

QUARTERLY BULLETIN

30 September 2008

Note from the Chief Executive of CCLA

- In what have been and remain extraordinary market conditions, the key focus for the CBF Funds has remained the delivery of a high level of income with careful management of risk.
- For the Deposit Fund this has meant broad diversification across a spread of high quality borrowers, maintaining the AAA/V1 rating for the Fund, and the delivery of an excellent rate of income.
- For the Fixed Interest Fund, the focus is on maintaining the current income level whilst protecting capital.
- For the Investment, Global Equity Income, UK Equity and Property Funds, the aim is to deliver a high and rising real income stream together with growth of capital over the long term. Whilst the capital values of real assets have fallen back in recent months, we have been able to grow the income and have set money aside in reserve to underpin income growth next year.
- We set out below our expectations for dividends this year and the change of 2008 over 2007:

Fund	2007 Payment Made	2008 Payment Expected	% Change
Investment Fund	40.00p	45.00p	+12.5
Global Equity Income Fund	-	6.00p	n/a
UK Equity Fund	4.40p	4.90p	+11.4
Property Fund	7.15p	7.70p	+ 7.7

- The focus on delivering growing income involves an emphasis on investments which are well supported by assets and strong cash flows. The dividends and rents received are not only a crucial component of overall returns but are more stable than capital returns in that asset prices rise and fall on a daily basis but dividends and rents are cut only infrequently – and for individual investments, rather than by the market as a whole.
- A portfolio capable of providing a high and rising income must be diversified. Too great a concentration on a single market, even the UK, increases risk and unnecessarily locks the fortunes of a fund to that of a small sub-set of the global opportunities available. We have increased our investment in non-UK equities to give the Fund greater exposure to companies that are growing their dividends more swiftly than their UK counterparts. We have also increased diversification further by including new asset classes such as infrastructure which have strong income growth characteristics and which are well defended against inflation.
- By building a portfolio based on real assets and value and seeking to generate a high and rising income, we are confident that we will produce superior long term returns. Over shorter periods the performance will differ from that of the market as a whole, as swings in the pendulum of investor sentiment move to favour different segments of the market.
- The unusual market conditions experienced in 2008 have seen real assets such as equities underperform defensive investments such as bonds and cash. This has had a negative, but we believe temporary, effect on the performance of some of our funds, both in terms of absolute returns and relative to defensive yardsticks.

