

QUARTERLY BULLETIN

30 June 2008

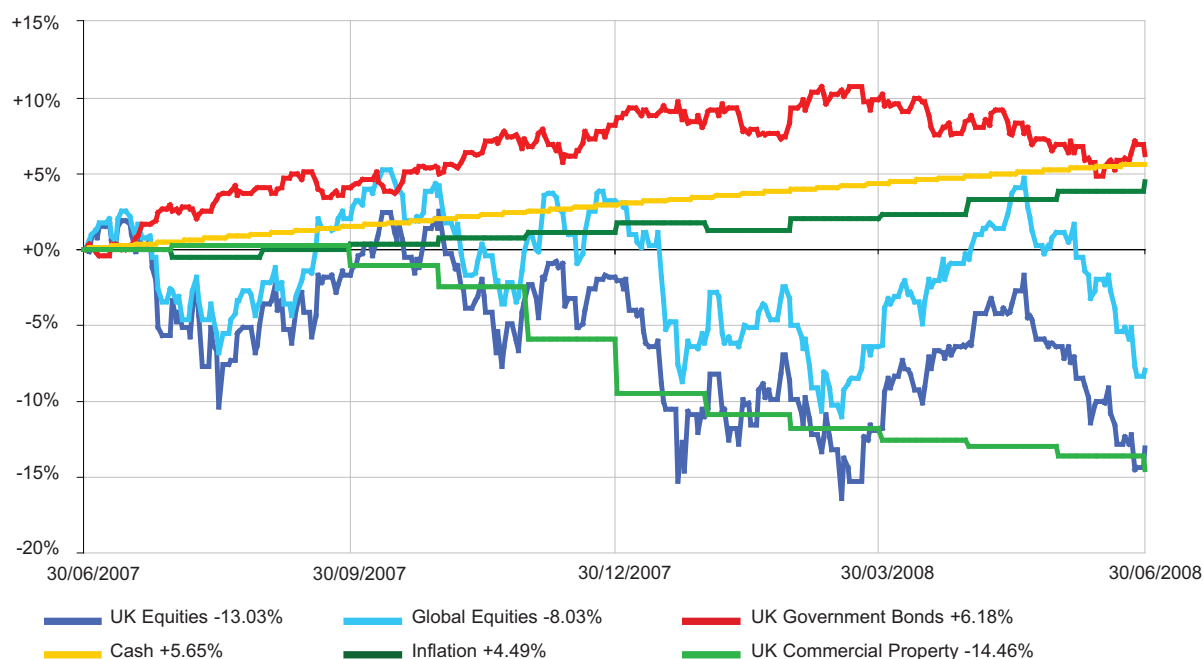


for the Church of England

Market Review and Outlook

Markets at a Glance - 12 Months to 30 June 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 quarter began with the investors focussing still on the credit crisis and its implications. Further announcements of losses in the financial industry were followed by fund raising by the banks to strengthen balance sheets battered by write-offs. In the UK, Royal Bank of Scotland raised £12 billion, the largest equity fund raising in European history. HBOS, Bradford and Bingley and Barclays also sought fresh capital but the list was not confined to the UK, with banks and insurance companies in the United States and Europe seeking additional funds.
- The problems were not limited just to companies, they increasingly affected consumers too. This in particular related to the availability and cost of credit as financial companies, no longer themselves able to achieve easy access to low cost funds, restricted customer access to loans and increased the costs of those that were on offer.
- Investment markets saw these developments as signs that the crisis was coming to its peak and took heart that, although certainly damaging to economic activity, it did not present a threat to the financial system as a whole. As a result, equities rallied and bonds, previously buoyed by safe haven buying from those anxious to find refuge from the volatility and weakness in equity markets, eased back in price.
- Midway through the quarter there was a significant change in sentiment as attention shifted away from credit concerns and instead focused on mounting inflationary pressures. The twin principal drivers were higher fuel and food prices which, in an environment where increased mortgage costs were already reducing disposable income, threatened to have a broad impact on consumer spending power. A robust response from the Central Banks, promising to act against the inflationary threat, caused expectations for interest rates to change. Where previously lower borrowing costs had been expected, to support slowing economic expansion, instead rates were thought at risk of rising to combat the pressure on prices.
- With economic growth restrained but prices driven higher by more buoyant demand elsewhere in the world economy, concerns rose that there was a risk of stagflationary conditions, in the UK and elsewhere in the world economy. As a result, in May, investment indices gave up the ground gained in the rally.
- In the fixed interest markets we have a defensive strategy in place against the impact of inflation on valuations.
- In the property sector our bias is to good quality investments with income growth potential.
- In equities we will maintain a high exposure to international markets and seek companies with attractive current dividend yields with the potential to grow them in the future.
- We are increasing the exposure to investments such as infrastructure which have strong long term growth characteristics and which are less exposed to the short term effects of investor sentiment.

