

QUARTERLY BULLETIN

30 September 2010

Note from the Chief Executive of CCLA Income Update

As the new quarter begins so the economic recovery celebrates its first anniversary. However, despite a year of the upturn, the pace of progress remains pedestrian and economic conditions are still challenging in a number of areas. A repercussion of this for charity investors is that investment income, which had fallen sharply in the downturn, has been slow to recover.

The most glaring example of the problem is cash. Base rates have been held at 0.5% since March 2009 and expectations are that they will remain at, or very near, current levels until mid 2011 at least. Income from equity markets as a whole has also been a problem for many charities. The value of equity dividends fell in 2009 and overall payments are likely to be lower again this year too. The problem is particularly acute in the UK equity market, where a small number of stocks and sectors have provided the great bulk of dividend flows. For the unprepared, a mishap or misfortune in one of these can cause a sharp fall in dividend income. The effect of the dividend cut from BP, and before that the loss of income from the banks, provides a powerful illustration of the challenge for the investment manager, a challenge some have chosen to pass on to their clients.

With inflation sticky at elevated levels and other sources of charity income under pressure, we are acutely aware of the importance of maintaining and growing the income flow from charity investments. We are very pleased to be able to report that we have continued to deliver this much-needed income on all our long-term funds.

In the current environment, some charities need to enhance their income and for these we see two

opportunities that merit consideration: global equities and property.

Almost unnoticed, the yields available on some international markets have risen and now rival those in the UK. More importantly, dividend growth rates are higher, driven by faster profits earned in economies growing themselves much faster than ours. Our Global Equity Income Fund provides access to this growth and an attractive level of income.

Property is an area of the market where sentiment is cautious, held back by flat trends in valuations and rents. These are valid concerns but they are not the full story. Away from the generalities of the market, there are opportunities to acquire secure high yields on good quality properties that are let to tenants of real substance. The income on property is attractive not just in absolute terms but also relative to that from other asset classes, higher than that available from bonds and equities, and many times that available on cash. Our Property Fund is managed to deliver a high and sustainable income to investors.

Any potential investment strategy must of course be considered carefully against the overall objectives of the charity and with due regard to the existing holdings. However, these areas merit consideration for charities seeking a higher income today and a rising income in the future.

If you would like more information on these ideas or help to review your current asset allocation strategy, please do not hesitate to contact us.

