QUARTERLY BULLETIN
31 March 2011

Note from the Chief Executive of CCLA
High oil prices - no early respite likely

In my previous report I looked at the growing problem of inflation. A key driver of rising prices and a major concern to investors have been fuel costs, in this note I take a look at the trends in this area.

As is the case with many 'sudden' crises, the background to the current situation in energy markets has been building for several years. Since 2000 world oil consumption has risen by 10%, driven by growth in emerging economies - demand from China has doubled over this period. Significant new supply has been hard to find and some of the established oil producing areas, such as Nigeria and Iraq, have suffered disruption. More recently, continued strong growth from developing economies has been compounded by a recovery in the developed world and the result of this increased demand has predictably been higher prices; spending on oil now accounts for 4% of global economic activity, up from 2% at the start of the decade. Expected OPEC revenues for the current year are US$ 1 trillion.

This delicate relationship between static supply and rising demand has been compromised by events in Libya, concerns about other parts of North Africa and the Middle East and the aftermath of the earthquake in Japan. The result is that oil prices have moved sharply higher, threatening growth and adding to the inflationary pressures that are building in many parts of the world.

The most pressing immediate concern is Libya. Libya has historically produced some 1.5m bpd, equivalent to 2.1% of total oil output. This has now been lost and there is great uncertainty as to when production will resume. Saudi Arabia has promised to make good the shortfall but the new supply will be available only with a lag. Furthermore, the Saudi decision to raise output effectively cuts worldwide spare capacity by about 30% - sharply reducing the ability to respond to any further disruption. Markets thus have twin concerns; that the risks of further supply disruption are higher and the ability to cope with it much lower. Given the vital nature of this commodity to so many consumers, the result has been that a risk premium has been added to market price levels.

This fraught situation has been exacerbated by the disaster in Japan where the earthquake has eliminated 10% of nuclear electricity output, equivalent to about 5% of total energy production. This shortfall will have to be compensated by imports and on a long term basis because, even if the nuclear capacity is to be replaced, and this is far from a done deal, the timescale for rebuilding is many years. In the meantime the international reaction to the events in Japan has seen other countries promising a reduced reliance on nuclear and by definition, increased use of fossil fuels.

All of this has taken place against a backcloth of continued economic growth and rising energy consumption; every 1% increase in global output requires about a 0.3% increase in oil usage.

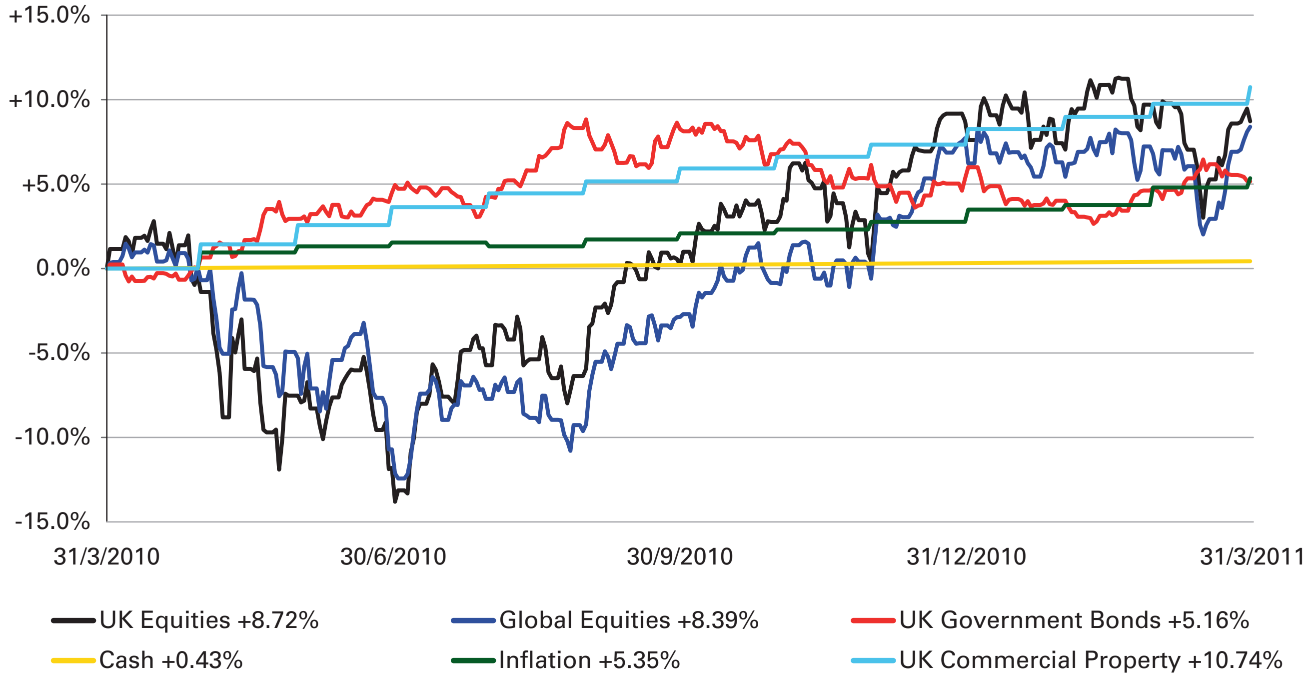
What does this mean for inflation and for markets? Many investors have been hopeful that oil prices would ease back soon from current uncomfortable levels, this is unlikely. Instead energy costs must be expected to remain high - and a key influence on costs, economic growth, and investor sentiment.