Distributions for the Quarter to 31 May 2008

The CBF Church of England Fund	Distribution per Income Share	Payment Date	
Investment Fund	13.00p	30/06/08	<ul style="list-style-type: none"> We have continued to emphasise increasing the income on the Fund within an overall strategy which supports long term capital growth. The dividend for the quarter is 8.3% higher than paid for the comparable period last year. The cumulative payment over the past 12 months, at 42p, is 12% higher than at the equivalent stage in 2007.
Global Equity Income Fund	2.00p	31/07/08	<ul style="list-style-type: none"> The Fund was launched in December 2007 with a forecast yield on the 150p launch price of 4%. This is the second quarterly payment to shareholders.
Fixed Interest Securities Fund	2.20p	31/07/08	<ul style="list-style-type: none"> The distribution to investors has been maintained at the level paid during 2007 and previously in 2008. An Income Share price of 148.55p and a projected annual distribution of 8.8p the Fund has an income yield of 5.92%. The gross redemption yield is 5.22%*. We expect to maintain the quarterly payment at this level during 2008.
Property Fund	1.95p	31/07/08	<ul style="list-style-type: none"> The dividend paid is 11.4% higher than the payment to shareholders at the equivalent stage in 2007. We expect that there will be further increases in the income paid to investors over the remainder of 2008, driven by investment strategy and the change to take charges from capital rather than income.
UK Equity Fund	1.37p	31/07/08	<ul style="list-style-type: none"> The increased payment to investors reflects the greater emphasis on income in the Fund's investment strategy. The payment reported here represents an increase of 14.2% on the equivalent payment in 2007. The Fund is on track to make further increases in distributions over the remainder of 2008.

*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.

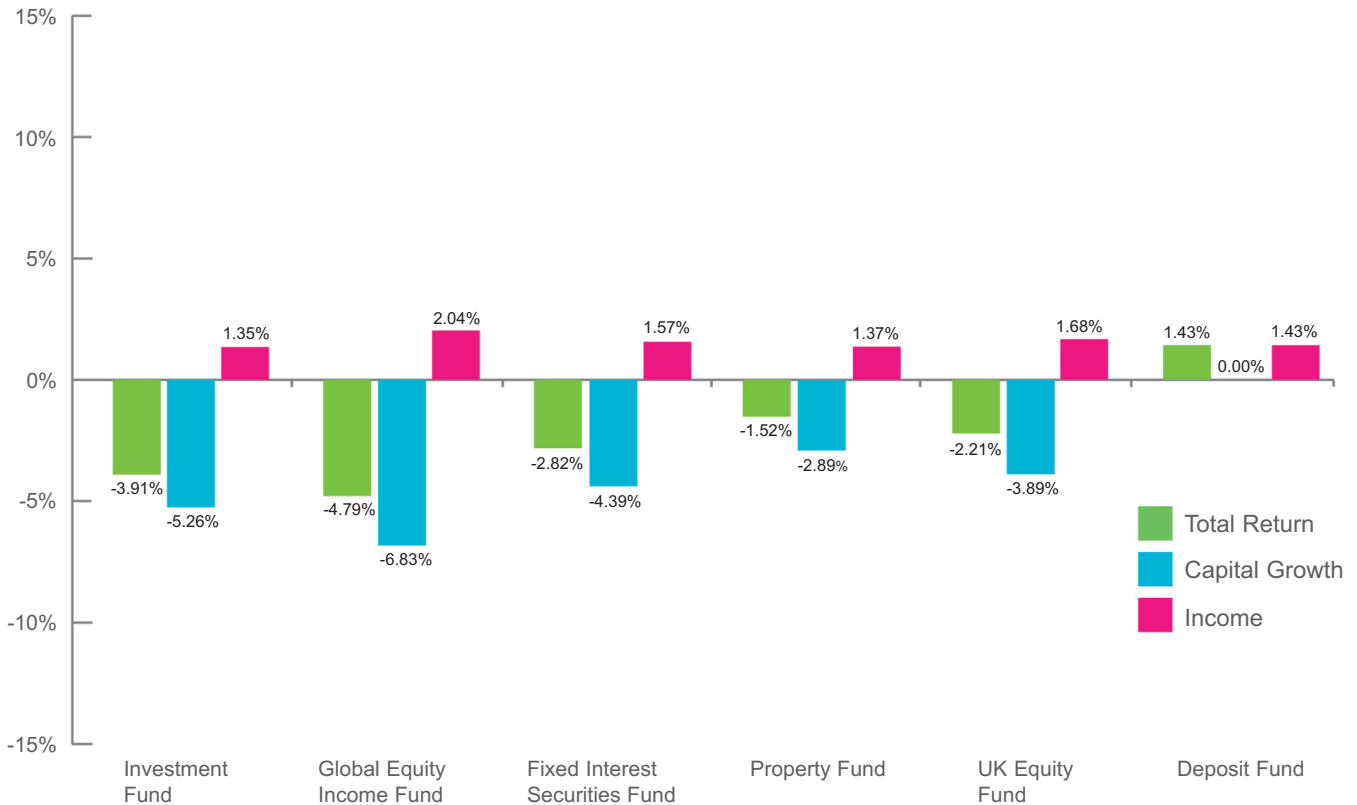
Interest for the Calendar Quarter to 30 June 2008