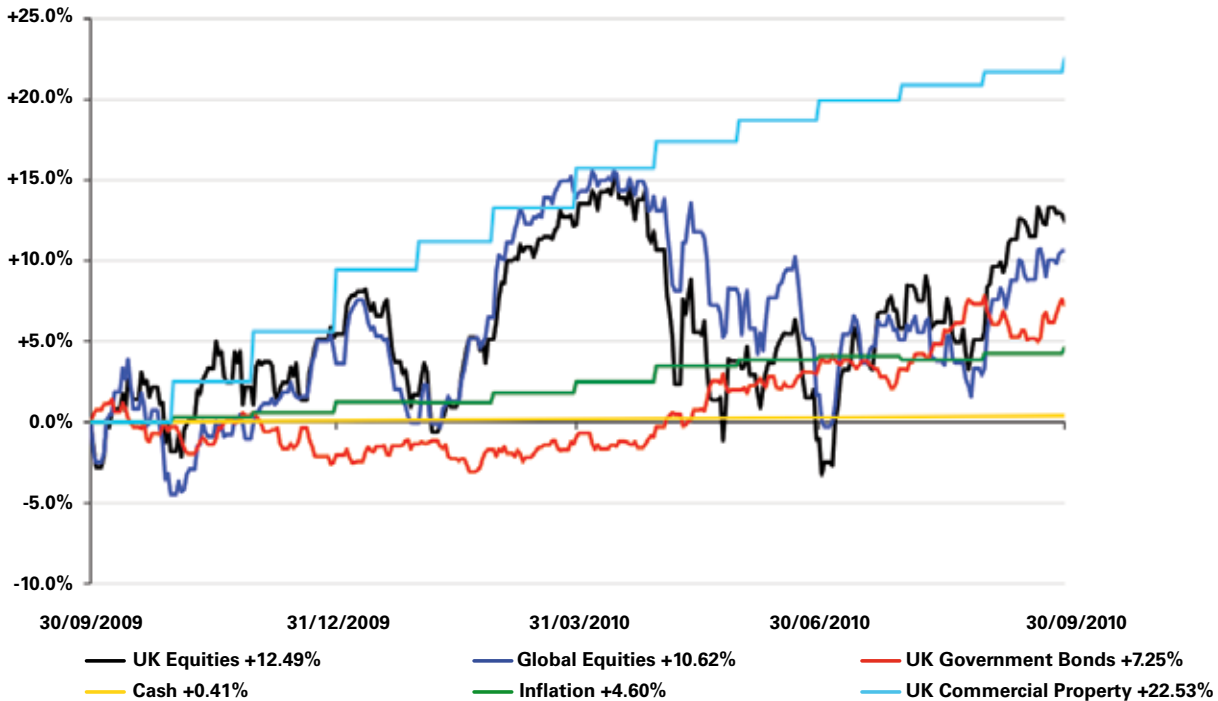
Michael Quicke



for the Church of England

Market Review and Outlook

Markets at a Glance – 12 Months to 30 September 2010



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

Market Review & Outlook

- Global equity markets rose over the quarter, all but regaining the ground lost after the Greek debt crisis. The FTSE All-World Index produced a return for a sterling based investor of +8.77%, bringing the return for 2010 to date to +6.75% and for the past 12 months to +10.62%. All the main regional indices gave positive returns; Europe and Asia were strong performers, rising by +13.41% and +12.18% respectively. Local gains in the US were also attractive but were reduced for UK based investors by currency factors to +5.70%. Only Japan failed to participate significantly in the rally, held back by political concerns and evidence of a dull economy; the index returned just +0.13%. There were some very strong individual market performances; in Europe, Norway, Austria, Spain and Finland all returned more than +20%, as did Thailand and the Philippines in Asia. Only two countries gave negative returns; Pakistan, hit by natural disaster and Ireland, which faced more uncertainty about the cost of the bank rescue.
- Fixed interest markets too gave positive returns, buoyed by the push of new money from investors seeking returns greater than those available on cash and by the possibility of a further phase of quantitative easing (QEII). Gilts returned +3.60%, corporate bonds were stronger and returned +4.88%.
- The improvement in commercial property values lost momentum through the summer and by the end of the quarter prices were stable, income flows remained positive and were an important contributor to the +2.52% overall return. Underlying market conditions remained challenging, although the pace of rental decline eased once more.
- In currency markets sterling rallied against the US dollar by (+5.16%) but lost ground against both euro (-5.66%) and yen (-0.67%).
- 2010 has proved to be a see-saw year for investment markets, one where the tilting mechanism has been triggered by the strength of investor confidence in economic recovery. Positive signs of growth have been rewarded by rising equities, fresh concerns have seen equities fall back but fixed income markets rally, sometimes sharply. It seems likely that these broad conditions will remain in place a little longer. The current economic recovery simply lacks vigour, with growth modest and dependent on support from government actions. With the pace of improvement staying close to 'stall speed' the upswing will remain vulnerable to external threats and unforeseen developments. For this reason day-to-day volatility is expected to remain high for the near term. In time we expect growth to become self sustaining and faster paced.
- Against this background we believe that fixed interest securities are vulnerable and could ease back. Property values look secure but progress will be modest after the strong gains seen this year. Income is likely to be the main source of returns. Equities are good long term value; holders however must be prepared for near term volatility.