Michael Quicke

CCLA
for the Church of England

Market Review & Outlook

Markets at a Glance - 12 Months to 31 March 2011



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.

Market Review & Outlook

- Global equity markets overall edged higher over the first quarter, the FTSE All-World Index producing a return of +2.04% to a sterling based investor. The return over the past 12 months was +8.39%. Of the major regional FTSE indices Europe gave the best performance with a gain of +5.67%; buoyed by a strong rebounds in countries such as Greece (+15.72%) and Spain (+12.07%), previously depressed by fears of refinancing. The US market was in positive territory but both Japan, (-6.93%); and Asia, (-0.47%); slipped back; Japan pulled lower by the reaction to the disastrous earthquake, Asia by profit taking by investors concerned that a number of the regional economies were overheating. The UK market advanced by +1.03% having traded in a relatively narrow band over the period.
- The returns from fixed interest markets were mixed. Government bonds eased back slightly as investors absorbed a series of disappointing inflation statistics. In contrast, corporate bonds strengthened as risk tolerant investors sought income; longer dated and lower rated investment grade issues enjoyed the best support. The FTSE Government All-Stocks Index returned -0.79%, the iBoxx Non-Gilt Index returned +0.90%.
- Commercial property returns were positive but, with capital values only stable, these were derived from income. The contrast in the fortunes of good quality, income secure properties and secondary locations remained significant. London offices remained the strongest market segment but there was an improvement too in the valuations for large shopping centres.
- In currency markets sterling lost ground to a rebounding euro, with the exchange rate weakening (-2.94%) but rose against the dollar (+2.66%) and a weakened yen (+5.19%).
- Although the UK recovery struggled, elsewhere in the world the evidence was of activity levels continuing to build. This was reflected in commodity prices and in particular in oil, where the effects of rising demand were exacerbated by supply disruptions and concerns about the stability of major oil producing regions. Increasingly over the period the prospect of economic tightening came to the fore, led not by the developed economies but by those in the developing world where a number of countries increased interest rates. In Europe, the ECB, concerned by rapid growth in Germany and sticky inflation, hinted strongly at a rise in European borrowing costs (subsequently made) whilst in the US the Federal Reserve openly discussed ending the current quantitative easing programme in June.
- Tightening monetary policies, rising interest rates and sticky inflation is not a supportive environment for fixed interest markets and we remain cautious of this sector. We expect commercial property valuations to mark time for the immediate future but for progress later in the year and in 2012. In the meantime the income available from good quality assets remains attractive. Our overall expectation for equity markets is for higher levels over time but in the immediate future a period of consolidation should be expected as investors adjust to the new phase of the economic cycle.

Distributions for the Quarter to 28 February 2011

The CBF Church of England Fund	Distribution per Income Share	Payment Date	
Investment Fund	6.00p	31/03/11	• The pressure on investment income flows has continued, despite this we have been able to maintain the payment to investors. Over the past 12 months the payment has been increased by 3.00%.
Global Equity Income Fund	1.00p	28/04/11	• The income payment has been maintained at the rate paid at the equivalent period last year. Over the past year the payment has increased by 2.91%.
UK Equity Fund	0.70p	28/04/11	• The payment for this quarter is unchanged. Over the past 12 months the payment has been increased by 2.97%.
Property Fund	1.95p	28/04/11	• The income payment for the quarter is 2.64% above that for the same period last year. Over the past year the payment has increased by 2.63%.
Fixed Interest Securities Fund	2.20p	28/04/11	• The income distribution to investors has been maintained. Based on the price at the end of the quarter the income yield on the Fund is 5.75% and the gross redemption yield is 3.09%*.

