85p | 30/04/08 | <ul style="list-style-type: none"> This dividend payment is 5.7% higher than the equivalent amount paid in 2007. We expect further increases in the level of income over the remainder of 2008, driven by our investment policies and by the change in the pricing basis for the Fund to where charges are made against capital. |
| UK Equity Fund | 0.70p | 30/04/08 | <ul style="list-style-type: none"> The Fund's investment strategy is being adapted to give a greater emphasis on providing a good level of income, rising over time. The payment reported here represents an increase of 16.6% on the equivalent payment for 2007. We expect to achieve a reasonable level of increase for the year as a whole. |

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

Interest for the Calendar Quarter to 31 March 2008

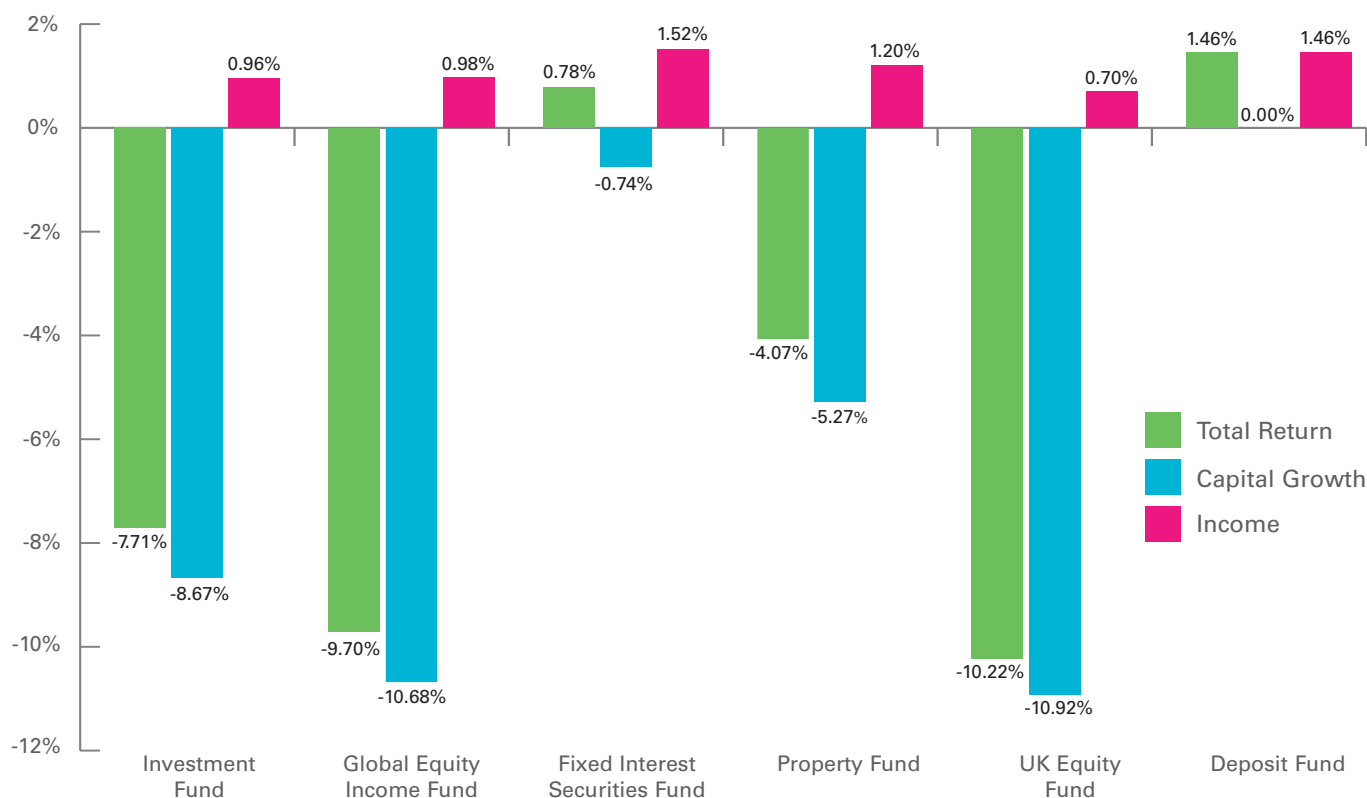
The CBF Church of England Deposit Fund

| | | |
|---|---------------------------|---|
| Average interest rate over the calendar quarter | 5.59% (5.71% A.E.R.)** | <ul style="list-style-type: none"> The interest rate payable on the Fund is dependent on the rates payable on the UK Money Markets. We expect that the Bank of England will reduce the Official Bank Rate over the course of 2008. |
| Interest rate at the calendar quarter end | 5.35% (5.46% 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)



