

QUARTERLY BULLETIN

30 September 2009

Note from the Chief Executive of CCLA

The sharp decline in economic activity which has occurred over the last twelve months has put severe pressure on the profitability of companies. For many, this pressure has been intensified by the effects of the credit crisis which have reduced the financial support they receive from the market and their banks. A result of this difficult combination is that there has been an increasing focus on cash retention, and this has borne heavily on dividends for many companies. Current data suggests that in 2009 the income payments on the FTSE 100 Index of leading UK companies will be over 20% lower than 2008. Similar reductions have been seen in overseas companies.

We believe that predictability of income is essential for charity investors, and growing income is also a vital component of strong longer term returns. For our balanced and equity funds, we therefore place a strong emphasis on investing in a well diversified portfolio of good quality companies with good yields and strong cash flows. These are better able to withstand the pressures on dividends threatening those less well positioned. This has served the income of the funds well against a background where dividend cuts have been commonplace. As a result, we are confident that we will increase the dividend payments to investors in our balanced and equity funds this year by an amount greater than the rate of inflation.

Since the end of the first quarter of the year markets have improved and investors have begun to anticipate an economic recovery. This rally however has not been reflected evenly across all sectors and companies. The companies which have recovered most quickly have typically been those which suffered most in the downturn. Many of these companies do not have the qualities we look for in our investments, and most importantly they often do not pay the level of dividends required by charity investors. We have therefore avoided many of these companies and as a result, our capital returns have lagged those of the market as a whole so far this year. We are confident that over the longer term our focus on good value and the underlying quality of the companies in the portfolios will provide strong returns for investors.

Our expectations are that 2010 will be another year when investment income will be under pressure. Economic conditions may be improving but it will be many months before the trend flows through to corporate dividend policies. We believe that many companies will struggle to maintain their dividend payments, and we expect that interest rates on cash will remain low.

Despite this challenging environment we are confident that we will be able to increase the income payments to charities on our balanced and equity funds.

