

QUARTERLY BULLETIN

31 December 2008

Note from the Chief Executive of CCLA

- The CBF Church of England Investment Fund has always been managed to provide a balance between income and growth, risk and reward, over both the short and long term.
- We have committed ourselves to a strategy of growing the income distributions from the Fund, whilst also seeking long term growth of the underlying capital.
- Over the last year we have grown the distributions slightly ahead of our projections, and we have also increased the income reserve. We have confidence that we will grow distributions again this year in excess of general inflation rates.
- In gauging how the Investment Fund has performed overall, the historic approach had been to consider returns against the WM median, a peer group of other funds, but two issues have arisen. First, the WM peer group is small and not representative of markets overall. Secondly, the peer group do not necessarily share the same overall objectives.
- We have discussed these issues with the CBF Board and have agreed that the requirements for investors in the CBF Investment Fund are to generate an income that is protected against inflation, and over the course of a business cycle, to grow the capital in real terms, and to achieve both of these at a controlled level of risk.
- Of course, the business cycle will extend over several years and within this period trustees must be able to see whether their investments are performing as they should be. For this reason each quarter we will assess our returns against those of a composite index which captures the performance of the investment market and importantly allows investors to make a reasonable assessment of progress over the period.
- The composite index will be structured to reflect our customers long term objectives. The Investment Fund's asset allocation will vary from time to time, and the comparison with the composite index will allow clients to see whether these variations have added or subtracted from performance.
- The composite index will have with a 90% allocation to equities and property and a 10% allocation to fixed interest stocks. Equities will account for the greatest proportion of the composite index, reflecting our expectations for long term returns but there will also be a strategic allocation to property.
- Looking at the structure of the composite index more closely, the weighting to equities will be 80%, of which 60% will be to the domestic market and 20% to markets overseas. Property will account for 10%, completing the real asset component. Monetary assets will be represented by a 10% weighting to UK government bonds (gilts) as cash holdings tend to be temporary and not strategic in nature.
- The use of the composite index will serve to make performance comparisons more relevant and more transparent. A new performance comparator however does not mean that the Investment Fund will be reorganised or restructured, and indeed, if we look back at the asset allocation of the Investment Fund over many years we see that the objective of seeking long term growth and protection from inflation has meant that the asset allocation has been broadly consistent with that represented by this composite index.