Distributions for the Quarter to 31 August 2010

The CBF Church of England Fund	Distribution per Income Share	Payment Date	
Investment Fund	13.00p	30/09/10	<ul style="list-style-type: none"> Despite a challenging income environment, the payment for the quarter has been maintained. The payment over the past 12 months is +3.11% above that of the previous period. We expect the payment for 2010 to exceed that for 2009 and anticipate further growth in 2011.
Global Equity Income Fund	1.70p	29/10/10	<ul style="list-style-type: none"> The income payment for the quarter has been maintained. The distribution over the past 12 months is up by +4.92%, this is due in part to the incidence of income receipts. We expect further growth in the year ahead.
UK Equity Fund	1.37p	29/10/10	<ul style="list-style-type: none"> The quarterly payment to investors has been maintained, the payment for the past 12 months is +2.23% higher.
Property Fund	2.00p	29/10/10	<ul style="list-style-type: none"> The payment for the quarter is unchanged, the income flow over the past 12 months is +2.44% above that for the preceding period. We expect further growth in the payment in the year ahead.
Fixed Interest Securities Fund	2.20p	29/10/10	<ul style="list-style-type: none"> The income distribution to investors has been maintained. Based on the price at the end of September and an annual distribution of 8.80p the income yield on the Fund is 5.47% and the gross redemption yield is 2.44%*.

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

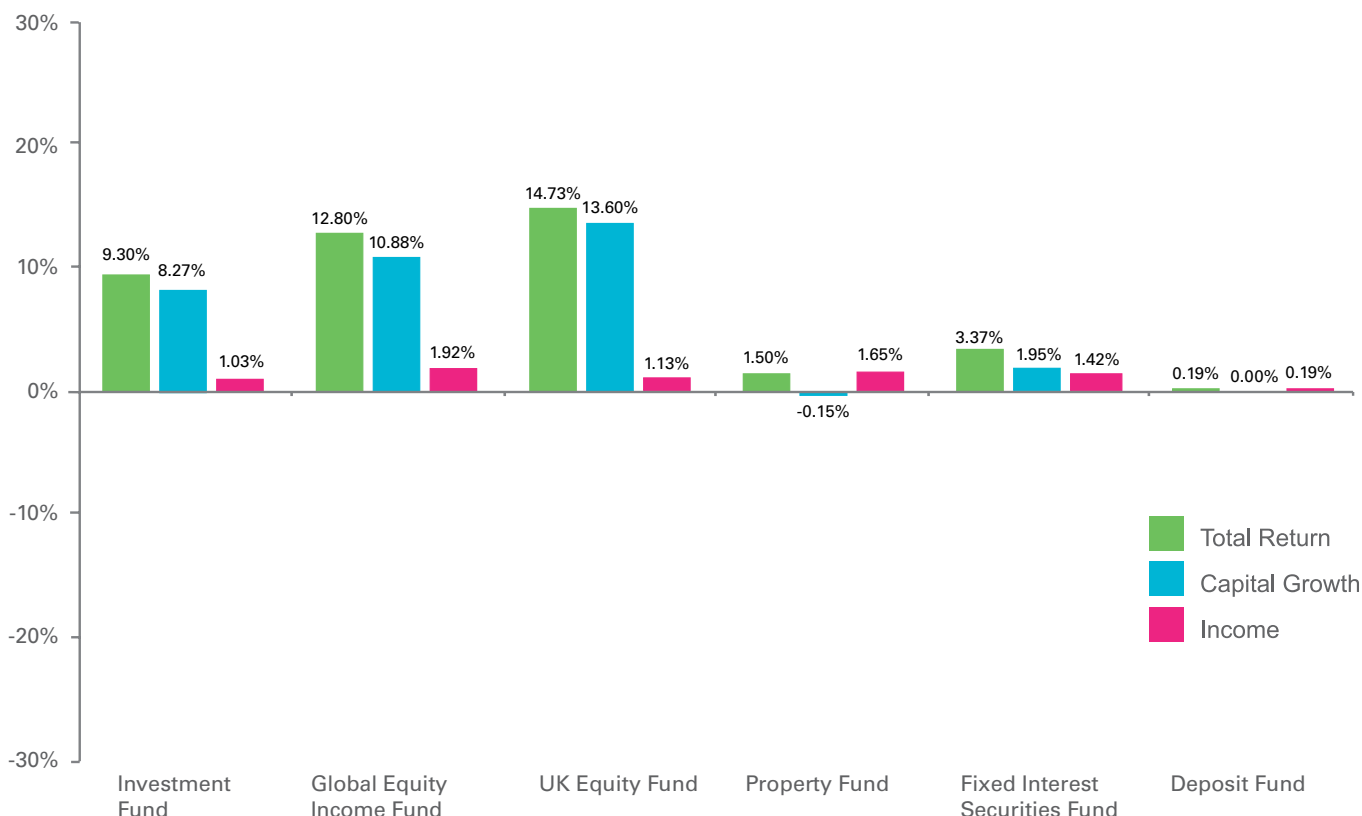
Interest for the Calendar Quarter to 30 September 2010