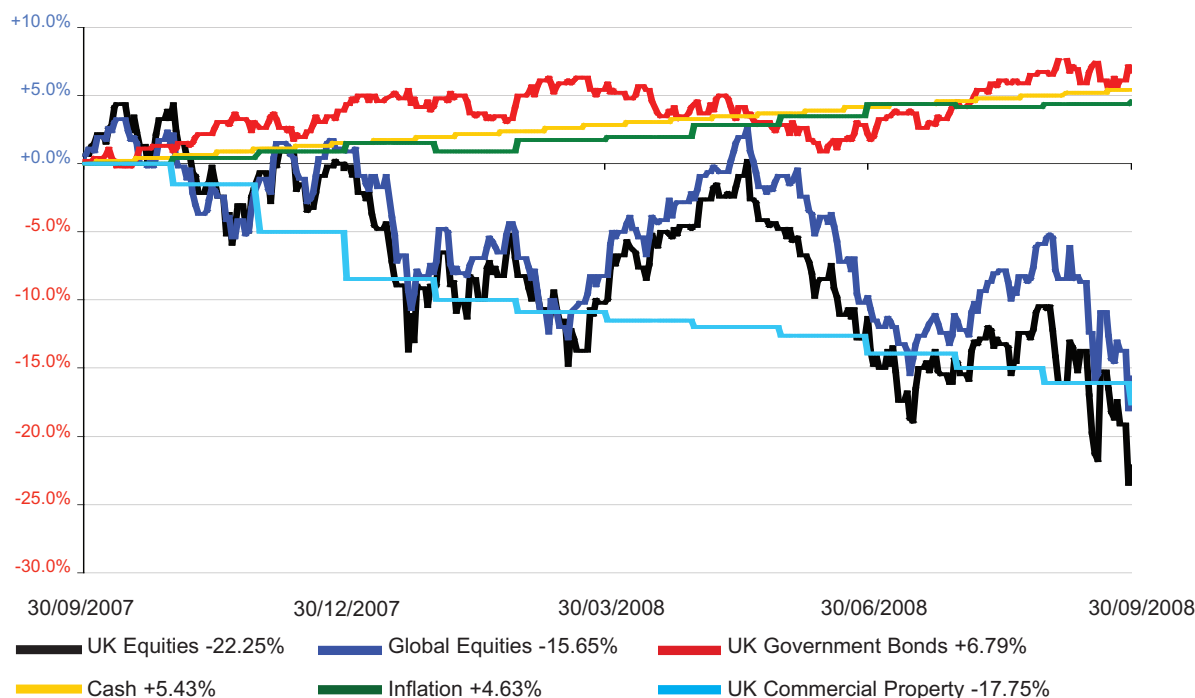


for the Church of England

Market Review and Outlook

Markets at a Glance - 12 Months to 30 September 2008

Equities, bonds, cash and property - 1 year returns



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

- The period began with investors in cautious mood as rising commodity, food and fuel prices put substantial pressure on inflation rates. In an effort to prevent an upward spiral in prices, central banks made clear their intention to respond to the challenge; if necessary by raising interest rates. For investment markets expecting lower not higher borrowing costs this was a severe shock and the effect was to send equity prices sharply lower. A recovery in prices began as inflationary pressures eased but this was reversed as the depth of the crisis in the financial sector became evident and in September prices moved sharply lower again.
- Events in the financial sector overshadowed economic news over the period as banks and other financial companies were hit by a series of adverse developments over a very short period of time. The outcome was a dramatic change in the landscape of the sector as events forced mergers, fresh capital raising and state intervention in order to maintain stability. As the crisis built, banks became increasingly reluctant to lend to each other, removing liquidity from the system and forcing a heavy and growing reliance on emergency facilities provided by central banks. At the same time, falling asset values weakened balance sheets and tumbling share prices effectively prevented access to the market to raise fresh capital. The list of companies caught in the storm shows that size or reputation proved to be little protection. In the UK, Alliance & Leicester was taken over by Santander, HBOS was subject to an offer from Lloyds TSB and Bradford & Bingley was forced into the arms of the government. In the United States 'Fanny Mae' and 'Freddie Mac', the companies at the heart of the mortgage system, required emergency aid as did AIG, once the world's largest insurance company. Merrill Lynch, substantial owners of BlackRock, were taken over by Bank of America, Lehman Brothers failed and Wachovia Bank and Washington Mutual required rescue takeovers. There were problems too in Europe.
- For most of the period events moved too fast for the authorities to do other than react to the events, however in September there was an attempt by the US Treasury to gain approval for a huge \$700 billion support package aimed at stabilising the position and creating a foundation for future recovery. Economic news was consistent with growth fading in most of the developed economies. The main issues were lower consumer spending, weak housing markets and the effects of the credit problems.
- In fixed income markets we see value in short dated securities and in parts of the corporate bond market. Long dated stocks are vulnerable to weakness.
- In the property sector the bias is towards high quality investments with income growth potential.
- In equities we think that the market is in the late stages of the downturn. We favour international stocks with good dividend growth prospects.

Distributions for the Quarter to 31 August 2008

The CBF Church of England Fund	Distribution per Income Share	Payment Date	
Investment Fund	13.00p	30/09/08	<ul style="list-style-type: none"> This payment is 23.81% higher than that for the comparable period of 2007. The dividends for the past four quarters amount to 44.50p compared with 37.50p at this stage of 2007. This is an 18.67% increase over the year. We expect the payment for the year as a whole to be substantially higher than that for the previous period.
Global Equity Income Fund	1.50p	31/10/08	<ul style="list-style-type: none"> The Fund has yet to complete its first year and so there is no comparable historic data. The Fund is on track to pay investors a payment of 6p per Income Share for the year.
UK Equity Fund	1.33p	31/10/08	<ul style="list-style-type: none"> The increased emphasis on income has produced an increase in the payment to investors which, at 20.91%, is substantially above the rate of inflation. The cumulative payment over the past 12 months is 22.50% greater than at the equivalent stage in 2007.
Property Fund	1.95p	31/10/08	<ul style="list-style-type: none"> This payment to investors is 8.33% greater than that for the comparable period of 2007. The payments for the past four quarters amount to 7.60p. This is 7.80% more than the payments to investors at this stage last year. We anticipate a further increase in income over the balance of 2008.
Fixed Interest Securities Fund	2.20p	31/10/08	<ul style="list-style-type: none"> The quarterly distribution to investors has been maintained and is unchanged on the comparable period in 2007. We expect to make the same payment for the final quarter of the year. Based on an Income Share price of 151.47p at the end of September and a projected annual distribution of 8.80p the income yield on the Fund is 5.81%, the corresponding gross redemption yield is 4.81%*.

*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.