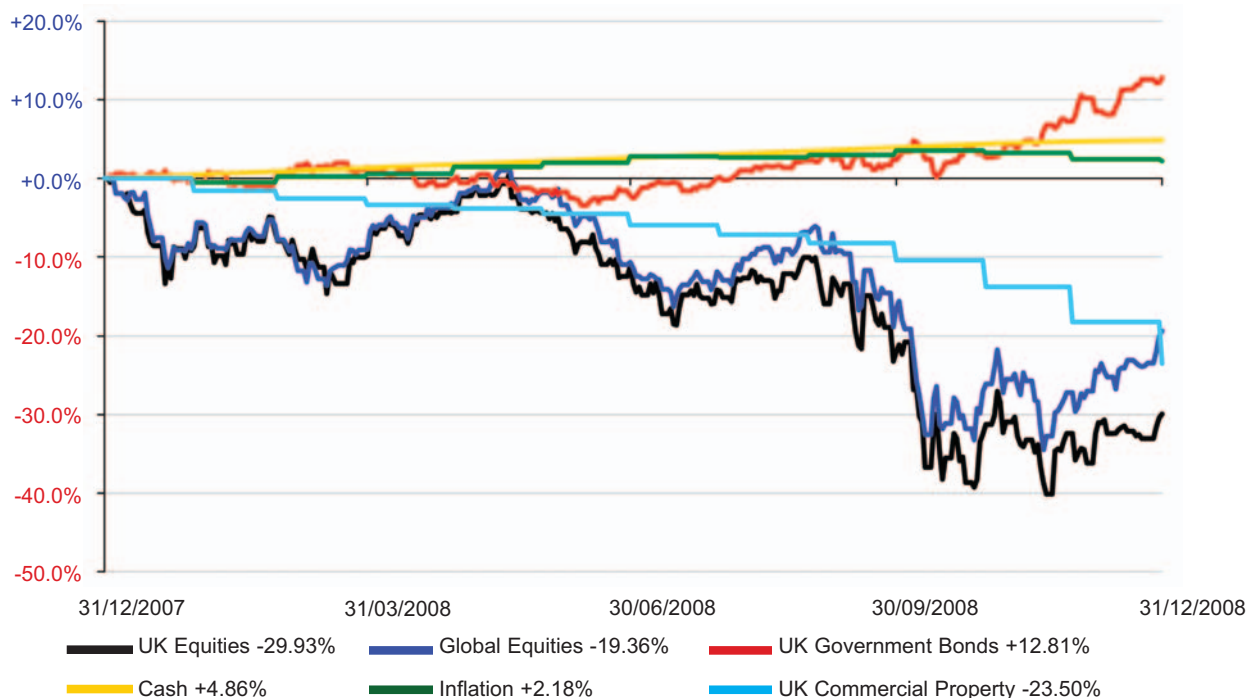


for the Church of England

Market Review and Outlook

Markets at a Glance - 12 Months to 31 December 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 fourth quarter of 2008 was a period of sharp declines in most major equity markets, even though prices rallied strongly in the final few weeks. For UK based investors the falls in international markets were moderated by the decline in sterling.
- In the final three months of the year the FTSE All-World Index gave a return of -22.2% in US dollar terms, but -3.5% to a sterling based investor. The FTSE All-Share Index, a broad measure of the performance of the UK market, returned -10.2%. Fixed interest investments overall produced positive returns with government bonds (gilts) enjoying the best support. Commercial property however weakened, and indeed the pace of decline accelerated in the period as valuers reflected falling rents in their calculations. Sterling fell sharply, losing 18.0% against the US dollar, 17.3% against the euro and 29.9% against the yen.
- Events in the financial sector dominated news in the early days of the quarter as RBS, Lloyds TSB and HBOS were forced to take fresh capital from the government with Barclays choosing to seek funding from private investors. Gradually however the effects of the credit crisis on the economy as a whole became the dominant influence on investment markets.
- In the UK, the government announced a series of measures aimed at moderating the effects of what is likely to be a sharp and possibly protracted recession. These included a huge increase in borrowing and a temporary reduction in VAT. Similar programmes were announced in many economies overseas. Interest rates were cut across the global economy. These actions may hopefully have an impact during 2009 but have not been able to prevent the early effects of recession manifesting themselves in higher unemployment, reduced manufacturing output and falling commodity prices: the oil price fell below \$40 per barrel, having been over \$140 per barrel in the summer.
- Emerging economies have performed better but have not been immune from the problems of their customers. China announced that falling activity had cost the jobs of 10 million workers.
- The data from the global economy will continue to worsen in the months ahead but whilst the news will in many instances be grim, we must remember that investment markets work as discounting mechanisms, reflecting not what is happening today but what is expected to happen in the future. The sharp falls in equity markets over the past year, when the UK fell by 29.9%, the USA by 36.8%, Europe by 42.6% and Japan by 42.1%, should be seen as investors reflecting in their valuations of investments the difficult economic circumstances now unfolding.
- In fixed income markets we see corporate bonds as attractive relative to government securities. The sector will be attractive to many as a source of income.
- Property values have yet to stabilise but are increasingly supported by the high yields now available.
- Equities are at valuation levels which historically have proved to be excellent buying opportunities. We think the market is in a long term bottoming phase but expect day-to-day price fluctuations to stay high.