The CBF Church of England Deposit Fund

Average interest rate over the calendar quarter	0.50% (0.50% A.E.R.)**	<ul style="list-style-type: none"> The interest rate payable on the Fund is ultimately dependent on the rates available in the money markets. Over the period these interest rates have been relatively stable.
Interest rate at the calendar quarter end	0.50% (0.50% A.E.R.)**	<ul style="list-style-type: none"> The Fund is rated AAA/V1 by Fitch Ratings: this reflects the quality of the lending portfolio and its low volatility.

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

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

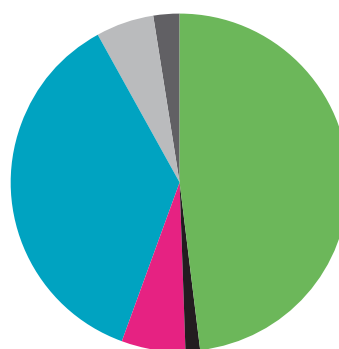
- All major investment categories have given positive returns over both the most recent quarter and the past 12 months.
- Income however has remained a difficult area with some high profile dividend cuts exacerbating the problem. Despite this we are on target to increase the payment for 2010 and expect to do so again in 2011.
- Returns on the Fund are in line, but slightly above, with those on the comparator index. The portfolio has good positions in some high quality investments which we expect to provide strong returns over the long term.

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

	2010	2009	2008	2007	2006
Fund	+12.7%	+5.8%	-18.5%	+11.0%	+13.5%
Comparator	+12.5%	+7.9%	-17.4%	+10.5%	+13.0%

Comparator – Composite: FTSE All-Share 60%, FTSE World ex UK 20%, IPD All Properties 10% & FTSE UK Government All Stocks 10%.

Asset Allocation as at 30 September 2010



Overseas Equities	%
Europe	12.4
USA	12.2
Japan	1.1
Pacific Ex Jap	6.1
Other	4.4
	<u>36.2</u>

UK Equities 48.1%	Overseas Equities 36.2%
Fixed Interest 1.5%	Property 5.5%
Infrastructure 6.2%	Cash 2.5%

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

- Global equity markets have made good progress over the past year, boosted by a recovery in values in the most recent quarter.
- The overall dividend environment has remained challenging but the Fund is on track to make an increased payment for the current year, with further progress expected in 2011.
- Performance is slightly below that of the comparator, the All-Share Index, a contributory factor in this is the recent bounce in sterling. The Fund has outperformed the FTSE All-World Index of global investment markets.

The CBF Church of England UK Equity Fund

- Investment returns have been volatile over the past year but overall the Fund has produced attractive gains over both the past year and the most recent quarter.
- Despite the shock to the domestic market of the cancellation of the 2010 dividend payment from BP, this quarter's income distribution on the Fund has been maintained, there will be an increase for the year as a whole.
- Over the past year the Fund has enjoyed a strong relative performance, earning returns comfortably above those of the benchmark.

The CBF Church of England Property Fund

- The commercial property market has enjoyed strong returns over the past year although in recent weeks progress has ground to a stop.
- The income payment to investors is increased over the past year; we expect the payment for 2010 as a whole to be higher than that for the preceding year.
- Benchmark performance data is not available as we go to press; the indications are however that the Fund has continued to outperform the comparative index.

The CBF Church of England Fixed Interest Securities Fund

- Fixed income markets have produced positive returns with the best performances coming from the longer dated segment of the market.
- The Fund's income distribution has been maintained, we expect to continue this level of payment to investors over the balance of 2010 and in 2011.
- With fixed income markets becoming increasingly expensive relative to other asset classes we have moved the portfolio into a more defensive structure. This has held back performance so far relative to the benchmark.