The CBF Church of England Deposit Fund

Average interest rate over the calendar quarter (5.54% A.E.R.)**	5.43%	<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 maintain official interest rates at current levels in the near term.
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 driven money markets rates to unusually high levels, which is benefiting the Fund and its depositors. Over the period the Fund changed to rating agency Fitch Ratings. The rating achieved, AAA/V1 reflects the high credit quality of the portfolio and its low volatility characteristics.

**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

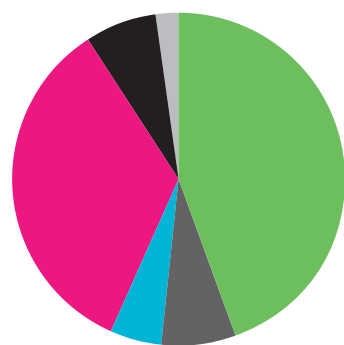
- The income payment to investors has been increased to 13p, a rise of 8.3% on the equivalent period in 2007, well above the rate of inflation.
- In a difficult investment environment the Fund has fallen in value. Comparisons with the WM Universe show relative weakness, reflecting the strategic bias to long term assets.
- Equity returns were generally weak, there were however positive relative contributions from cash, infrastructure and property.

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

	2008	2007	2006	2005	2004
Fund	-11.1%	+15.3%	+17.1%	+16.8%	+12.2%
Benchmark	-8.1%	+15.1%	+16.0%	+16.6%	+13.0%

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

Asset Allocation as at 30 June 2008



Overseas Equities %

Europe	10.8
USA	11.7
Japan	3.6
Pacific Ex Jap	6.9
Other	1.0
	<u>34.0</u>

UK Equities 44.7%	Overseas Equities 34.0%
Fixed Interest 7.1%	Property 7.1%
Infrastructure 5.1%	Cash 2.0%

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

Performance Comment (cont)

The CBF Church of England Global Equity Income Fund

- The Fund is on track to at least meet the yield target of 4% on the offer price of 150p.
- The background of weak investment markets means that the Fund has fallen in value over the period.
- The 'value' bias to stock selection, favouring stocks of good quality but which are currently out of favour with investors, has meant that the share price has fallen more than a representative group of stock market indices.

The CBF Church of England Fixed Interest Securities Fund

- Fixed income markets enjoyed support from investors seeking safe havens from the increased volatility of equity markets.
- The Fund produced returns better than the benchmark reflecting the defensive position in government securities and the contribution from higher income corporate bonds.
- Income for the period has been maintained at 2.2p.

The CBF Church of England Property Fund

- Commercial property prices have continued to ease back, trading volumes in the sector have been low.
- Against a dull background the Fund outperformed its benchmark.
- Income payments for the quarter increased to 1.95p per share, an increase of 11.4% over the period.

The CBF Church of England UK Equity Fund

- The income payment to investors for the quarter shows an increase of 14.2% on the equivalent period of 2007.
- Overall returns have been negative reflecting weakness in the equity markets, the Fund performed better than the benchmark.

The CBF Church of England Deposit Fund

- Although official interest rates have declined over the period, the effects of the credit crisis have meant that market rates have actually moved higher.
- The Fund maintained a strong focus on quality and outperformed its benchmark.
- At the end of the period the rate paid to investors was 5.50% (5.61% AER*). This compares with 5.35% (5.46% AER*) at the end of March.