Distributions for the Quarter to 30 November 2008

The CBF Church of England Fund	Distribution per Income Share	Payment Date	
Investment Fund	13.00p	19/12/08	<ul style="list-style-type: none"> The payment is 4.00% higher than that for the comparable period for 2007. The dividends for the past four quarters amount to 45.00p, this is a 12.50% increase over the year.
Global Equity Income Fund	1.50p	30/01/09	<ul style="list-style-type: none"> This is the final payment of the Fund's first year, there is therefore no comparable historical data. This payment means that the Fund has produced the 6.00p per Income Share forecast at launch.
UK Equity Fund	1.50p	30/01/09	<ul style="list-style-type: none"> This dividend is unchanged on the payment for the comparable period of 2007. The payment for the past four quarters amounts to 4.90p per Income Share, an 11.36% increase on the payment at this stage of last year.
Property Fund	1.95p	30/01/09	<ul style="list-style-type: none"> The payment to investors is 5.41% greater than that for the comparable period of 2007. The payments for the past four quarters sum to 7.70p, 7.69% greater than the 7.15p paid by this point in 2007.
Fixed Interest Securities Fund	2.20p	30/01/09	<ul style="list-style-type: none"> The quarterly distribution to investors has been maintained at the same level as that for the comparable period in 2007. Based on an Income Share price of 161.18p at the end of December and an annual income of 8.80p the income yield on the Fund is 5.46% and the corresponding gross redemption yield is 3.82%*.

*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 December 2008

The CBF Church of England Deposit Fund

Average interest rate over the calendar quarter (4.98% A.E.R.)**	4.89%	<ul style="list-style-type: none"> The interest rate payable on the Fund is dependent on the rates available on the UK money markets. Although interest rates have already fallen sharply, we expect them to decline further from current levels.
Interest rate at the calendar quarter end (3.55% A.E.R.)**	3.50%	<ul style="list-style-type: none"> The present high demand for credit has meant that money market interest rates sit at a premium to official rates, to the benefit of the Fund. We expect a premium to continue in the near term although not at the high levels seen in the recent past. The Fund is rated AAA/V1 by Fitch Ratings. This reflects the high credit quality of the portfolio and its low volatility.

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

Fund Performance The CBF Church of England Funds over the Quarter (gross)



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

Performance Comment

The CBF Church of England Investment Fund

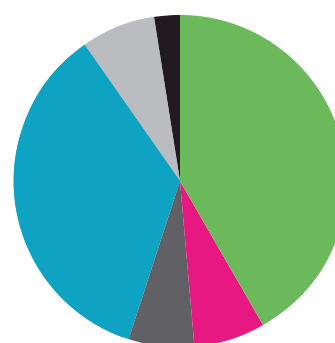
- The income payment to investors is at a rate of 13.00p per Income Share, an increase of 4.0% on the comparable payment for 2007. Over the year the payment has been increased to 45.00p from 40.00p, a rise of 12.5%.
- Overall, investment markets remained weak over the quarter. Equity markets around the world retreated sharply although sterling weakness cushioned the impact for UK investors. Bright spots were few although government bonds produced positive returns, supported by investors seeking safe haven investments.
- Over the year the Fund produced returns in line with those from the composite index comparator. For more information on the composite index please refer to the note from Michael Quicke, CCLA's Chief Executive on page 1.

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

	2008	2007	2006	2005	2004
Fund	-21.9%	+6.1%	+14.3%	+19.8%	+11.3%
Comparator	-22.8%	+5.2%	+13.0%	+20.9%	+11.8%

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

Asset Allocation as at 31 December 2008



UK Equities	41.9%	Overseas Equities	35.4%
Fixed Interest	6.8%	Property	7.0%
Infrastructure	6.4%	Cash	2.5%

Overseas Equities %

Europe	10.8
USA	13.3
Japan	4.4
Pacific Ex Jap	6.0
Other	0.9
	<u>35.4</u>

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 income payment for the quarter is 1.50p, over the year the Fund has achieved the income target of 6.00p per Income Share set at launch.
- Equity markets have been weak over the period although the fall in the value of sterling has moderated the declines of international indices. With investor confidence frail, large companies have typically outperformed their smaller counterparts whilst value stocks have been in favour relative to growth stocks.
- The objective of the Fund is to produce a high income, growing over time, from an international portfolio of investments. Over the year since launch the Fund has produced overall returns comfortably better than those from the domestic equity market.

The CBF Church of England UK Equity Fund

- The income payment to investors is at the rate of 1.50p per Income Share. This brings the payment for the year to 4.90p, an 11.36% increase on the payment for 2007.
- The domestic equity market has fallen sharply over the period under the influence of the credit crisis and the sharp deterioration in the economy. Against a difficult background the Fund has outperformed its benchmark.