The CBF Church of England Deposit Fund

- Short term interest rates have remained at historically low levels. Base Rate has been at 0.5% since March 2009.
- We expect rates to stay low at least until the middle of 2011, a reflection of pedestrian levels of economic growth.
- Our focus remains firmly on capital security. We note that higher interest rates are sometimes available in the market but consider the premium on offer unattractive relative to the risks involved.

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

	2010	2009	2008	2007	2006
Fund	+12.1%	+8.6%	n/a	n/a	n/a
Comparator	+12.5%	+10.8%	n/a	n/a	n/a

Comparator – FTSE All-Share Index.

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

	2010	2009	2008	2007	2006
Fund	+15.1%	+3.6%	-20.9%	+11.5%	+14.8%
Benchmark	+11.6%	+10.5%	-23.1%	+11.1%	+14.6%

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

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

	2010	2009	2008	2007	2006
Fund	+24.6%	-18.8%	-16.0%	+9.6%	+21.4%
Benchmark	n/a	-23.6%	-20.9%	+7.3%	+22.5%

Benchmark – IPD Balanced Property Unit Trust Index
(Current Quarter Not Yet Available).

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

	2010	2009	2008	2007	2006
Fund	+7.2%	+11.3%	+5.0%	+0.8%	+3.8%
Benchmark	+8.4%	+11.9%	+4.6%	+0.3%	+3.6%

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

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

	2010	2009	2008	2007	2006
Fund	+0.7%	+2.7%	+6.1%	+5.6%	+4.7%
Benchmark	+0.5%	+1.3%	+5.5%	+5.5%	+4.6%

Benchmark – 7 Day LIBID.

Strategy and Outlook

The CBF Church of England Investment Fund

- The Fund has a high weighting to real assets such as equities, at home and overseas, and commercial property. We believe that it is assets of this type which are most likely to provide long term returns consistently above inflation. They are also the only real source of rising income.
- The portfolio has a low exposure to fixed income markets. This reflects concerns about the sector's ability to generate attractive returns above the inflation rate and thus protect real values.
- Recent changes to the portfolio have seen some profit taking on the infrastructure investments with the proceeds allocated to the equity element.
- The income payment for 2010 will be above that paid for 2009; we expect to increase the payment again in 2011.

The CBF Church of England Global Equity Income Fund

- The portfolio is built 'from the bottom up' in that we select stocks on their individual merits rather than to fit a pre-determined allocation to any sector or even country.
- This search for good quality stocks which are out of favour with investors means that the holdings and weightings will differ significantly from those of conventional international market indices.
- At the end of September the Fund had an above average weighting to Europe but had moved to a reduced weighting in Asia after profit taking. There were no holdings in Japan. At the sector level there were positive exposures to financials, healthcare, oil and gas, and telecommunications.

The CBF Church of England UK Equity Fund

- The strategy of the Fund is to select good quality companies that can provide a high current income and income and capital growth in the future. This requires a contrarian stance, seeking out opportunities currently out of favour with consensus opinions.
- At the end of September the portfolio had overweight positions in sectors including food producers, financials (but not banks) and industrial engineering. There were below index weightings in oil and gas and basic materials.
- We see equities as providing good long term value and will keep cash balances at low levels.

The CBF Church of England Property Fund

- After sharp improvements in market valuations earlier this year prices have now stabilised. We expect the sideways trend to remain in place for the next few months, which means that income will be the critical component of total returns.
- The current economic situation means that there are opportunities to buy excellent properties on high yields, providing a secure long term income flow for the Fund. Our focus is always at the individual property level rather than on any particular market sector.
- We expect valuation growth to pick up next year as economic improvement gradually feeds through.

The CBF Church of England Fixed Interest Securities Fund

- Bond markets have moved higher in recent weeks supported by economic concerns but also by the weight of money from investors seeking returns greater than those available on cash.
- We believe that bond market valuations are increasingly stretched, with the sector offering poor value against a backdrop of sticky inflation and in an environment of slowly improving economic activity.
- We have a relatively high weighting to the corporate bond sector to benefit from the higher income it provides but otherwise have begun to bias the portfolio towards more defensive strategies.