*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.

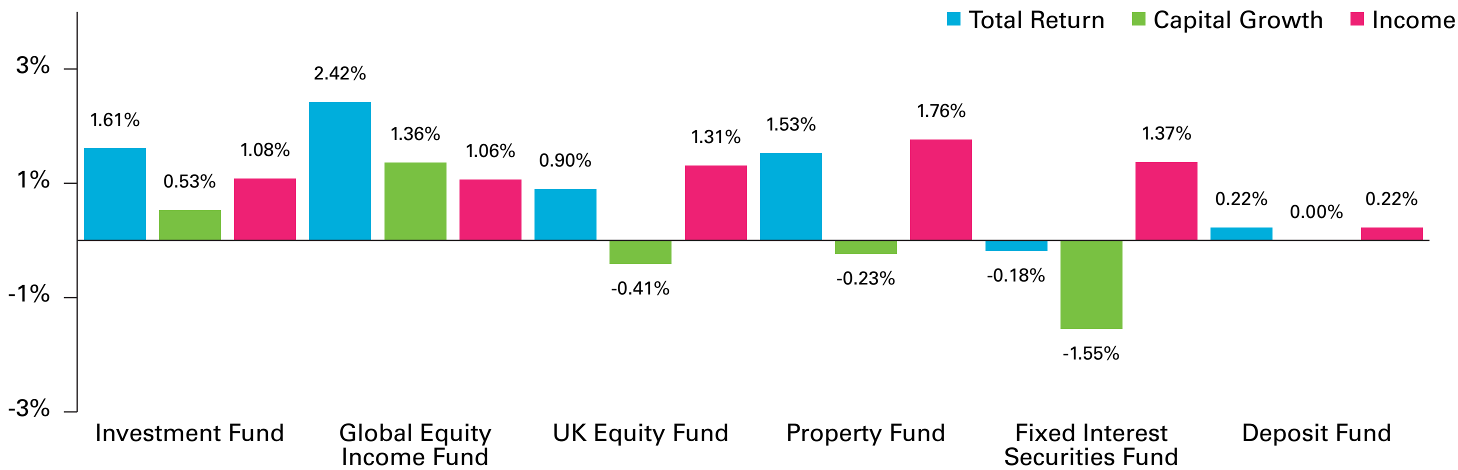
Interest for the Calendar Quarter to 31 March 2011

The CBF Church of England Deposit Fund

Average interest rate over the calendar quarter	0.67% (0.67% A.E.R.)**	• The interest rate payable on the Fund will ultimately reflect the rates available from top quality borrowers in the money market. Over the period it has been possible to increase the rate payable to investors.
Interest rate at the calendar quarter end	0.70% (0.70% A.E.R.)**	• 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.

Performance Comment



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

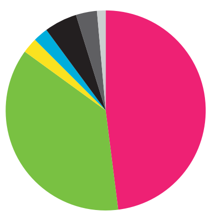
- Investment returns were positive over the quarter with most asset classes contributing to the increase in values. Over the past 12 months returns have been comfortably above inflation - our long term strategic target.
- Investment income flows have remained under pressure but despite trying conditions the distribution to investors has been maintained.
- Performance has been slightly above that of the comparator index. This was attributable mainly to the equity portfolios where the value based approach brought returns slightly better than those of the broad market.

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

	2011	2010	2009	2008	2007
Fund	+9.3%	+34.9%	-24.1%	-4.0%	+8.9%
Comparator	+8.7%	+41.2%	-23.2%	-5.6%	+8.7%

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

Asset Alloction as at 31 March 2011



- UK Equities 48.0%
- Oversea Equities 37.0%
- UK Fixed Interest 2.5%
- Overseas Fixed Interest 2.4%
- Property 5.3%
- Infrastructure 3.4%
- Cash 1.4%

Overseas Equities	%
Europe	14.1
USA	9.6
Japan	0.7
Pacific Ex Jap	6.8
Other	5.8
	37.0

The CBF Church of England Global Equity Income Fund

- International equity markets made modest progress over the quarter as confidence increased that the recovery in the world economy remained on course. Over the past 12 months returns have been strongly positive.
- Investment income has remained under pressure, however despite these challenges the distribution to investors has been maintained. The yield of 4.76% on the Fund compares with a yield of 2.96% on the FTSE All-Share Index and 2.31% on the FTSE All-World Index.
- In relative terms the Fund has performed more strongly than the comparator.