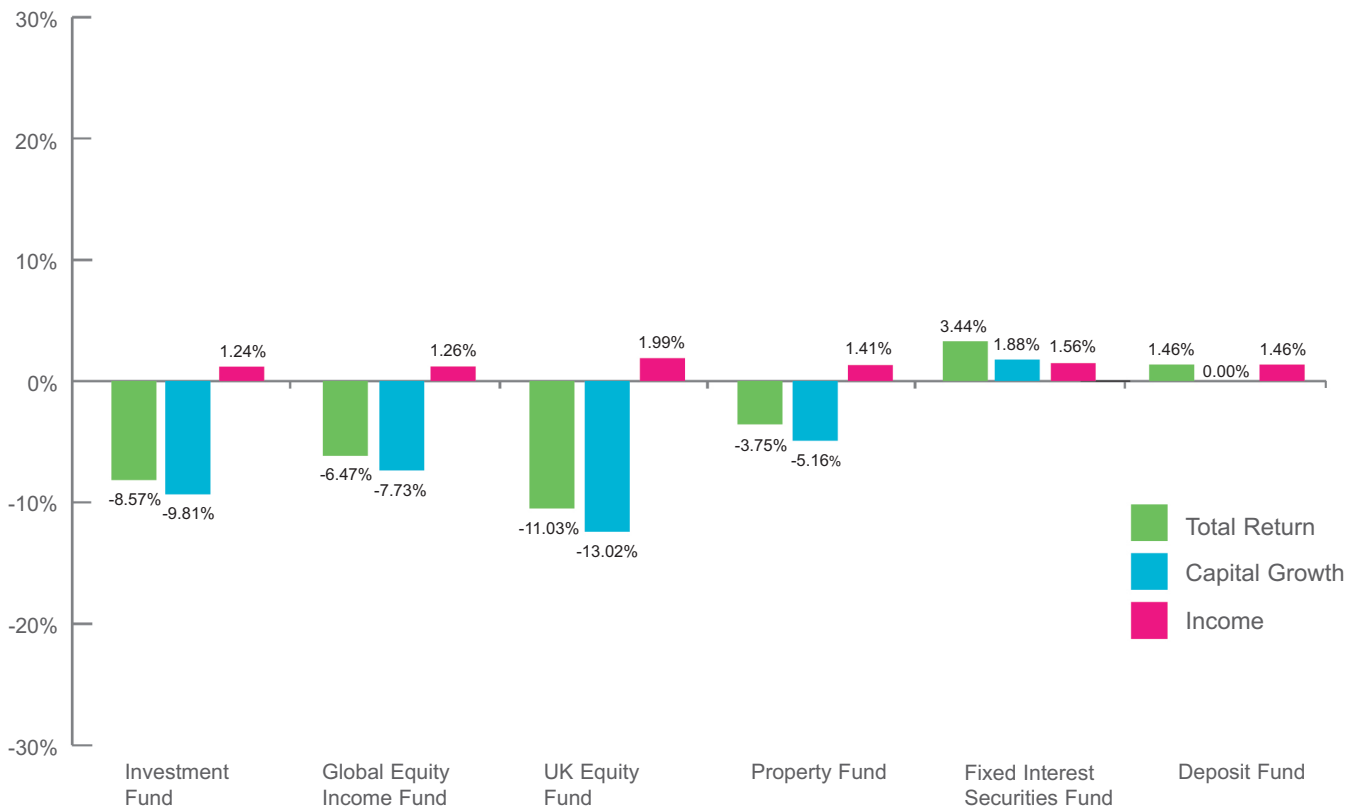
Interest for the Calendar Quarter to 30 September 2008

The CBF Church of England Deposit Fund

Average interest rate over the calendar quarter (5.61% A.E.R.)**	5.50%	<ul style="list-style-type: none"> The interest rate payable on the Fund is dependent on the rates available on the UK money markets. We expect that the Bank of England will reduce official rates in the near future with further reductions in 2009.
Interest rate at the calendar quarter end (5.61% A.E.R.)**	5.50%	<ul style="list-style-type: none"> The present high demand for credit has meant that money market interest rates sit at a premium to official rates to the benefit of the Fund, we expect this premium to continue in the near term. The Fund is rated AAA/V1 by Fitch Ratings. This reflects the high credit quality of the 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

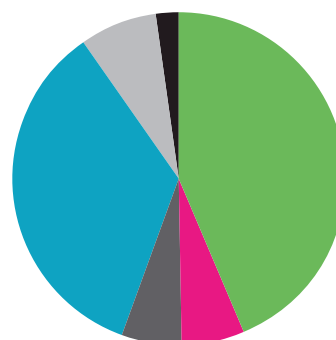
- The income payment to investors has been increased to 13.00p, a rise of 23.81% on the comparable payment for 2007. This represents a substantial increase in real terms, well above the rate of inflation.
- Against a background of weak investment markets the Fund has fallen in value. Equity markets around the world lost ground and property also declined. In a difficult period there were few bright spots although cash, infrastructure and government bonds gave positive returns.
- Comparisons with the WM Universe show the Fund underperforming so far during 2008. This reflects the higher weightings the Fund has to assets such as equities and property. These can provide rising income and strong long term returns but are currently out of favour with investors. When compared to relevant equity indices and to investments with similar income objectives the position is more favourable.