Michael Quicke

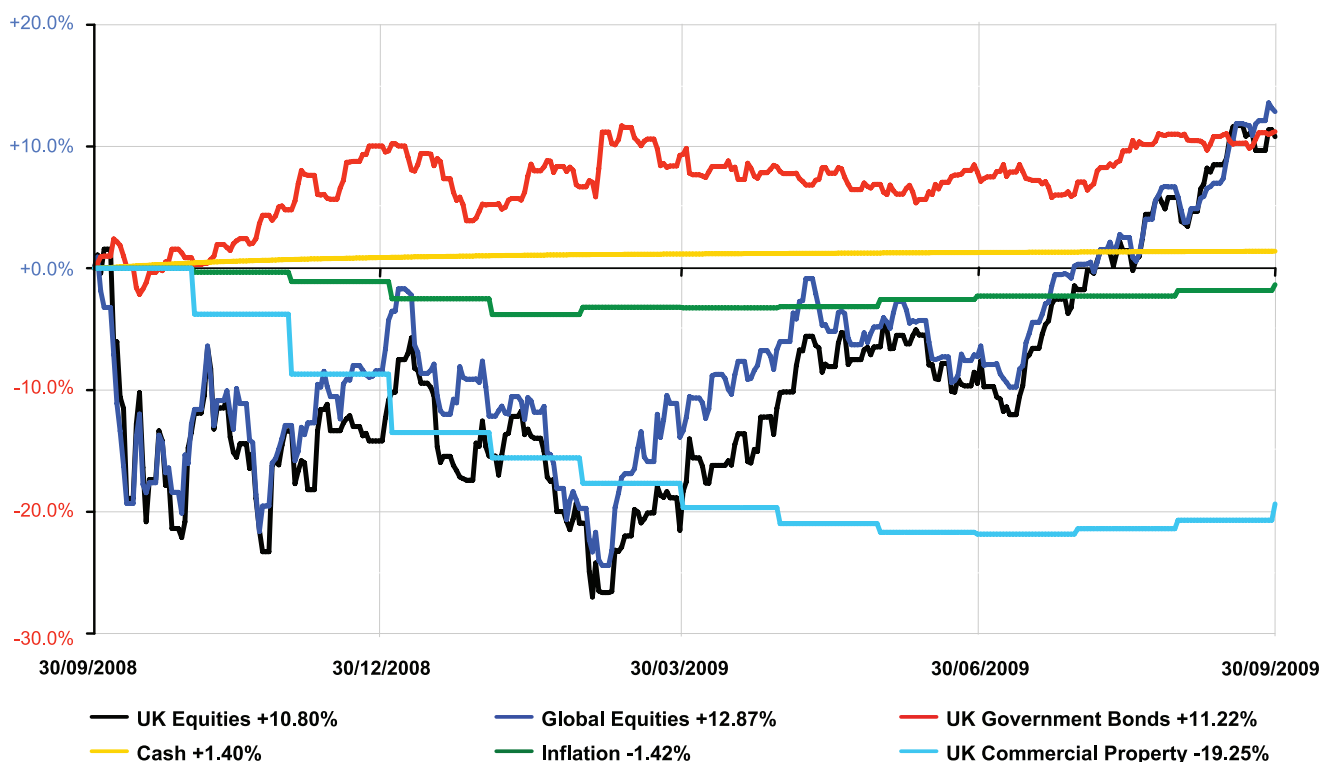


for the Church of England

Market Review and Outlook

Markets at a Glance - 12 Months to 30 September 2009

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.

Market Review & Outlook

- † Global equity markets have moved sharply higher over the quarter, building on the improved trend evident in the previous three months. The FTSE All-World Index produced a return of +21.72% in sterling terms, one of the best quarterly performances of the decade. All major markets participated in the gains, including the UK which returned +22.38%, the best quarterly performance since the FTSE Index series was created in 1984. Of the main international centres, Europe improved by +29.37%, Asia by +26.05%, the USA by +19.15% and Japan by +9.33%. Ten European and four Asian markets gave returns of more than +30%. Within markets, the strongest performances by far came from those sectors which had performed worst in the downturn, thus recovery stocks and low quality issues led the way. An example of this is that, in the UK, smaller companies rose by +35.20%, comfortably outperforming the market leaders, which rose by +21.90%.
- † The UK government bond market (gilts) produced a total return of +3.07%, corporate bonds however did better as improved investor confidence caused the yield premium relative to gilts to narrow. Lower rated 'BBB' bonds gave returns of +14.52%, relatively long dated bonds with 7-10 years of life remaining, returned +11.79%.
- † Property values declined in July and August but improved in September to give positive returns for the period as a whole. Rental values continued to fall, but despite this,

increased buying activity after a long period of investor apathy was enough to turn returns positive.

- † In currency markets sterling declined, falling by -2.89% against the dollar, -6.92% against the euro and -9.58% relative to the yen.
- † Economic news was at the heart of the improvement in sentiment as evidence emerged that the low point in the global economic cycle had passed. The combined effects of government measures, very low interest rates and the end to inventory reduction has been sufficient to stabilise activity and allow some economies, such as Japan and Germany, to return to growth.
- † In the UK, recovery began a little later but we expect to see positive data for the second half of the year; the pace of improvement however will be slow. Of course it is not just the rate of change in activity which is important; the level of output is also a key consideration in assessing the overall health of the economy. Such has been the severity of the recent recession that output is a full 5.5% below where it was in the spring of 2008.
- † We expect to see further progress in equity markets in the medium term. In bond markets, gilts are fully valued and although corporate bonds are more attractive, they are expected to lag other asset classes. The recovery in property values is encouraging and we believe that prices have further to go as investors try to lock in the attractive yields available on good quality assets. Sterling has weakened but still looks vulnerable.