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

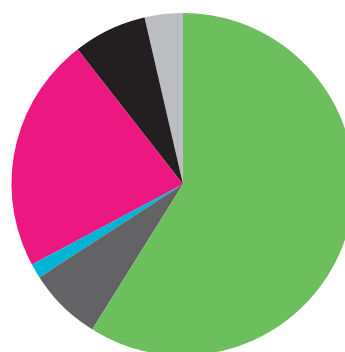
- In a difficult and challenging period for investment markets the Fund has slightly underperformed the WM Universe. Overall returns have been negative. The income payment to investors (6p, an increase of 20%) has risen at a rate well above the rate of inflation.
- In the domestic equity portion of the portfolio our stock selection was a positive contributor to returns but the UK market overall was a relatively poor performer in an international context.
- In international markets we had strong success in the Asian Pacific sector but underperformed in Europe.
- The property holdings within the Fund declined in value but at a slower pace than in the final quarter of 2007.
- Over the period we continued to add to the holdings in infrastructure and private equity, areas which provide a good income flow, attractive longer term returns and additional diversification to the overall Fund.

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

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|-----------|-------|-------|--------|--------|--------|
| Fund | -4.1% | +8.9% | +25.1% | +14.3% | +21.7% |
| Benchmark | -3.8% | +7.9% | +25.2% | +13.2% | +23.4% |

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

Asset Allocation as at 31 March 2008



| Asset Class | Percentage |
|-------------------|------------|
| UK Equities | 58.9% |
| Overseas Equities | 22.2% |
| Fixed Interest | 7.1% |
| Property | 6.8% |
| Infrastructure | 1.4% |
| Cash | 3.6% |

Overseas Equities %

| | |
|----------------|-------------|
| Europe | 7.5 |
| USA | 7.5 |
| Japan | 2.4 |
| Pacific Ex Jap | 3.9 |
| Other | 0.9 |
| Total | 22.2 |

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 has produced a return broadly in line with a representative group of indices.
- The background to the period has been one of marked volatility within investment markets with the financial sectors a particular feature, despite this the Fund's exposure to this area have performed well.
- Housing related stocks in the US have done less well, despite having already lost substantial ground last year.
- Income is on target for the year.

The CBF Church of England Fixed Interest Securities Fund

- The period has seen continued support for fixed interest stocks from investors seeking the security of lower risk assets at a time of increased uncertainty in investment markets.
- Against this background it is government securities (gilts) which have performed best. Corporate bonds fared less well as investors demanded higher income flows to compensate for perceived higher levels of risk.
- The Fund has produced returns above those of the benchmark. This reflects the focus on quality within the portfolio.
- We have retained the exposure to corporate bonds as we believe these offer very good value at current depressed prices.

The CBF Church of England Property Fund

- Commercial real estate prices have continued to weaken in the first quarter of 2008 although the pace of decline moderated over the period.
- Over the three months to the end of March, the Fund slightly underperformed the benchmark index, however on a 12 month view it is ahead on a relative basis.
- The decline in the value of the Fund overall reflects the weakness in the market and with transaction activity slight, a degree of caution evident in valuations.
- A significant disposal during the period reduced the exposure of the Fund to Central London offices.

The CBF Church of England UK Equity Fund

- The Fund outperformed the benchmark over the period. In an environment of falling share prices the cash holdings were a useful contributor to returns.
- A volatile market environment has seen strong swings in the relative performances at the stock and sector level. We have had good success in the financial sector and there have been some strong performances from individual stocks including BG Group.

The CBF Church of England Deposit Fund

- The Fund achieved a return of 1.46% over the quarter, which was slightly ahead of the inter-bank wholesale benchmark rate.
- Against a background of falling official interest rates the daily interest rate paid to investors declined gradually over the period to 5.35% (5.46% AER)*.

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

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

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|-----------|-------|-------|-------|-------|-------|
| Fund | +6.1% | +1.0% | +7.1% | +5.3% | +3.5% |
| Benchmark | +5.7% | +1.4% | +6.9% | +5.5% | +3.1% |

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

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

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|-----------|--------|--------|--------|--------|--------|
| Fund | -9.7% | +18.3% | +19.2% | +17.4% | +13.2% |
| Benchmark | -11.2% | +17.3% | +21.5% | +17.5% | +11.9% |

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

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

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|-----------|-------|--------|--------|------|------|
| Fund | -6.6% | +10.9% | +26.2% | n/a | n/a |
| Benchmark | -8.6% | +10.5% | +27.5% | n/a | n/a |

Benchmark - FTSE All-Share Index Adjusted for Ethical Restrictions

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

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|-----------|-------|-------|-------|-------|-------|
| Fund | +6.1% | +5.0% | +4.7% | +4.7% | +3.7% |
| Benchmark | +5.8% | +4.9% | +4.6% | +4.6% | +3.6% |

Benchmark - 7 Day LIBID

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

Source: CCLA. Performance shown before management fees and expenses: net returns will differ after the deduction of fees and charges, except the Property Fund which is shown net. 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 maintained a high exposure to equities and property over the period. These assets are expected to give excellent long term returns and protection against inflation. The holdings in fixed interest securities and in cash are relatively underweight.
- We continued our policy of reducing the exposure to UK equities in favour of a greater allocation to markets overseas. In our view, the enhanced allocation to international investment increases the opportunities to generate attractive long term returns and reduces the risks that arise from too great an exposure to a single market.
- Within the equity holdings our focus is on finding companies with strong free cash flows and robust balance sheets. This is a prudent long term approach and is particularly appropriate at a time of increased risk and uncertainty in the world economy.
- The equity exposure will be diversified by holdings in property and fixed interest markets and with an increasing allocation to areas such as infrastructure and private equity which have attractive long term potential.
- An important focus for both the equity and property portfolios will be to increase the income payable to our investors. In the fixed interest sector we will focus on quality, with an emphasis on shorter dated maturities as these are most secure from an increase in inflation.

