



for the Church of England

# **The CBF Church of England Fixed Interest Securities Fund**

**Report and Accounts  
Half Year ended 31 May 2011  
(unaudited)**

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### **Trustee and Manager**

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### **Description of The CBF Church of England Funds**

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### **Disability Discrimination Act 1995**

Extracts from the Report and Accounts  
are available in large print and audio formats.

# Report of the Trustee for the half year ended 31 May 2011

On behalf of the Trustee, I have pleasure in presenting the Annual Report and Accounts of The CBF Church of England Fixed Interest Securities Fund (the Fund), which includes a separate report from CCLA Investment Management Limited (the Manager) as Manager of the Fund.

## Structure and management

The Fund is a common fund established by the Church Funds Investment Measure 1958 (as amended from time to time), and the Trustee Act 2000 (together the Measure).

CBF Funds Trustee Limited (CBFFT), a company incorporated under the Companies Act, limited by guarantee and not having a share capital, is the Trustee and Operator of the Fund. CBFFT has an Audit Committee which meets twice each year to review the financial statements and monitor the control environment in which the Fund operates.

CBFFT has delegated to the Manager, which is authorised and regulated by the Financial Services Authority (FSA), the investment management, administration, registrar, secretarial and company secretarial functions of the Fund under Management Agreements dated September 2008.

Under the provisions of the Financial Services and Markets Act 2000 (FSMA), CBFFT is not considered to be operating the Fund by way of business. In consequence, it is not required to be authorised and regulated by the FSA and the trustee directors of CBFFT are not required to be authorised by the FSA for this purpose.

Investments in the Fund are not covered by the Financial Services Compensation Scheme. The Manager will pay fair compensation on eligible

claims arising from its negligence or error in the management and administration of the Fund.

## Charitable status of the Fund

The Fund is entitled to charitable status by virtue of section 24(9) of the Charities Act 1993. In the administration of the Fund, CBFFT is exempt from the jurisdiction of the Charity Commission by virtue of section 5(1) of the Church Funds Investment Measure 1958.

## Investment objective of the Fund

The Fund aims to provide a relatively high income yield compared to equity investment and a total return in excess of its benchmark. The returns from fixed interest securities by their nature are not protected from the effects of inflation.

## Benchmark

The Fund's Benchmark is a weighted average of the Barclays Capital UK Government (Gilt) Index (80%) and the Barclays Capital Sterling Aggregate 100mm Non Gilt Index (20%) or equivalents.

## Responsibilities of the Trustee

CBFFT receives a report on the published accounts from the Manager twice a year and is wholly responsible for the Fund. CBFFT monitors the investment, property and cash management, administration, registration, secretarial and company secretarial services provided by the Manager under the respective Management Agreements. It meets quarterly with the Manager to monitor investment strategy, interest rate policy, investment diversification and risk and to review the Fund's performance. In addition, CBFFT reviews the Annual Report and Accounts of the Fund prepared on its behalf by the Manager.

# Report of the Trustee for the half year ended 31 May 2011

CBFFT is responsible for appointing an Audit Committee, the Auditor and the Safe Custody Agent. It reviews annually the objectives of the Fund in the light of current circumstances.

## RBS monitoring service

CBFFT has appointed The Royal Bank of Scotland plc to monitor the Manager in respect of its activities related to the management and administration of the Fund and to provide formal six-monthly reviews of its findings to the Audit Committee. The Royal Bank of Scotland plc has not raised any material issues.

## Delegation of functions

Following its regular meetings and consideration of the reports and papers it has received, CBFFT is satisfied that the Manager, to whom it has delegated the administration and management of the Fund, has complied with the terms of the Measure and with the relevant Management Agreements.

## Ethical Investment

CBFFT complies with the Ethical Investment Policy of the Church of England and therefore the Fund will not hold corporate bonds in any company otherwise excluded by The CBF Church of England Investment Fund.

## Controls and risk management

CBFFT receives and considers regular reports from the Manager. Ad hoc reports and information are supplied as required.

The Manager has established an internal control framework to provide reasonable, but not absolute, assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the directors and senior management of the Manager on a continuing basis.

CBFFT receives internal audit reports on the controls of the Manager. During the year CBFFT, assisted by the Manager, reviewed the Fund's systems of internal control. At each of its meetings, the Audit Committee receives and reviews, a formal risk management report from the Manager. This sets out the main risks facing the Fund, the controls in place to mitigate those risks and the assessment of each risk in terms of both gross exposure and residual exposure after application of mitigating controls.

R Broadhurst  
Chairman  
CBF Funds Trustee Limited  
12 July 2011

# Report of the Investment Manager for the half year ended 31 May 2011

## Strategy

The Fund holds a broad range of sterling denominated securities issued by companies reflecting different sectors of the global economy, as well as a number of UK gilt-edged securities. There is currently a bias towards higher rated corporate bonds and the overweight allocation of corporate bonds relative to the Fund's benchmark has been maintained. At the end of the reporting period the Fund's asset allocation weightings were gilt-edged securities/cash 67.4%, corporate bonds 32.0% and preference shares 0.6%.