Distributions for the Quarter to 31 August 2009

The CBF Church of England Fund	Distribution per Income Share	Payment Date	
Investment Fund	13.00p	30/09/09	<p>† The dividend for this quarter has been maintained at the level achieved in 2008. The payments over the past four quarters amount to 45.00p, this is +1.12% higher than the payment made for the previous equivalent period.</p> <p>† H V Vi aVTeðV aRj ^ V_eWc#! ! * è SV ReR YZYVc]VgV] ð/R_ ð/ReWc#! !) Ž</p>
Global Equity Income Fund	1.70p	30/10/09	<p>† EYV aRj ^ V_eè Z_gVde` cd Wc ð/Ž bf RæVc Ž " Ž! aŽ</p> <p>† EYV aRj ^ V_eWc ðV h Y` JV` W#! ! * Ž Wc/TRdeè SV Z_Tc/RdVU` gVc ð/Re` W#! !) Ž</p>
UK Equity Fund	1.37p	30/10/09	<p>† EYV UZgZJV_U Z_Tc/RdVU Sj fl\$Ž " " ` _ ð/ReWc ðV T` ^ aRcRS]V aVcZ U Z_ #! !) Ž</p> <p>† EYV aRj ^ V_eWc ðV aRdeWf c bf RæVc R` ^ f_æ è %Ž%a aVc:_T` ^ V DYRcVŁ a +0.82% increase on the total at this stage of the previous year.</p>
Property Fund	2.00p	30/10/09	<p>† EYV aRj ^ V_eè Z_gVde` cd YRd SVW_ Z_Tc/RdVU Sj fl#Ž' " ` gVc ð/ReWc ðV comparable period in 2008.</p> <p>† EYV aRj ^ V_eWc ðV aRdeWf c bf RæVc Ž fl#Ž \$` YZYVc ð/R_ ð/ReWc ðV previous equivalent period.</p>
Fixed Interest Securities Fund	2.20p	30/10/09	<p>† EYV bf RæVc] UZecZf eZ` _ YRd SVW_ ^ RZ_eRZ_VU Re ðV dR` ^ V]VgV] Rd #! !) Ž</p> <p>† 3RdVU` _ ðV acZV` WðV 7f_U Re ðV V_U` WDVa ð/ SVc#! ! * R_U R_ R__f R] income payment of 8.80p, the income yield is 5.54% and the gross redemption yield is 3.32%*.</p>

*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 2009

The CBF Church of England Deposit Fund

Average interest rate over the calendar quarter (0.87% A.E.R.)**	0.87%	† EYV Z_ ð/cVde cRð/ aRj RS]V` _ ðV 7f_U Ž f]eZ` Rð/] UVaV_UV_e` _ ðV cRð/d available in the money markets. Over the period interest rates have continued to decline.
Interest rate at the calendar quarter end (0.60% A.E.R.)**	0.60%	<p>† EYV YZY UV` R_U Wc TcVUZe YRd ^ VR_e ð/Re` ^ _Vj ^ RçVedRð/d YRgV SVW_ Re a premium to official rates. This premium is expected to continue but at a lower level.</p> <p>† EYV 7f_U Ž cRð/U 222ŽG" Sj 7ŽTY CRèZ_Xd+ð/Ž cV]W/Tæ ðV bf R]Ž ` WðV lending portfolio and its low volatility.</p>

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

Performance Comment (cont)

The CBF Church of England Global Equity Income Fund

- † The payment to investors has been maintained at 1.70p per Income Share, this is despite the severe downward pressure on dividends which has been experienced in equity markets.
- † The Fund is on track to pay an increased distribution for 2009 as a whole.
- † Global equity markets have risen over the quarter but market strength has been concentrated in a narrow band of stocks most exposed to the upturn.
- † The Fund has risen in value, but has slipped behind the comparator index due to the focus on higher yielding stocks. These have not kept pace with the market as a whole.

The CBF Church of England UK Equity Fund

- † The income payment to investors is 1.37p per Income Share, an increase of +3.01% on the equivalent payment. The payments over the past year are +0.82% above those for 2008.
- † We expect the payment for 2009 to be about +3% greater than the total for last year.
- † The UK equity market rose over the period and is now higher over the year.
- † The Fund is invested in good quality, higher yielding stocks, these have underperformed the market over the past year.