Longer term total return performance (gross) 12 months to end 30 September:

	2008	2007	2006	2005	2004
Fund	-18.6%	+11.0%	+13.5%	+21.7%	+11.7%
Benchmark	-14.7%	+11.0%	+12.0%	+21.9%	+12.1%

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

Asset Allocation as at 30 September 2008



UK Equities	43.7%	Overseas Equities	34.7%
Fixed Interest	6.2%	Property	7.6%
Infrastructure	5.7%	Cash	2.1%

Overseas Equities %

Europe	10.6
USA	13.2
Japan	3.7
Pacific Ex Jap	6.3
Other	0.9
Total	34.7

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 is on track to pay a total distribution for the year of 6p per Income Share.
- Equity markets, at home and abroad, have been weak over the quarter. Dividend payments have been robust with many companies increasing their distribution to shareholders over the period.
- In order to provide an income much higher than that available on the FTSE All-World Index the Fund has a bias to high income stocks and sectors currently out of favour with investors. This group has fared less well than the market as a whole.

The CBF Church of England UK Equity Fund

- The income payment to investors for the quarter is 20.91% higher than that for the comparable period in 2007.
- The domestic equity market has fallen sharply over the period. Against a difficult background the fund outperformed its benchmark.

The CBF Church of England Property Fund

- The income payment to investors has risen once again. The amount for this quarter will be 1.95p, an 8.33% increase on the comparable period in 2007.
- The weakening trend in commercial property prices has continued. Trading volumes remain low.
- The Fund has outperformed its benchmark comfortably in a volatile and inconsistent pricing environment.

The CBF Church of England Fixed Interest Securities Fund

- The payment has been maintained at 2.20p per Income Share.
- Government stocks have enjoyed some support from investors seeking a haven from volatile equity markets.
- Over the year the Fund has performed slightly below the benchmark index.

The CBF Church of England Deposit Fund

- At the end of the period the rate paid to investors was 5.50% (5.61% AER)*. This was unchanged over the period.
- A prime focus of the Fund is on safety. The list of counterparties is reviewed on a daily basis and strict limits apply to the amounts that are loaned to them.
- The Fund has benefited from market rates sitting well above official rates. Although base rates are expected to decline this relative premium should continue.

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

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

	2008	2007	2006	2005	2004
Fund	-20.7%	+11.5%	+14.8%	n/a	n/a
Benchmark	-23.1%	+11.1%	+14.6%	n/a	n/a

Benchmark - FTSE All-Share Index Adjusted for Ethical Restrictions

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

	2008	2007	2006	2005	2004
Fund	-16.0%	+9.6%	+21.4%	+16.1%	+17.1%
Benchmark	-20.6%	+7.3%	+22.5%	+16.9%	+16.6%

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

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

	2008	2007	2006	2005	2004
Fund	+5.0%	+0.8%	+3.8%	+8.3%	+3.9%
Benchmark	+5.7%	+0.9%	+3.4%	+8.6%	+3.8%

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

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

	2008	2007	2006	2005	2004
Fund	+6.1%	+5.6%	+4.7%	+4.9%	+4.2%
Benchmark	+5.5%	+5.5%	+4.6%	+4.8%	+4.1%

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

- Our objective for the Fund is to produce an average real return over a business cycle of inflation +5%. Within that overall total income should be maintained in real terms – that is adjusted for inflation.
- The Fund maintained a high exposure to assets such as equities and property which are able to provide a rising income over time and protection against inflation. New areas for investment, such as infrastructure, are being increased within the portfolio. The holdings in bonds and cash constitute a relatively small proportion of the overall assets.
- We have continued with the strategy of increasing the exposure to overseas investment markets at the expense of holdings in the UK. We believe that the extra choice available increases potential return and reduces the risk that arises from too great a concentration in a single area. In the period covered by this report, the weakness of sterling has meant that overseas returns have been enhanced by currency factors.
- Our focus within the equity portfolio is on companies with good dividends, which are supported by high levels of free cash flow and which can increase in the future. Holdings in sectors such as fixed interest and cash will be used to diversify the portfolio and reduce risk.
- Although markets have fallen back and investor confidence is at a low level, we see strong attractions in a number of markets for those investors able to accept increased levels of daily price variations.