The present emphasis of our strategy is to protect the capital value of the Fund by keeping the average maturity of the portfolio assets significantly shorter than the benchmark. This is on the expectation that yields will eventually demand to be compensated because of the high relative level of inflation and a growing

economy. The Fund's average term to maturity was 10.0 years, compared to the benchmark index of 13.6 years.

## Performance

The Fund's composite benchmark, Barclays Capital UK Government (Gilt) Index (80%) and the Barclays Capital Sterling Aggregate 100mm Bond Index (20%), rose 2.60% during the reporting period, the portfolio underperformed the benchmark returning 2.20%. The Fund's underperformance was principally attributable to the strong performance of longer dated bonds, which rose in response to the major financial and political turmoil within the European Monetary Union. The UK is not in the European Monetary Union and its recently affirmed AAA credit rating means that UK government debt is presently seen as safe. The overweight position in corporate bonds was moderately positive to performance over the period.

### The CBF Church of England Fixed Interest Securities Fund Annualised total capital and income return

To 30 November 2010	Six Months %	1 year %	5 years % p.a.	10 years % p.a.
<u>Performance against benchmark and market indices (before expenses)</u>				
<b>CBF Fixed Interest Securities Fund</b>	+2.20	+5.29	+5.36	+5.83
Composite Benchmark	+2.60	+5.88	+5.48	+5.78
BarCap £ Gilt Index	+2.22	+5.49	+5.68	+5.73
BarCap £ Agg 100mm Non Gilt Index	+4.13	+7.40	+4.58	+5.88
<u>Performance after expenses</u>				
<b>Income shares*</b>	+2.07	+5.02	+5.11	+5.64
<b>Accumulation shares*</b>	+2.07	+5.01	+5.06	+5.59

\* Net asset value to net asset value plus income reinvested

Source : The Manager

# Report of the Investment Manager for the half year ended 31 May 2011

The CBF Fixed Interest Securities Fund accumulation share price rose from 376.68p to 384.47p, or by 2.07%. The value of an income share fell from 156.09p to 154.86p at 31 May 2011, a capital return of -0.79%.

The distribution rate for the six months to 31 May 2011 was 4.40p per income share. It is our expectation that the annual distribution rate for 2011 will remain unchanged at 8.80p per income share. The income yield at 31 May 2011 was 5.68%. The corresponding gross redemption yield, which is an estimate of the future total return of the Fund over the long-term, after management expenses, was 2.73%. The Fund's income and gross redemption yields are not guaranteed and will change over time due to changes in interest rates and the average maturity date of the securities held by the Fund. When the Fund's income yield is higher than the gross redemption yield, some income is being paid at the expense of capital.

## Market Review

The amount of gilts held by UK financial institutions (banks and building societies) has more than trebled in the last two years, with financial regulators having pushed for dramatically higher liquidity ratios, so requiring these institutions to hold more gilts. This is reflected by the strong demand for gilts from UK financial institutions in the three months to April, net gilt issuance of £39.8bn saw UK financial institutions purchase £36.1bn – an absorption rate of over 90%. The fifty year gilt yield hit a high of 4.5% in February but had fallen 50 basis points at the end of the reporting period, as at 31 May it yielded 4.0%. Domestically there have been two major factors driving the direction of gilt yields over the reporting period. Firstly the headline rate of inflation (CPI) has continued to be persistently

high relative to the Bank of England's MPC's target. In fact the headline figure has actually not gone below 3% since December 2009 and it has been above target for 33 of the past 39 months. Neither the Bank of England nor any City commentator now expects CPI to fall before the end of this year. The other factor has been the fact the economy is struggling to recover from the severe recession. The MPC has been divided on how monetary policy should be set in the present environment, the committee has been split three ways. Some members voting for an immediate rise in rates, one favouring more quantitative easing, but the majority of the committee members have signalled they are prepared to accommodate higher prices as the economy adjusts from recession to recovery.

In the current economic situation yields on fixed interest securities have not moved in a clear direction but have been driven by investor reaction to economic and political developments. The UK and global economic recovery deteriorated markedly in recent weeks which has pushed the gilt 10 year yield to its lowest point in six months. The weaker global growth prospects led to renewed concerns that Greece may default on its outstanding debt, especially if Eurozone members cannot agree on a new commitment to provide additional aid. This uncertainty caused investors to seek assets deemed isolated from the Eurozone. Gilts which just twelve months ago had been singled out as the most vulnerable of any top-rated country, were again one of the most sort after assets. Notably, gilts outperformed German government bonds; the yield difference at the ten-year maturity is now just 0.25%, the smallest gap since 2009.

# Report of the Investment Manager for the half year ended 31 May 2011

Following the recession many companies reduced their debts and overall costs leaving them with in a good financial position. This readjustment has been positive for corporate bonds, the spread between gilts and investment grade debt has narrowed from 189 to 170 basis points, as measured by Barclays Capital indices.