The CBF Church of England Property Fund

- † The payment to investors has been increased by +2.56% to 2.00p per Income Share. Despite the downward pressure on rents across the industry income over the past year is +2.63% higher, we expect the payment for the full year to show a similar increase on that previously paid.
- † Commercial property values are sharply lower over the year but have improved over the most recent quarter, supported by the good value and high yields available.
- † The performance returns from the benchmark are not yet available.

The CBF Church of England Fixed Interest Securities Fund

- † The income payment to investors has been maintained at 2.20p per Income Share. We expect the payment for the year as a whole to be the same as that for 2008.
- † Government securities (gilts) have edged higher over the recent quarter, corporate bonds have been stronger reflecting reduced concerns on the risks of default.
- † The Fund has produced strong returns over the past year. The returns from the benchmark are not yet available.

The CBF Church of England Deposit Fund

- † At the end of the quarter the interest rate paid to investors was 0.60% (0.60% AER*). Official interest rates were held over the period but market rates edged lower as the credit crisis eased.
- † The Fund has maintained its rate above official base rates. The number of counterparties used has reduced over the period reflecting further downgradings of the credit ratings of some banks and building societies.
- † Interest rates are expected to stay at low levels for some months. The investment policy of the Fund will continue to prioritise capital security.

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

	2009	2008	2007	2006	2005
Fund	+8.6%	n/a	n/a	n/a	n/a
Comparator	+10.8%	n/a	n/a	n/a	n/a

Comparator - FTSE All-Share Index

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

	2009	2008	2007	2006	2005
Fund	+3.6%	-20.9%	+11.5%	+14.8%	n/a
Benchmark	+10.5%	-23.1%	+11.1%	+14.6%	n/a

Benchmark - FTSE All-Share Index Adjusted for Ethical Restrictions

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

	2009	2008	2007	2006	2005
Fund	-18.8%	-16.0%	+9.6%	+21.4%	+16.1%
Benchmark	n/a	-20.9%	+7.3%	+22.5%	+16.9%

Benchmark - HSBC/AREF/IPD Balanced Property Unit Trust Index
(Current Quarter Not Yet Available)

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

	2009	2008	2007	2006	2005
Fund	+11.3%	+5.0%	+0.8%	+3.8%	+8.3%
Benchmark	n/a	+2.8%	+0.9%	+3.4%	+8.6%

Benchmark - WM Co. CFS Universe, UK Bonds (Current Quarter Not Yet Available)

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

	2009	2008	2007	2006	2005
Fund	+2.7%	+6.1%	+5.6%	+4.7%	+4.9%
Benchmark	+1.3%	+5.5%	+5.5%	+4.6%	+4.8%

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 investment strategy of the Fund is to provide investors, over the course of a business cycle, with an average annual return of inflation plus 5%, whilst maintaining the real value of the income paid.
- † In order to generate attractive capital returns and a rising income the portfolio has a high weighting to assets such as equities, property and infrastructure.
- † The Fund has a relatively high exposure to investments in international markets to benefit from the superior pace of economic growth we expect from some areas overseas. Because currency markets can be volatile, our approach is to control foreign exchange risks by the use of currency hedging techniques.
- † At present the portfolio has a relatively high exposure to corporate bonds to benefit from improving sentiment to the sector and to access the high yields it can provide. The cash weighting is held at a very low level.
- † Our expectation is that we will increase the income payment to investors in the year ahead.

The CBF Church of England Global Equity Income Fund

- † The Fund's portfolio is comprised of companies which have a high current yield but which can also pay a higher income in the future. The portfolio is constructed on a 'bottom up' basis which means that holdings are selected on merit and not to fit a pre-determined weighting to any geographical region or sector.
- † The global reach of the Fund means that it can diversify away from the increasingly concentrated UK equity market and at the same time gain exposure to industries which are poorly represented on the domestic exchange.
- † Equity markets have enjoyed a strong rally as investors have anticipated an economic recovery and the profit upturn that should occur with it. We expect further progress in the medium term although day to day fluctuations in markets will remain at high levels.
- † Our expectation is that the income payment on the Fund will increase in the year ahead.