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

	2011	2010	2009	2008	2007
Fund	+12.0%	+40.4%	-25.1%	n/a	n/a
Comparator	+8.7%	+52.3%	-29.3%	n/a	n/a

Comparator – FTSE All-Share Index.

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 UK Equity Fund

- Returns on the Fund have been positive over both the recent quarter and the past year, comfortably beating inflation over the longer period.
- Dividend flows within the UK equity sector have remained challenging but we have been able to maintain the distribution to share holders.
- Returns are very similar to those of the benchmark over the three month period, but are stronger over the year.

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

	2011	2010	2009	2008	2007
Fund	+15.0%	+45.2%	-32.8%	-6.2%	+10.9%
Benchmark	+8.7%	+52.6%	-30.5%	-8.6%	+10.5%

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

The CBF Church of England Property Fund

- Although the pace of capital growth has slowed, the sector again produced positive returns over the quarter.
- Rental levels stabilised for good quality, income secure properties but weakened again in secondary markets. In this environment the Fund has maintained its income payment to investors.
- The Fund has produced an overall return similar to but slightly below that of the benchmark.

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

	2011	2010	2009	2008	2007
Fund	+8.1%	+16.3%	-21.6%	-9.7%	+18.3%
Benchmark	+9.0%	+10.9%	-29.8%	-11.3%	+17.3%

Benchmark – IPD Balanced Property Unit Trust Index

The CBF Church of England Fixed Interest Securities Fund

- Valuations in fixed interest markets have eased back over the quarter but over the past 12 months returns have exceeded inflation. Investors typically have sought higher income and as a result longer dated securities and slightly lower rated stocks have given the best returns.
- The income distribution to investors has been maintained, we expect that the payment for 2011 as a whole will be the same as that for 2010.
- Our cautious stance has meant that the Fund is slightly behind the benchmark over the past year but has outperformed over the recent quarter.

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

	2011	2010	2009	2008	2007
Fund	+4.9%	+5.9%	+5.9%	+6.2%	+1.0%
Benchmark	+5.3%	+4.6%	+7.2%	+5.9%	+0.5%

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

The CBF Church of England Deposit Fund

- Official interest rates have been unchanged over the period; they remained at the 0.5% rate in place since March 2009.
- The interest payable on the Fund was increased during the period. The managers were able to take advantage of higher rates on slightly longer deposits as the market began to discount higher bank rates in the months ahead.
- We expect interest rates to rise slightly this year but nevertheless to remain at low levels. Our priority will remain on capital security, putting safety ahead of any pick-up in short term income.

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

	2011	2010	2009	2008	2007
Fund	+0.8%	+1.0%	+5.0%	+6.1%	+5.0%
Benchmark	+0.5%	+0.4%	+3.6%	+5.8%	+4.9%

Benchmark – 7 Day LIBID.

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 with this Fund is to provide investors with real growth in capital values over time and an income flow which is protected from the erosive effects of inflation.
- We expect continued growth in the world economy and for this to lead to rising company profits and over time, higher share prices. Equities are currently the dominant segment of the portfolio. We expect overseas economies to grow more quickly than the UK and so will have a substantial exposure to international markets.
- An environment of rising interest rates and above target inflation is not supportive of fixed interest markets and so we are generally cautious towards this sector although will not exclude opportunities to buy high and secure yields.
- Our overall expectation is of higher values over time albeit with day to day volatility remaining at relatively high levels. Our policy will be one of active management within a strategy with a structural bias towards real assets.

The CBF Church of England Global Equity Income Fund

- This Fund seeks to provide clients with a high income from a portfolio of equities selected from a range of markets around the world.
- The focus on income will mean that the shape of the portfolio - in terms of individual companies and also sector weightings and country exposures - will differ substantially from those of the standard international indices.
- The list of companies held is actively managed to reflect our best view of the available opportunities. Recent changes have included additions to holdings in Europe and Asia and a reduction in the US portfolio. In order to dampen the effects of currency changes the Fund has in place currency hedges, the most substantial of these relate to the US dollar and the yen.

The CBF Church of England UK Equity Fund

- The objective with this Fund is to provide attractive long term returns, including a rising income from a portfolio of domestic equities. We seek companies with robust balance sheets and strong franchises which are out of favour with investors and thus offer good long term value.
- The portfolio currently has a positive weighting in sectors including industrial engineering, food manufacturing and utilities. There are relatively low weightings to mining, banks and oil and gas.