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insufficient yield to compensate for the uncertainties that lie ahead. The present level of spreads leaves us supporting high quality corporate bonds.

C Peters  
Fund Manager  
CCLA Investment Management Limited  
12 July 2011

## Outlook

Yields obtainable across the whole spectrum of the gilt yield curve are very low by any historical standard. We would suggest that further quantitative easing would be the catalyst to justify a sustained move lower. The MPC Committee have made it clear that a sustained economic recovery is required before any monetary tightening will be sanctioned. But market commentators and analytical comments, in our view, are now too pessimistic. The underlying growth trend we expect will be expansionary in coming quarters, equivalent to an annual rate between 1.5-2.5%, while not above trend it is significant given the scale of adjustment taking place in bank and private sector balance sheets. Accordingly we see a good chance that the forthcoming GDP figures surprise on the upside and consequently gilt yields will readjust to reflect this. Our positioning towards the short end therefore reflects our view that monetary tightening will be held off, with relatively weak economic conditions and inflation beginning to fall back, whilst the gilt curve prices tightening. However we also anticipate that longer dated gilts offer

# Report of the Investment Manager

## for the half year ended 31 May 2011

### Top ten changes in portfolio composition

	Cost £'000		Proceeds £'000
<b>Purchases:</b>		<b>Sales:</b>	
Treasury 8.75% Stock 2017	1,729	Conversion 9% Stock 2011	3,802
Treasury 6% Stock 2028	1,057	Treasury 6% Stock 2028	2,466
Treasury 8% Stock 2021	968	Treasury 8.75% Stock 2017	2,136
Treasury 8% Stock 2015	811	Treasury 8% Stock 2013	2,136
Treasury 4.75% Stock 2038	590	Treasury 8% Stock 2021	939
		Treasury 4.75% Stock 2038	811

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#### Risk warning

The Fund's shares and the revenue from them can fall as well as rise and an investor may not get back the amount originally invested. Past performance is no guarantee of future returns.

The Fund's shares are intended only for long-term investment and are not suitable for money liable to be spent in the near future. They are realisable only on each weekly dealing day.

The Fund's income yield is an indication of the expected level of income. The corresponding gross redemption yield is an estimate of total return over the long term. The Fund's income yield and gross redemption yield are not guaranteed and will change over time. When the Fund's income yield is higher than the gross redemption yield, some revenue is being paid at the expense of capital.

# Net asset value, share price range, net distribution, share price and expense ratio

## Net asset value

At 30 November	Net asset value £'000	<i>Income shares</i>		<i>Accumulation shares</i>	
		Net asset value pence per shares	Number of shares in issue	Net asset value pence per share	Number of shares in issue
2008	72,913	153.97	46,433,601	332.39	433,386
2009	85,878	158.62	53,099,591	362.05	456,676
2010	85,878	156.09	50,710,682	376.68	630,126
At 31 May 2011	73,659	154.86	46,042,616	384.47	621,427

The net asset value is calculated on the mid-market value basis compared to the balance sheet where the assets are valued on a bid-market value basis in accordance with the Statement of Recommended Practice for Authorised Funds which was issued by the Investment Management Association (IMA).

## Share price range

Year to 30 November	<i>Income shares</i>		<i>Accumulation shares</i>	
	Highest offer pence per share	Lowest bid pence per share	Highest offer pence per share	Lowest bid pence per share
2006	168.05	158.59	309.86	296.67
2007	161.08	148.76	317.68	295.17
2008	158.09	147.08	333.05	308.71
2009	161.50	150.57	362.77	325.02
2010	163.22	152.67	384.76	350.49
To 31 May 2011	157.45	152.08	385.43	367.55

## Net distribution

<i>Year to 30 November</i>	<i>Income shares pence per share</i>	<i>Accumulation shares pence per share</i>
2006	8.80	16.81
2007	8.80	17.72
2008	8.80	18.58
2009	8.80	19.36
2010	8.80	20.22
To 31 May 2011	4.40	10.35

# Net asset value, share price range, net distribution, share price and expense ratio

## Share price at 31 May 2011

	<i>Bid price pence per share</i>	<i>Offer price pence per share</i>
Income shares	154.55	155.17
Accumulation shares	383.70	385.24

The share prices are published in the Financial Times, and on the Manager's website at [www.ccla.co.uk](http://www.ccla.co.uk).

The bid and offer prices are calculated on the net asset value minus or plus a 0.20% deduction or surcharge.

## Total expense ratio

	<i>31.5.2011</i>	<i>31.5.2010</i>
Total expense ratio (annualised)	0.26%	0.30%

The total expense ratio is the ratio of the Fund's total operating costs to its average net assets calculated over the period.