The CBF Church of England Property Fund

- This quarter's income payment to investors has been increased by 5.41%. Over the year the payment has been increased by 7.69% to 7.70p.
- Commercial property prices weakened further due to falling rental values and increased tenant insolvencies.
- The Fund has produced a return of -19.6% over the year, this compares with an estimated return of -28.0% from the benchmark.

The CBF Church of England Fixed Interest Securities Fund

- The income payment to investors has been maintained at 2.20p per Income Share.
- Fixed income securities produced positive returns with government stocks performing best as investors favoured a low risk approach.
- Over the year the Fund produced a return of 9.4% compared with an estimated return of 6.1% on the benchmark.

The CBF Church of England Deposit Fund

- At the end of the period the rate paid to investors was 3.50% (3.55% AER)*. Interest rates fell sharply over the quarter in the face of declining inflation and the reduced level of economic activity.
- The Fund has benefited from money market rates being substantially above official interest rates. This symptom of the credit crisis is expected to continue in the months ahead, albeit to a reduced degree.
- The prime focus of the Fund is on security. The list of counterparties is reviewed on a daily basis and there are strict limits on the amounts loaned to them.

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

	2008	2007	2006	2005	2004
Fund	-23.8%	n/a	n/a	n/a	n/a
Comparator	-29.9%	n/a	n/a	n/a	n/a

Comparator - FTSE All-Share Index

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

	2008	2007	2006	2005	2004
Fund	-29.1%	+6.6%	+17.2%	+20.7%	n/a
Benchmark	-31.3%	+4.0%	+16.7%	+21.3%	n/a

Benchmark - FTSE All-Share Index Adjusted for Ethical Restrictions

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

	2008	2007	2006	2005	2004
Fund	-19.6%	-2.9%	+20.9%	+17.3%	+17.5%
Benchmark	-28.0%	-5.4%	+19.8%	+18.9%	+18.2%

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

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

	2008	2007	2006	2005	2004
Fund	+9.4%	+4.7%	+1.1%	+7.9%	+6.6%
Benchmark	+6.1%	+4.0%	+1.1%	+7.8%	+6.6%

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

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

	2008	2007	2006	2005	2004
Fund	+5.8%	+5.9%	+4.8%	+4.8%	+4.5%
Benchmark	+4.8%	+5.8%	+4.7%	+4.7%	+4.4%

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 objective for the Fund is to provide an average return over a business cycle of inflation plus 5%. Within that overall total, income should be maintained in real terms.
- The Fund's portfolio has a high exposure to those asset classes which will provide the strongest long term returns together with a rising income. Equities are the largest single asset category and there are important holdings in property and infrastructure. Bonds and cash are also held, but these are a smaller proportion of the overall asset allocation.
- There is a substantial exposure to overseas investment markets. We believe that the holdings in faster growing economies and the extra opportunities available internationally improve the potential long term return of the Fund. Recent weakness in sterling has increased the returns from overseas markets.
- Most investment markets have fallen substantially over the past year, to valuations which, in the past, have proved to be very rewarding levels to invest at. Economic data, however, is likely to be disappointing for much of 2009 and day to day fluctuations in share prices are expected to remain at elevated levels. In our opinion, for those able to take the long term view, there are some attractive opportunities in a number of investment markets.

The CBF Church of England Global Equity Income Fund

- The portfolio is built up of holdings in companies which offer a good level of yield and which can grow their dividends in the future. The Fund does not have any predetermined exposure to sectors or countries, weightings are built on the basis of the merits of the companies, subject to prudent controls on risk.
- The portfolio enjoys a wide geographic diversification and in international markets is able to invest in sectors which are only represented to a modest extent in the UK equity market.
- Equity markets have fallen substantially over the past year to levels of valuation which have historically been attractive, however the risks in the economy have also risen and adverse news is likely to be a feature for most of the year ahead. The Fund has excellent long term prospects but for the near term high day-to-day volatility is likely to continue.