The CBF Church of England Deposit Fund

- There has been a two tier market for cash deposits. Base rates have stayed low but from time to time there have been higher bids for term deposits, typically from banks eager to rebuild market share, or from institutions forced to pay more because of their reduced credit rating. We have avoided these bids and maintained a clear focus on capital security.
- We expect rates to stay low for some time yet.

Responsible Investment Report

Our work has five strands:

- 1 Engagement, focused on social and environmental issues in the context of Christian mission and witness.
- 2 Setting appropriate constraints on investment and exposure to activities considered unacceptable by the Church of England's Ethical Investment Advisory Group (EIAG) and the CBF Funds Trustee.
- 3 Proxy voting on corporate governance issues to protect shareholder value and address excessive remuneration.
- 4 Selecting some investments that deliver social or environmental benefits plus market-level risk-adjusted returns.
- 5 Compensating portfolios for any change in risk and return characteristics.

Quarterly highlights

- The EIAG's 2009/10 annual report was distributed to General Synod (see www.cofe.anglican.org/info/ethical) and a successful fringe meeting was held in York in July.
- The EIAG Secretary gave his annual presentation to the CBF Funds Trustee. The focus was climate change and setting engagement priorities for the EIAG Secretariat.
- An EIAG engagement meeting with BP board representatives has been organised for late October.

Voting in more detail

- Historically CCLA has only voted at UK company meetings. Given that equity portfolios have become more global in recent years this domestic focus was no longer satisfactory from a stewardship perspective and we now vote globally in collaboration with Church House and other members of the Church Investors Group.
- Notable AGMs this quarter included Tesco and H.J. Heinz. We didn't support the re-election of the combined Chief Executive and Chairman at H.J. Heinz, and joined 47% of shareholders in not supporting Tesco's remuneration report.
- CCLA's quarterly record for the 817 resolutions voted across all markets was 14% abstentions or votes against management (mainly remuneration related).

Ethical constraints

- The EIAG is currently undertaking a comprehensive review of some of the restricted investment categories (currently financial services and alcohol). This process is supported by the CBF Funds Trustee, and clients are invited to send comments to the EIAG Secretary (edward.mason@c-of-e.org.uk).

Focus on the new UK Stewardship Code for Institutional Investors

In Summary:

- The UK Stewardship Code is the investor equivalent of the UK Corporate Governance Code for listed companies.
- Both codes are applied on a "comply or explain" basis.
- The stated purpose of the new code is to "improve the quality of corporate governance through promoting better dialogue between shareholders and company boards, and more transparency about the way in which investors oversee the companies they own".

The Seven Principles in the UK Stewardship Code

"Institutional Investors should:

- 1 Publicly disclose their policy on how they will discharge their stewardship responsibilities.
- 2 Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
- 3 Monitor their investee companies.
- 4 Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.
- 5 Be willing to act collectively with other investors where appropriate.
- 6 Have a clear policy on voting and disclosure of voting activity.
- 7 Report periodically on their stewardship and voting activities."

Background:

- The new code was one of the recommendations made by the Walker Review of corporate governance of UK banks. This 2009 review was commissioned by HM Treasury following the recent financial crisis.
- Sir David Walker noted that "institutional investors should be less passive and prepared to engage earlier if they suspect weaknesses in governance. They enjoy the privilege of limited liability whereas taxpayers have ended up assuming unlimited liability in respect of the big banks. Early preventive medicine through shareholder engagement can save everyone substantial time and money later on."
- The change programme underpinning the CBF Funds' responsible investment approaches was designed in anticipation that a Stewardship Code would be introduced this year. Examples include the shift to global voting, and clarifying the EIAG's engagement focus.

What Next?

- Our statement outlining the extent to which we comply with the code will be available later this year.
- For further details about the new UK Stewardship Code, which was launched on 2nd July, see www.frc.org.uk



for the Church of England

80 Cheapside
London EC2V 6DZ

Client Service
Freephone: 0800 022 3505
Fax: 0844 561 5126
www.ccla.co.uk

B17/Oct10