# Portfolio statement

## at 31 May 2011 (unaudited)

	Holding	Bid Value £'000	% Fund
<b>Government Bonds 63.07% (30.11.10, 67.22%)</b>			
Conversion 9% Stock 2011	-	-	-
Treasury 8% Stock 2013	9,800,000	11,375	15.44
Treasury 8% Stock 2015	5,300,000	6,673	9.06
Treasury 8.75% Stock 2017	2,190,000	2,987	4.05
Treasury 8% Stock 2021	5,175,000	7,245	9.83
Treasury 6% Stock 2028	10,400,000	13,096	17.77
Treasury 4.75% Stock 2038	3,640,000	4,031	5.47
Treasury 4.5% Stock 2042	1,000,000	1,071	1.45
<b>Debenture Stocks 1.93% (30.11.10, 1.77%)</b>			
Monks Investment Trust 11% Debenture Stock 2012	250,000	270	0.37
British Sugar 10.75% Debenture Stock 2013	500,000	558	0.76
BAA Lynton 10.25% Debenture Stock 2017	500,000	594	0.81
<b>Credit 29.99% (30.11.10, 27.14%)</b>			
Marks and Spencer 6.375% M&S Bond 2011	800,000	814	1.10
Network Rail 4.875% Bond 2012	1,350,000	1,391	1.89
ICO 4.625% Bond 2012	1,080,000	1,098	1.49
Wal-Mart 4.75% Bond 2013	645,000	680	0.92
Royal Bank of Scotland 10.5% Bond 2013	1,000,000	1,103	1.50
Blue Circle 10.75% Bond 2013	830,000	983	1.33
E.ON 5.125% Bond 2014	150,000	161	0.22
Scottish and Southern Energy 5.75% Bond 2014	650,000	704	0.96
IFFIM 3.375% Bond 2014	500,000	523	0.71
Lloyds TSB 6.625% Bond 2015	730,000	756	1.03
Natwest 7.875% Bond 2015	580,000	626	0.85
Aviva 9.5% Bond 2016	745,000	930	1.26
Centrica 5.5% Bond 2016	750,000	819	1.11
EIB 8.75% Bond 2017	1,300,000	1,709	2.32
Telefonica 5.375% Bond 2018	1,350,000	1,408	1.91
Bank of Scotland 10.50% Bond 2018	350,000	417	0.57
McDonald's 6.375% Bond 2020	900,000	1,050	1.43
British telecom 8.625% Bond 2020	1,045,000	1,308	1.77
Atlanta 6.25% Bond 2022	1,150,000	1,244	1.69
Network Rail 4.75% Bond 2024	530,000	566	0.77

# Portfolio statement

## at 31 May 2011 (unaudited)

	Holding	Bid Value £'000	% Fund
Statoilhydro 6.875% Bond 2031	600,000	741	1.01
GlaxoSmithKline 5.25% Bond 2033	1,060,000	1,084	1.47
Pfizer 6.5% Bond 2038	650,000	769	1.04
E.ON 6.75% Bond 2039	1,000,000	1,212	1.64
<b>Preference Shares 0.64% (30.11.10, 0.58%)</b>			
General Accident 7.875% Preference Shares	460,000	469	0.64
<b>INVESTMENT ASSETS</b>		<u>70,465</u>	<u>95.62</u>
<b>NET OTHER ASSETS</b>		<u>3,228</u>	<u>4.21</u>
<b>NET ASSETS</b>		<u><u>73,693</u></u>	<u><u>100.00</u></u>

# Statement of total return

for the half year ended 31 May 2011 (unaudited)

	Notes	31.5.2011		31.5.2010	
		£'000	£'000	£'000	£'000
Income					
Net capital losses	2		(928)		(1,080)
Revenue	3	2,409		2,039	
Expenses	4	<u>(110)</u>		<u>(120)</u>	
Net revenue			<u>2,299</u>		<u>1,919</u>
<b>Total return before distributions</b>			<b>1,371</b>		839
Finance costs: distributions	6		<u>(2,120)</u>		<u>(2,343)</u>
<b>Change in net assets attributable to shareholders from investment activities</b>			<b><u>(749)</u></b>		<b><u>(1,504)</u></b>

# Statement of change in net assets attributable to shareholders

## for the half year ended 31 May 2011 (unaudited)

	31.5.2011		31.5.2010	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>84,509</b>		85,851
Amounts receivable on issue of shares	<b>8,984</b>		2,750	
Amounts payable on cancellation of shares	<b>(19,116)</b>		(5,788)	
		<b>(10,132)</b>		(3,038)
Change in net assets attributable to shareholders from investment activities		<b>(749)</b>		(1,504)
Retained distribution on accumulation shares		<b>65</b>		49
<b>Closing net assets attributable to shareholders</b>		<b><u>73,693</u></b>		<b><u>81,358</u></b>

The above statement shows the comparative closing net assets at 31 May 2010 whereas the opening net assets for the current accounting period commenced on 1 December 2010.

The notes on pages 16 to 22 form part of these accounts.