The CBF Church of England Global Equity Income Fund

- The focus of the portfolio is on companies with an attractive yield which have the scope to increase dividends in the future. Stock selection is at the heart of the investment process and is the main factor which determines sector weighting and country exposure.
- The diversified portfolio of over 100 stocks is broadly spread on a geographical basis and is able to take exposure to sectors which have only a small weighting in the domestic equity market.
- Recent market weakness has created attractive investment opportunities at good yields.
- The Fund is on track to produce the target yield of 4% based on the price at launch.

The CBF Church of England Fixed Interest Securities Fund

- We believe there is too little focus in fixed interest markets on the risk that inflation becomes established at or above current levels. For this reason we are cautious towards the prospects for stocks with long periods to maturity as it is these which would be most effected by rising price pressures.
- Another concern is that a powerful source of support for this area of the market, the high levels of demand from pension funds and sovereign wealth funds, could decline over the course of 2008.

- Corporate bonds have endured a severe and extended period of underperformance and have now reached levels where the income yields on selected issues are very attractive. We have therefore increased our exposure to the corporate bond sector and will add further if the correct opportunities can be found.

The CBF Church of England Property Fund

- Although there are signs of good value emerging across the sector, we expect the downturn in property values to continue at least until the summer.
- Against this background our strategy is to seek superior returns from properties with good rental growth prospects and which have the potential to benefit from active management.
- Cash weightings have been raised by disposals from the portfolio, achieved at attractive prices despite current sector weakness.
- We intend to increase further the income paid by the Fund and are placing greater emphasis on the level and quality of rental income.

The CBF Church of England UK Equity Fund

- The emphasis of our strategy is to find good quality companies which are supported by solid investment fundamentals and which provide an attractive income yield.
- Although investor sentiment has been poor in recent weeks and share prices have eased, the news from the corporate sector has remained broadly positive and we are hopeful of an increase in profits over the year.
- On this basis, at the lower levels, equities have substantial attractions for the longer term investor.

The CBF Church of England Deposit Fund

- Our strategy for the Deposit Fund has been to maintain a diversified exposure to a range of high quality borrowers. The bulk of the investments are short notice but opportunities are taken from time to time to invest for longer periods where this provides a reasonable boost to income.
- A strong emphasis on capital security has been maintained, based on a strict focus on borrower quality and diversification across a broad list of top quality institutions.
- The Fund maintains a Aaa (triple A) rating from Moody's, the highest available from that agency.
- We expect further cuts in interest rates over the balance of 2008 as the Bank of England responds to a slower pace of economic growth and the pressures on the banking sector from the credit crunch.

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 Trustee.

1. Corporate Social Responsibility (CSR)

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

- Alcohol. We have written to the Rt Hon John Hutton, MP, with regard to Tesco's call on Government to intervene in supermarkets selling loss-leading alcohol in their stores as a means to attract customers. We were particularly encouraged by Tesco's public stance as it complements our engagement with the supermarkets on the issue of alcohol sales in the context of the rise in binge drinking.
- Censorship. We have engaged with technology companies on the potential reputational damage arising from complicity in censorship instigated by host governments, such as China.
- Supply Chain. We continued our meetings with the major supermarkets to address the issue of local sourcing following the publication of our report "Fairtrade begins at home: Supermarkets and the effects on local farming livelihoods".
- Human Rights. The issue of human rights is increasing in importance for our clients. We continue our dialogue with companies over their human rights policies. During the quarter, we have had discussions on Zimbabwe, Sudan, Burma and Columbia.

2. Corporate Governance

- CCLA opposed one resolution during the quarter at BP. The payment of substantial retention bonuses to two executives does not reflect best practice, and we continue to re-iterate concerns regarding potential awards available under the long-term incentive plan, given the very narrow comparator group used.
- Proxy voting statistics can be found at www.ccla.co.uk.
- During 2007 the Manager engaged with 44 companies (42 in 2006) on corporate governance issues, achieving an 84% response rate.
- Issues raised with management included remuneration reports, long-term incentive schemes and board balance concerns. Of replies received (37), CCLA judged that 86% were qualitative in nature. Seven companies failed to reply after a reminder. These included Carnival Corporation, Carphone Warehouse, ICI and Anglo American.

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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