The CBF Church of England UK Equity Fund

- † The strategy of the Fund is to provide investors with a relatively high income yield which will rise over time. This is achieved from a diversified portfolio of good quality domestic securities.
- † At a time when dividend income in the UK has fallen sharply, the focus on value and the quality of the companies held has provided substantial support to the income payment to investors.
- † The UK equity market has risen strongly in recent months but remains well supported by high levels of cash available for investment and the prospects of higher company earnings. We expect further progress over time but with day to day volatility remaining high.

The CBF Church of England Property Fund

- † The improvement in values over the quarter we believe marks the end of the long bear market in the sector. We expect overall values to improve from current levels but recognise that the difficult economic and financial environment will mean that the pick up is uneven.
- † We expect to rebalance the portfolio in the period ahead to take advantage of the changed conditions whilst maintaining the focus on providing an attractive income.
- † We are actively looking for investment opportunities with retail warehouses a sector which we believe has particular attractions. The key however is to find the right property at the right price and we will not be rushed into hasty deals.
- † We expect at least to maintain the income payment to investors in the year ahead.

The CBF Church of England Fixed Interest Securities Fund

- † Corporate bonds have outperformed government securities as investors have become less concerned about the risk of default and instead have sought to lock-in to the higher yields available from this area of the market.
- † We have maintained the weighting to the corporate bond sector towards the top of the permitted range but have continued an emphasis on high quality issues.
- † The government bond holdings have a neutral maturity profile which is achieved by being over weight in short dated and long dated stocks and underweighted to medium dated stocks which we believe are currently overvalued.
- † Cash holdings have been reduced to ensure that low short term interest rates do not dilute the income payment to investors.
- † We expect to maintain the income payment in the year ahead.

The CBF Church of England Deposit Fund

- † The prime focus of the Fund is on the safety and security of the investments. The portfolio only uses bank deposits and does not buy securities. Deposits are made only to an approved list of high quality borrowers, the membership of which is kept under constant review. If any borrower drops below our high standards they are simply excluded from future considerations.
- † EYV 7f_U YRd SW_ Rh RdJVU R_ 2222G" dRq_X Sj 7BY Ratings, the leading international rating agency. AAA ('Triple A') is the highest credit rating available.
- † Market interest rates have continued to decline and this has been reflected in the interest rate paid by the Fund. Higher rates have been available from some borrowers over the period but not at risk levels considered to be acceptable.
- † The probability is that official interest rates will stay low into the medium term. In this environment some further erosion of the rate paid by the Fund is likely.

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 investments that deliver social or environmental benefits plus market-level risk-adjusted returns.
- 5 Integrating appropriate risk factors into stock selection.

Quarterly highlights

- † H V YVJU R gZJV T _WcV_TV h ZY GVUR_eR'd 4YZW Executive in India to hear their version of events relating to their activities in Orissa. A multi-investor visit to the mining and refining operations is anticipated.
- † We held meetings with various companies and experts to inform the EIAG review on alcohol.
- † We held exploratory meetings with the 'Shrinking the Footprint' team at Church House to see how the CBF Funds can help the Church of England meet its carbon reduction targets.
- † We participated in the Church Investors Group's (CIG) strategic away day, and hosted the second in our series of CIG lunches on high-impact investing.

Voting in more detail

- † The CBF Investment Fund voted at 22 UK company meetings during the quarter, and the CBF UK Equity Fund at 14 meetings.
- † Proxy voting statistics can be seen at www.ccla.co.uk.
- † During the quarter, CCLA voted against executive remuneration at Tate & Lyle based exclusively on the recruitment package given to the incoming CEO, which we viewed to be excessive, and breached a fundamental principle of not overpaying. An individual long-term incentive Plan was opposed at Severn Trent as it comprised identical performance criteria to an existing scheme, and thus had the ability to reward twice for the same performance.
- † There was no other action taken during the third quarter.

Ethical constraints

- † The EIAG is currently undertaking a comprehensive review of some of the restricted investment categories (currently defence and alcohol). This process is supported by the CBF Funds Trustee, and clients are invited to send comments to the EIAG Secretary (edward.mason@c-of-e.org.uk).
- † If you would like to be surveyed by telephone this year as part of the above EIAG process please contact ethics@ccla.co.uk



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