# Balance sheet

## at 31 May 2011 (unaudited)

	Notes	31.5.2011		30.11.2010	
		£'000	£'000	£'000	£'000
<b>ASSETS</b>					
Investment assets			<b>70,465</b>		78,311
Debtors	7	<b>1,727</b>		1,927	
Cash and bank balances	8	<b>2,530</b>		<u>2,392</u>	
Total other assets			<b>4,257</b>		<u>4,319</u>
<b>Total assets</b>			<b>74,722</b>		82,630
<b>LIABILITIES</b>					
Creditors	9	<b>16</b>		13	
Distribution payable on income shares		<b>1,013</b>		<u>1,116</u>	
<b>Total liabilities</b>			<b>1,029</b>		1,129
<b>Net assets attributable to shareholders</b>			<b><u>73,693</u></b>		<u>81,501</u>
Approved on behalf of the Trustee 12 July 2011			R Broadhurst, Chairman CBF Funds Trustee Limited		

The notes on pages 16 to 22 form part of these accounts.

# Notes to the accounts

## (unaudited)

### 1. Accounting policies

#### (a) Basis of accounting

The accounts have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the accounting policies set out below and the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in November 2008.

#### (b) Revenue recognition

Interest on Government stocks, debentures, convertible loan stocks, other fixed interest stocks, bank and The CBF Church of England Deposit Fund balances is accrued on a daily basis. Revenue from fixed rate securities is recognised on an effective yield basis. Preference shares are recognised on an XD basis.

#### (c) Expenses

The Manager's periodic charge, paid to the Manager is charged to the revenue of the Fund before distribution. The fee is based on a fixed percentage of the value of the Fund, which is currently 0.22% p.a. plus VAT, less a management fee rebate for the Fund's deposits in The CBF Church of England Deposit Fund. Each month, the value at the end of the previous month is taken to calculate the fee due. This fee covers the provision of investment services and other expenses incurred by the Manager. A fee for ethical services is also charged by the Manager. Audit, legal, safe custody fees and transaction charges, insurance and monitoring fee are charged separately to the revenue of the Fund before distribution.

#### (d) Distributions

Distributions are paid quarterly. The Fund utilises an income reserve to even out fluctuations in revenue which arise over the years (see note 10).

It is the Fund's policy to calculate the distribution based on the revenue on debt securities which is computed as the higher of the amount determined on an accrual of coupon basis and an effective yield basis. The Fund has therefore adopted a distribution policy that follows the coupon basis for recognising revenue. A reconciliation of the net distribution to the net income of the Fund as reported in the Statement of Total Return is shown in note 6.

#### (e) Basis of valuation

Listed investments are valued at bid-market values at the close of business on the last business day of the accounting period. Any unlisted, de-listed, unquoted or suspended investments are stated at cost or valuation by the Manager and reviewed by the Trustee.

Suspended securities are valued by the Manager, having regard to the last dealing price on the date of suspension and subsequent available information. Suspended securities are written off after they have been carried at nil value for two years.

# Notes to the accounts

## (unaudited)

<b>2. Net capital gains/(losses)</b>	<b>31.5.2011</b>	31.5.2010
	<b>£'000</b>	£'000
The net capital losses during the period comprise:		
Non-derivative securities	<b>(928)</b>	(1,080)
	<u><u>          </u></u>	<u><u>          </u></u>
<b>3. Revenue</b>	<b>31.5.2011</b>	30.11.2010
	<b>£'000</b>	£'000
UK dividends	-	-
Interest on debt securities	<b>2,394</b>	2,037
Interest on the CBF Church of England Deposit Fund	<b>15</b>	1
Bank interest	-	1
	<u><u>2,409</u></u>	<u><u>2,039</u></u>
<b>4. Expenses</b>	<b>31.5.2011</b>	31.5.2010
	<b>£'000</b>	£'000
Payable to the Manager, associates of the Manager and agents of either of them:		
Manager's periodic charge – see note 1(c)	<b>98</b>	106
Manager's periodic charge rebate – see note 1(c)*	<b>(2)</b>	(3)
Manager's fee for ethical services	<b>1</b>	1
	<u><u>97</u></u>	<u><u>104</u></u>

# Notes to the accounts

## (unaudited)

Payable to the Trustee, associates of the Trustee  
and agents of either of them:

Safe custody fees and transaction charges	<b>4</b>	6
Monitoring fee	<b>4</b>	4
	<b><u>8</u></b>	<u>10</u>

Other expenses:

Insurance	<b>1</b>	1
Audit fee	<b>4</b>	4
Legal fee	-	-
Other	-	1
	<b><u>5</u></b>	<u>6</u>
Total expenses	<b><u>110</u></b>	<u>120</u>

The above expenses include VAT where applicable.

\* This amount represents the rebate of management fees credited to the Fund's revenue for its holding in The CBF Church of England Deposit Fund, where management fees are charged to revenue.

## 5. Taxation

The Fund is exempt from UK income and capital gains tax due to its charitable status pursuant to Sections 505 and 506 of the Income and Corporation Taxes Act 1988. Distributions are paid and reinvested revenue credited gross to shareholders on the basis that all recoverable UK taxation has been reclaimed.