The CBF Church of England Property Fund

- The Fund provides exposure to the commercial property sector through a portfolio diversified across the regions of the UK and the segments of the market. The objective is to provide a high income, which grows over time, and capital growth.
- The portfolio is actively managed and seeks opportunities to add value from site and structural improvements and lease management. We seek undervalued assets but those with a good yield based upon a secure income stream. In current market conditions we are reviewing opportunities away from top prime locations as a means of building income flows. Cash weightings will be kept low.

The CBF Church of England Fixed Interest Securities Fund

- The objective of the Fund is to provide investors with a high and steady income from a portfolio of government bonds (gilts) and good quality corporate bonds.
- We are cautious of the fixed interest sector at the moment and so have adopted a relatively defensive stance within the portfolio, whilst retaining a strong weighting to corporate bonds which provide a higher level of income.
- We expect to maintain the income payment in the year ahead.

The CBF Church of England Deposit Fund

- Our prime objective with this Fund is to provide a secure home for cash deposits, one with an attractive interest rate and easy access. The focus on security means that we only ever lend to a list of high quality institutions, we avoid the temptation to take slightly higher interest rates in exchange for risk to both income flows and capital deposits.
- We expect interest rates to increase in the year ahead but also to remain low by historical standards and below the level of inflation.

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. Responsibilities under the UK Stewardship Code and the UN Principles for Responsible Investment.

Quarterly highlights

- In the month when leading investment consultants Mercer launched their seminal report about the implications of climate change risks for strategic asset allocation, we went to Brussels with a small group of investors for breakfast with the President of the European Commission and other key Commissioners, followed by a low carbon transition event in the European Parliament.
- Our main work with both the EIAG and the ecumenical Church Investors Group (CIG) this quarter related to BP (see overleaf for more details).

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 like-minded investors.
- Notable AGMs this quarter included Aberdeen Asset Management where we voted against four directors due to inadequate independent oversight.
- The Securities & Exchange Commission announced final rules on "Say on Pay" for US listed companies.
- CCLA's quarterly record for the 362 resolutions voted across all markets was 13.5% 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 high interest rate lending, pornography and alcohol). This process is supported by the CBF Funds Trustee, and clients are invited to send comments to the Secretary (edward.mason@churchofengland.org)
- 5.3% of the FTSE All-World Developed Index by market capitalisation was restricted from investment this quarter.

BP Gulf of Mexico Engagement Update Recent Highlights:

1. The £12bn ecumenical Church Investors Group (CIG) received considerable media coverage in the run-up to BP's AGM based on its public agreement to vote against the chair of the board's safety committee and the remuneration report. Highlights can be found at www.churchinvestorsgroup.org.uk
2. In total 43% of shareholder votes were not cast in support of Sir William Castell (board safety committee chair), and 26% failed to support the remuneration report.
3. In addition, the Church of England national investing bodies (including the CBF Funds) joined 15% of investors in abstaining or voting against the report and accounts. We abstained because of ongoing concern about disclosure.

Board Level Engagement in 2010

- Both the EIAG and the CIG met with Iain Conn, who is an executive member of the BP board, last autumn.
- Engagement focussed on operational risk and safety, board oversight and the low carbon transition.
- CIG members also expressed concern that members of the US Interfaith Center on Corporate Responsibility (ICCR) had not had access to BP since the New York investor relations office had closed three years ago.
- CCLA co-ordinated the writing of a letter from concerned church and other investors from both Europe and the US, which was sent to the BP Chairman in December.

No Shareholder Resolution in 2011

- In January UK and US church investors agreed to work together this year. Uniquely the process is focusing on UK-style collaborative engagement at the moment, but will revert to a US-style shareholder resolution for BP's 2012 AGM if that fails.
- By combining tried and tested local stewardship approaches, a group of responsible investors is giving BP the chance to reassure them that the company is systematically addressing operational and strategic risks by the anniversary of Bob Dudley becoming BP's Chief Executive in October.
- This agreement, that was brokered by CCLA, acting as secretariat for the CIG, and Christian Brothers Investment Services (CBIS), a prominent member of ICCR, meant that BP did not face a CBIS-led shareholder resolution at its 2011 AGM.

What next?

- BP has organised investor meetings with Mark Bly, the company's new Executive Vice President of Safety & Operational Risk in both London and New York in May.
- The next CIG and ICCR joint statement will be produced in July and will be available on the CIG website.
- After the summer we will assess whether a 2012 shareholder resolution is needed.

for the Church of England

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