The CBF Church of England UK Equity Fund

- The Investment objective of the Fund is to generate good long term returns with a high dividend yield which can increase over time.
- The portfolio consists of a diversified portfolio of good quality domestic companies which provide investors with an attractive level of income.
- The sharp fall in share prices has brought the equity market down to levels which are attractive on a long term view. The economic environment however is challenging

and is likely to remain so for most of the year ahead. Against a background such as this, short term fluctuations in prices should be expected to remain high.

The CBF Church of England Property Fund

- Commercial property values have continued to fall and indeed the pace of decline accelerated over the final quarter of the year. Activity in the sector remained at low levels but increasingly valuers factored into their assumptions falling rental values and increased tenant insolvencies as well as the general deterioration in the economy.
- Against this difficult background our policy has been to seek improved returns by activities such as refurbishment and keeping voids to as low a level as possible.
- The Fund has had a reasonable cash holding over the period. This has boosted short term returns and given the Fund the flexibility to buy properties on very attractive valuations.
- Income yields on good quality properties, with strong tenants, are now significantly higher than those on cash or government bonds. There are opportunities in a number of areas with retail warehouses looking particularly attractive.

The CBF Church of England Fixed Interest Securities Fund

- Government securities (gilts) have produced steady returns as investors have sought safe haven investments with a predictable level of income.
- Corporate bonds have done less well although the best quality issues and those with a relatively short time before redemption have also produced positive returns.
- Our stance towards the government securities market is now cautious, having seen that sector perform well and ahead of a substantial increase in supply as the government massively expands spending to support the economy.
- We are adding to good quality corporate bonds to take advantage of the attractive yields available in this area of the market.

The CBF Church of England Deposit Fund

- The prime focus of the Fund is on security. The portfolio is deposited with a diversified list of top quality borrowers. The list is actively managed on a daily basis to reflect any changes in standing or circumstance.
- This approach is reflected in the AAA/V1 rating which has been awarded to the Fund by Fitch Ratings. This is the highest credit rating available.
- The portfolio is substantially invested in short term deposits to ensure a high level of liquidity. From time to time however opportunities are taken to add some slightly longer deposits where these provide an improvement in income. Strategies such as this have helped protect the income yield to investors in recent months.
- Although the official bank rate has fallen sharply, to 2%, we expect that it will decline further in the time ahead and remain at low levels for the medium term.

Responsible Investment Report

Our work has three strands -

- 1** Engagement on issues of corporate social responsibility with a view to optimising long term economic returns in the context of Christian mission and witness.
- 2** Engagement on corporate governance including proxy voting on issues to protect and enhance shareholder value.
- 3** Setting appropriate constraints on investment and exposure to activities considered unacceptable by the Church of England's Ethical Investment Advisory Group (EIAG) and the CBF Funds Trustee.

1. Corporate Social Responsibility (CSR)

Key issues that we have covered over the last three months include:

- Signing the Investor Statement on a Global Agreement on Climate Change which has been received by the Energy & Climate Change Minister, Ed Miliband.
- We met with Nestlé's CSR team to discuss how they manage their global social and environmental risks.
- We convened a meeting between the EIAG, the Church Investors Group and Anglo American's Chairman, Sir Mark Moody-Stuart. The wide ranging discussion covered social and environmental issues relating to the company's mining operations in Africa and elsewhere. Mining opportunities have occasionally been declined because CSR risks were considered to be too high.

2. Corporate Governance

- The CBF Investment Fund voted at 10 UK company meetings during the quarter, and the CBF UK Equity Fund at six meetings.
- Proxy voting statistics can be found at www.ccla.co.uk.
- During the quarter, CCLA voted against remuneration at Wolseley, and abstained from supporting the remuneration reports at Close Brothers and Associated British Foods. We opposed proposals at BHP Billiton to increase substantially awards available under the annual bonus scheme at the expense of incentivising long term performance, which we did not view to be in shareholder interests.
- However, we did support the Board of BHP Billiton by opposing the election of a shareholder director.
- In volatile markets where corporate performance may be under pressure, investors will be closely monitoring the decisions taken by remuneration committees to ensure executive awards remain appropriate, stretching and linked to the delivery of superior performance.
- Overall in 2008, CCLA either opposed or abstained 6% of resolutions for the CBF Investment Fund and 5% for the CBF UK Equity Fund.

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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