# Notes to the accounts

## (unaudited)

### 6. Finance costs

#### Distributions

Distributions, which are paid on the last working day of the month, take account of revenue received on the issue of shares and revenue deducted on the cancellation of shares, and comprise:

	<b>31.5.2011</b>	31.5.2010
	<b>£'000</b>	£'000
28 February – interim distribution	<b>1,042</b>	1,187
31 May – interim distribution	<b>1,045</b>	1,147
	<b>2,087</b>	2,334
Add: revenue deducted on cancellation of shares	<b>67</b>	29
Deduct: revenue received on issue of shares	<b>(34)</b>	(20)
Net distribution for the period	<b>2,120</b>	2,343
Net revenue for the period	<b>2,299</b>	1,919
Transfer from income reserve – see note 10	<b>55</b>	38
Amortisation under effective yield (FRS 26)	<b>(234)</b>	386
Net distribution for the period	<b>2,120</b>	2,343

Details of the distribution per share are set out in the distribution table on page 23

### 7. Debtors

	<b>31.5.2011</b>	30.11.2010
	<b>£'000</b>	£'000
Accrued revenue	<b>1,727</b>	1,927

### 8. Cash and bank balances

	<b>31.5.2011</b>	30.11.2010
	<b>£'000</b>	£'000
Cash in The CBF Church of England Deposit Fund	<b>2,364</b>	2,284
Cash at bank	<b>166</b>	108
	<b>2,530</b>	2,392

### 9. Creditors

	<b>31.5.2011</b>	30.11.2010
	<b>£'000</b>	£'000
Accrued expenses	<b>16</b>	13

# Notes to the accounts

## (unaudited)

### 10. Income Reserve

The income reserve, accumulated out of revenue, is used to smooth fluctuations in the revenue received in the Fund. The income reserve is included in the total value of the Fund attributable to income shareholders.

	<b>31.5.2011</b>	30.11.2010
	<b>£'000</b>	£'000
Income reserve at the start of the period	<b>1,278</b>	1,337
Transfer from income reserve	<b>(55)</b>	(59)
Income reserve at the end of the period	<b><u>1,223</u></b>	<u>1,278</u>

### 11. Financial instruments

#### Fair Value

Securities held by the Fund are valued at bid-market value (see note 1(e)). Bid-market value is considered to be a fair representation of the amount repayable to shareholders should they wish to sell their shares. Other financial assets and liabilities of the Fund are included in the balance sheet at their fair value.

The main risks arising from the Fund's financial instruments and the Manager's policies for managing these risks are summarised below. These policies have been applied throughout the year and the comparative year.

#### Currency risk

There is no exposure to foreign currency fluctuations as all investments, revenue and short-term debtors and creditors are denominated in Sterling.

#### Credit risk

The Fund's transactions in securities expose it to the risk that the counterparty will not deliver the investment for a purchase or the cash for a sale. To minimise this, the Fund only deals with an approved list of brokers maintained by the Manager.

#### Liquidity risk

Financial instruments held by the Fund, excluding short-term debtors and creditors, are made up of Sterling fixed interest securities and Sterling cash deposits. These assets are generally liquid and enable the Fund to meet the payment of any redemption of shares that shareholders may wish to make.

#### Market price risk

This is an actively-managed Fund, which invests in Sterling fixed interest securities. Investors are thus exposed to market price risk, which can be defined as the uncertainty about future price movements of the financial instruments the Fund is invested in. Market price risk arises mainly from economic factors including investor confidence and is not limited to interest rate and currency movements. This exposure to market price risk may result in substantial fluctuations in the share price from time to time, although there will generally be a close

# Notes to the accounts

## (unaudited)

correlation in the movement of the share price to the markets the Fund is invested in. The Fund seeks to minimise the risks by holding a diversified portfolio of investments in line with the Fund's investment objectives. Risk is monitored at both the asset allocation and stock selection levels by Directors of the Manager on a regular basis.

### Interest rate risk

The Fund invests in fixed interest securities. The revenue may be affected by changes to interest rates relevant to particular securities or as a result of the Manager being unable to secure similar returns following the disposal or redemption of securities. The value of fixed interest securities may be affected by interest rate movements or the expectation of such movements in the future.

The interest rate profile of the Fund's financial assets and liabilities at 31 May 2011 was as set out below:

<i>Currency</i>	<i>Floating rate financial assets* £'000</i>	<i>Fixed rate financial assets £'000</i>	<i>Financial assets not carrying interest £'000</i>	<i>Total £'000</i>
Sterling	2,530	70,465	1,727	74,722

<i>Currency</i>	<i>Floating rate financial liabilities £'000</i>	<i>Fixed rate financial liabilities £'000</i>	<i>Financial liabilities not carrying interest £'000</i>	<i>Total £'000</i>
Sterling	-	-	1,029	1,029

30 November 2010

<i>Currency</i>	<i>Floating rate financial assets* £'000</i>	<i>Fixed rate financial assets £'000</i>	<i>Financial assets not carrying interest £'000</i>	<i>Total £'000</i>
Sterling	2,392	78,311	1,927	82,630

<i>Currency</i>	<i>Floating rate financial liabilities £'000</i>	<i>Fixed rate financial liabilities £'000</i>	<i>Financial liabilities not carrying interest £'000</i>	<i>Total £'000</i>
Sterling	-	-	1,129	1,129

\* The floating rate financial assets of the Fund earn interest at rates based on either LIBOR or base rate.