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

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

	2008	2007	2006	2005	2004
Fund	+5.3%	-0.2%	+1.8%	+10.9%	+0.7%
Benchmark	+3.1%	+0.3%	+1.6%	+10.9%	+0.3%

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

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

	2008	2007	2006	2005	2004
Fund	-13.0%	+14.8%	+21.9%	+15.0%	+15.7%
Benchmark	-15.5%	+13.8%	+23.3%	+16.3%	+14.3%

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

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

	2008	2007	2006	2005	2004
Fund	-12.2%	+17.1%	+19.0%	n/a	n/a
Benchmark	-13.5%	+17.6%	+19.7%	n/a	n/a

Benchmark - FTSE All-Share Index Adjusted for Ethical Restrictions

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

	2008	2007	2006	2005	2004
Fund	+6.1%	+5.3%	+4.7%	+4.9%	+3.9%
Benchmark	+5.7%	+5.2%	+4.6%	+4.8%	+3.8%

Benchmark - 7 Day LIBID

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

Source: CCLA. 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 has maintained a high exposure to assets such as equities and property which we expect will provide the strongest long term returns.
- The weighting to international equities has been substantially increased to give greater exposure to faster growing economies overseas and to reduce the risks associated with a high weighting to a single geographical area.
- Infrastructure investments have been increased and now represent 5.1% of the total assets.
- The emphasis within the equity portfolio is on companies with a high dividend yield and the capacity to increase the income payment in future years.
- In the fixed interest sector the focus is on quality with a bias towards shorter dated securities which are less exposed to the negative effects of inflation.
- An important part of our strategy is to provide investors with a high and growing income and we expect to generate further increases in payments in the months ahead.

The CBF Church of England Global Equity Income Fund

- The Fund is very diversified at country, sector and stock levels to give a broadly based portfolio with over 140 different securities.
- The strategy of the Fund is to invest in good quality companies that provide a high current yield and the ability to grow the income to investors in the future.
- Stock selection is at the heart of the investment process and it is stock selection, together with the application of prudent risk controls, which mainly determine the weightings to sectors and the exposure to countries.
- The Fund has a target to produce a yield of 4% based on the price at launch and is comfortably on track to meet it.

The CBF Church of England Fixed Interest Securities Fund

- Fixed income markets face a difficult economic background with overall growth rates slowing but with inflationary pressures threatening to increase.
- Our strategy has been to remain underweight towards bonds with long maturities as it is these which are most at risk from growing inflation.
- We have added to the weighting to bonds issued by companies (corporate bonds) because they had fallen back to levels where yields were attractive.
- With growing inflationary pressures the outlook for interest rates is that they are unlikely to decline from current levels in the near term, despite the moderating trend in economic activity.

The CBF Church of England Property Fund

- The commercial property sector has experienced another period of falling values. The level of transactions is low as buyers prefer to stand back in uncertain conditions and sellers are reluctant to accept lower prices.
- Our strategy in this environment is to favour properties where there are opportunities to add value by positive management – such as by refurbishment, lease restructuring etc.
- A priority is to increase the income flow to investors.

The CBF Church of England UK Equity Fund

- The strategy is to invest in companies which provide investors with a good initial income and with the capacity to increase income in the future.
- This will often mean that the Fund is investing in companies and sectors which are temporarily out of favour with investors.
- After a period of poor returns, share prices have fallen to levels which offer attractive prospects for long term investors.

The CBF Church of England Deposit Fund

- Our strategy for the Fund has been to maintain exposure to a diversified list of top quality borrowers.
- The Fund is rated AAA/VI by Fitch Ratings, a leading independent ratings company.
- The bulk of the investments are for very short periods but the current environment of liquidity shortages in the financial sector has provided opportunities to lend for slightly longer periods at very attractive rates.
- The threat of inflation has changed the outlook for interest rates; despite a falling rate of economic growth, reduced borrowing costs in the near term are not expected.

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

- Farming. We visited a Tesco Local Choice dairy farmer to learn about local sourcing from the perspective of being dedicated Tesco supplier, as well as the continuing challenges faced by the milk industry.
- Palm Oil. CCLA hosted a palm oil event that allowed investors to discuss the Roundtable on Sustainable Palm Oil (RSPO), NGO views on how palm oil demand is impacting the rainforests, as well as corporate approaches to sustainable palm oil sourcing.
- Microfinance. We spoke to Standard Chartered about its commitment to reach 4 million customers in the provision of microfinance to SMEs and individuals in the developing world.
- Health & Safety in mining. We met with Anglo American, Xstrata, Lonmin and South African company Kumba Iron Ore to discuss the systems in place for managing fatality and injury risks in the South African industry. During these discussions we were also able to cover worker housing, HIV/AIDS and migrant labour issues in South Africa

2. Corporate Governance

- This is the busiest quarter in the proxy voting calendar.
- Proxy voting statistics can be found at www.ccla.co.uk.
- During the quarter the manager engaged with 31 companies on corporate governance issues.
- CCLA voted to support the shareholder resolution at Tesco's AGM on poultry welfare as we viewed it to be non-detrimental to shareholders and asked no more of Tesco than to adhere to its own reported standards. 20% of shareholders either supported or abstained the resolution.

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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