The CBF Church of England Global Equity Income Fund

- The portfolio is focused on companies which provide investors with an attractive yield and which have the scope to grow dividends in the future. Company selection is the core of the investment process and, along with prudent risk control procedures, is the main influence on the Fund's exposure to both sectors and countries.
- The portfolio is spread broadly across the major markets of the world and into sectors which are only represented to a limited extent in the domestic market.
- Weakness in equity markets has substantially increased the range of opportunities available, the Fund is on track to pay the target income distribution to investors for 2008.

The CBF Church of England UK Equity Fund

- The main thrust of the investment strategy of the Fund is to hold a diversified portfolio of good quality companies able to pay a high level of dividend which can be expected to increase in the future.
- Equities have fallen sharply over the past year as the financial crisis and economic fears have unsettled investors. At current levels the yield on the FTSE All-Share index is greater than the yield on fixed interest stocks. Historically this has been an indication of extremely depressed valuations which have provided very attractive buying points for medium to longer term investors.

The CBF Church of England Property Fund

- Property valuations have continued to move lower. Activity in the sector remains painfully low but has increased a little in recent weeks. That there are sellers emerging at the lower levels suggests that prices have further to fall, despite the attractive value and high yields on offer.
- Our stance against this difficult background has been to seek to improve returns by management activity such as refurbishment, whilst giving a high priority to reducing voids.
- We have maintained a modest cash weighting to give portfolio flexibility, the liquidity has been a positive contributor to returns.
- Sector weakness has been indiscriminate of prospects. One result of this is that relative attractions are not fully reflected in values, we currently see good opportunities developing in the retail warehouse sector but are wary of industrials.

The CBF Church of England Fixed Interest Securities Fund

- Short-dated government securities have attractions as defensive investments at a time of stress to the financial system and against a backcloth of expected interest rate cuts.
- Longer dated stocks however are less attractive as the exceptional level of demand experienced from pension funds reduces and the issuance of new stock increases to reflect deteriorating government finances.
- Corporate bonds have underperformed and offer levels of income which are attractive on a medium term view.
- Our strategy will be to manage the portfolio with a bias towards shorter dated stocks and to increase the weighting to corporate stocks as attractive opportunities become available.

The CBF Church of England Deposit Fund

- The focus of the Fund is on safety and this will continue in the period ahead. We will maintain a diversified exposure to a list of top quality borrowers, managing that list on a day to day basis to reflect any changes in standing or circumstances.
- This approach is reflected in the AAA/V1 rating awarded by Fitch Ratings. This is the highest credit rating available.
- The bulk of the portfolio is invested in short-dated deposits to ensure a high level of liquidity. From time to time however opportunities are taken to invest for slightly longer periods where this provides a reasonable improvement in income.
- Our expectation is that interest rates will be reduced shortly and will fall further in 2009. On this basis we have increased the proportion of the Fund invested in longer term deposits to lock-in higher rates of income.

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 including proxy voting on issues 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:

- **Supply Chains.** We worked with other investors when meeting leading retailers to discuss how they manage supply chain risks, the conduct of factory audits and their dealing with laggard suppliers. Companies that were met included Associated British Foods (for Primark), Debenhams, Marks & Spencer, Next, and Tesco.
- **Public Policy.** Following on from the 2007 farming report, we met with the Minister of State at BERR, Gareth Thomas MP, to put the case for an Ombudsman should the supermarkets fail to reach agreement with the Competition Commission.

2. Corporate Governance

- The CBF Investment Fund voted at 27 UK company meetings during the quarter, and the CBF UK Equity Fund at 12 meetings.
- Proxy voting statistics can be found at www.ccla.co.uk.
- Key corporate governance concerns that have emerged this year are the unwinding of performance hurdles in the light of challenging markets, and a prevalence for "double dipping" that provides for payment twice for the same performance. Much of the action CCLA has taken is in connection with executive remuneration.
- During the quarter, CCLA voted against remuneration at Vodafone and Yell Group, and abstained from supporting the remuneration report at six further companies.
- Corporate governance concerns at Marks & Spencer have been well rehearsed. Whilst we noted concessions had been made by the company, we viewed the appointment of Sir Stuart Rose as combined Chairman and Chief Executive to be the result of poor succession planning and a flawed process.

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 Trustee.



for the Church of England

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