# Notes to the accounts

## (unaudited)

All financial liabilities are due to be settled within one year, or on demand.

There were no derivatives held by the Fund at 31 May 2011 (30.11.2010, £nil).

The fixed rate element of the portfolio at 31 May 2011 is further analysed in the following table.

<i>Currency</i>	<i>Fixed rate financial assets £'000</i>	<i>Weighted average interest rate %</i>	<i>Weighted average period for which the rate is fixed Years</i>
Sterling	69,996	3.07	10.0
Sterling – undated	469	7.71	-

30 November 2010

<i>Currency</i>	<i>Fixed rate financial assets £'000</i>	<i>Weighted average interest rate %</i>	<i>Weighted average period for which the rate is fixed Years</i>
Sterling	77,835	3.10	14.5
Sterling – undated	476	7.60	-

## 12. Commitments and contingent liabilities

There were no commitments or contingent liabilities at 31 May 2011 (30.11.2010, £nil).

## 13. Related party transactions

The Manager's periodic charge and professional fee for ethical services are paid to the Manager, a related party to the Fund. The amounts paid to the Manager are disclosed in note 4. There were no outstanding balances due to the Manager at 31 May 2011 (30.11.2010, £nil). There were no other transactions entered into with the Manager during the period.

CBFFT, as Trustee, is a related party to the Fund. The amounts paid in respect of the Trustee's administration fee are disclosed in note 4. There were no outstanding balances due to CBFFT at 31 May 2011 (30.11.2010, £nil). There were no other transactions entered into with CBFFT during the period.

At 31 May 2011 a cash balance of £2,363,912 (30.11.2010, £2,283,521) was held in The CBF Church of England Deposit Fund.

# Notes to the accounts (unaudited)

<b>14. Portfolio transaction costs</b>	<b>31.5.2011 £'000</b>	31.5.2010 £'000
Analysis of total purchase costs:		
Purchases in period before transaction costs	<b>21,844</b>	17,583
Commissions	-	-
Total Gross purchases	<u><b>21,844</b></u>	<u>17,583</u>
Analysis of total sales costs:		
Gross sales in period before transaction costs	<b>23,070</b>	20,949
Commissions	-	-
Total sales net of transaction costs	<u><b>23,070</b></u>	<u>20,949</u>

## Distribution table for the half year ended 31 May 2011 (unaudited)

<i>Period ended</i>	<i>Date paid/payable</i>	<i>Dividends paid/payable pence per share</i>	
		<b>2011</b>	2010
<b>Income shares</b>			
28 February 2011	30 April 2011	<b>2.20</b>	2.20
31 May 2011	30 July 2010	<b>2.20</b>	2.20
		<u><b>4.40</b></u>	<u>4.40</u>
		<i>Revenue accumulated pence per share</i>	
		<b>2011</b>	2010
<b>Accumulation shares</b>			
28 February 2011		<b>5.06</b>	4.88
31 May 2011		<b>5.29</b>	5.06
		<u><b>10.35</b></u>	<u>9.94</u>

# Statement of Trustee and Manager responsibilities

The Trustee shall comply with the duty of care when exercising their powers and discharging their duties under the Church Funds Investment Measure 1958 as amended by the Church of England (Miscellaneous Provisions) Measure 1995 and the Trustee Act 2000 (together the Measure) to:

- determine the criteria and methods for evaluating the performance of the Fund;
- appoint the Auditor of the Fund and agree their terms of engagements
- determine the rate of remuneration of the Trustee and the Manager in accordance with the Scheme and the Scheme Information;
- supervise and oversee the Manager's compliance with the Measure and the Scheme Information. In particular, the Trustee shall be satisfied on a continuing basis that the Manager is competently exercising the powers and discharging the duties conferred or imposed on it by or pursuant to the provisions of the Measure and ensure the Manager is maintaining adequate and proper records;
- appoint, supervise and oversee any Registrar or other delegate whom it has appointed in accordance with the provisions of the Scheme;
- review the custody and control of the property of the Fund and the collection of all revenue due to the Fund in accordance with the Measure;
- make distributions to investors holding income shares and make allocations to

investors holding accumulation shares in proportion to their respective shares in the property of the Fund; and

- take all steps and execute all documents which are necessary to ensure that the purchases and sales of investments for the Fund are properly completed.

# Statement of Trustee and Manager responsibilities

## Preparation of accounts

The Trustee of the Fund is required, by the Measure, to prepare accounts which give a true and fair view of the financial position of the Fund at each year and year end valuation date.

The net revenue for the year, together with a report on the operation of the Fund is also required. The accounts show the net asset value of the shares in the Fund as at the date to which the accounts are prepared, the amount of revenue per share, and the amount of revenue, if any, to be transferred to capital pursuant to paragraph 11 of the Schedule to the Measure.

In preparing these accounts, the Trustee:

- selects suitable accounting policies that are appropriate for the Fund and applies them on a consistent basis;
- complies with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the Investment Management Association (IMA) in November 2008;
- follows generally accepted accounting principles and applicable United Kingdom accounting standards;
- keeps proper accounting records which enables them to demonstrate that the accounts, as prepared, comply with the above requirements;
- makes judgments and estimates that are prudent and reasonable; and
- prepares the accounts on the basis that the Fund will continue in operation unless it is inappropriate to presume this.

# CCLA INVESTMENT MANAGEMENT LIMITED

## The CBF Church of England

### Fixed Interest Securities Fund

#### Trustee – CBF Funds Trustee Limited

R Broadhurst (Chairman)

Rev E Carter

J Clunie \*

L Farrall

G Pollard

S Steele

Rev Dr R Turnbull \*

R Williams \*

*\*Members of the Audit Committee*

#### Secretary

J Fox

#### Investment Manager, Administrator and Registrar

##### CCLA Investment Management Limited

*Authorised and regulated by  
Services Authority*

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London EC2V 6DZ

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[www.ccla.co.uk](http://www.ccla.co.uk)

##### Directors responsible for the Fund

M Quicke (Chief Executive)

J Bevan (Chief Investment Officer)

S Curran (Chief Operating Officer)

C Peters (Investment Director)

A Robinson (Director Market Development)

##### Fund Manager

C Peters

##### Company Secretary

J Fox

##### Head of Operational Risk, Internal Audit and Compliance

A Kemp

##### Head of Ethical and Responsible Investment

H Wildsmith

##### Banker and Monitoring Service

The Royal Bank of Scotland plc  
62/63 Threadneedle Street  
London EC2R 8LA

##### Safe-Custody Agent

The Northern Trust Company  
50 Bank Street, Canary Wharf  
London E14 5NT

##### Solicitors

Farrer & Co LLP

66 Lincoln's Inn Fields

London WC2A 3LH

##### Independent Auditor

Ernst & Young LLP

1 More London Place

London SE1 2AF



## CCLA INVESTMENT MANAGEMENT LIMITED

### The CBF Church of England Funds

The CBF Church of England Funds provide Church of England parishes, dioceses and other church charitable trusts with a ready-made service to look after their money and investments. These Funds aim to provide prudent management of church money avoiding unnecessary risks but at the same time seeking to deliver satisfactory investment results.

#### A CHOICE OF FUNDS

The six CBF Church of England Funds aim to meet most of the investment and deposit needs of a Church trust.

##### Investment Fund

- A suitable 'all-in-one' long-term fund for most church organisations
- Highly diversified and well-balanced spread of investments
- Designed to help meet growth and income requirements
- Focus on delivering attractive, growing income
- Working with the EIAG to reflect appropriately ethical values in your investments

##### Global Equity Income Fund

- Attractive income
- Rising income in the future
- Strong growth opportunities from the global economy

##### UK Equity Fund

- The only UK equity fund managed to reflect Church ethical values
- High quality, well-diversified portfolio
- Designed to help meet growth and income requirements
- Usually held with other investments such as overseas equities, bonds and cash to give a broad spread of assets and achieve overall objectives

##### Fixed Interest Securities Fund

- Long-term investment focused on income
- Gross income paid quarterly
- Usually held with other investments such as equities and cash to give a broad spread of assets and achieve combined income and growth objectives

##### Property Fund

- High quality, well-diversified commercial and industrial property portfolio
- Focus on delivering attractive income
- Actively managed to add value
- Usually held with other investments such as equities, bonds and cash to give a broad spread of assets and achieve combined income and growth objectives

##### Deposit Fund

- An attractive rate
- Interest paid gross
- No minimum balance
- Easy access
- Simple operation
- Excellent service
- Free BACS transfers
- AAA credit rating \*

\* The Deposit Fund is rated AAA by Fitch Ratings. This reflects the high credit quality of the portfolio.

The Funds are common funds established under the Church Funds Investment Measure 1958 (as amended from time to time). CBF Funds Trustee Limited, a company incorporated under the Companies Act is the Trustee and Operator of the Funds. CCLA Investment Management Limited manages the investment of the Funds.

The value of the investments may fall as well as rise and an investor may not get back the full amount originally invested.

CCLA Investment Management Limited (registered in England No. 2183088 at 80 Cheapside, London, EC2V 6DZ) is authorised and regulated by the Financial Services Authority. CBF Funds Trustee Limited is a Registered Charity No.1116932 and is registered in England as a company limited by guarantee (No. 5957490).

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