

QUARTERLY BULLETIN

30 June 2010

Note from the Chief Executive of CCLA BP: an update

In a busy and volatile quarter for investment markets one corporate event stands out: the calamitous failure of BP's Macondo well in the Gulf of Mexico. Given the wide repercussions this has had I felt that we should take this opportunity to set out what we believe this means for investors.

The well was an attempt to access deep water oil reserves available only at the edge of current technology but it failed catastrophically, resulting in a massive oil spill which has had severe consequences for the ecology of the region and numerous local communities. BP's shares price subsequently collapsed, declining 51%, from 623p in April to 319p at the end of June. The fall contributed substantially to the poor market performance over the quarter.

BP has been forced to accept a complex financial arrangement to ensure that those who have suffered from the leak are adequately compensated. This has included the creation of a \$20 billion fund which will be available to pay legitimate claims. Any fines or penalties imposed by the US authorities however will be considered separately and will be in addition to the compensation. To bolster cash resources BP will sell \$10 billion of assets and cut capital expenditure this year and next. Importantly for investors, dividend payments for 2010 have been suspended.

As I write, much remains uncertain. Although BP has been able to capture a substantial amount of the oil and gas spilling from the well, oil continues to leak at high volumes. Plans to seal it with a relief well are still weeks from completion and although the company is using a proven approach to this, it is not simple or

straightforward; trying in effect to intercept a bore hole 10 inches in diameter from a ship 3.8 miles away.

It is clear that the financial consequences for the company will be significant but BP's resources are also great, and if the financial costs to it are based upon genuine compensation plus a level of punitive sanction, then, although it will be expensive, the business will still be sound and capable of generating attractive growth in the future. Currently, the uncertainties are such that we must expect the share price to remain volatile – investors are nervous and reasonably so and much still needs to be understood. Our expectation is that in time however the share price will be driven more by inherent value and less by fear and uncertainty and that this will lead to a substantial recovery.

A wider perspective of this unhappy event highlights an important issue for trustees, that of portfolio concentration. BP was not only the largest UK listed company by market capitalisation, it was also the most important source of dividend income, alone providing some 12% of the UK market's total dividend flow. Any charity heavily exposed to the share, or simply tracking the index, would therefore have suffered a fall in value but also a sharp drop in income. In our view equity portfolios must be widely diversified and increasingly that means a significant exposure to top quality companies in countries other than the UK.

Wide diversification in CCLA equity portfolios means that the loss of the BP dividend will not result in a reduction in the income payments to our investors.

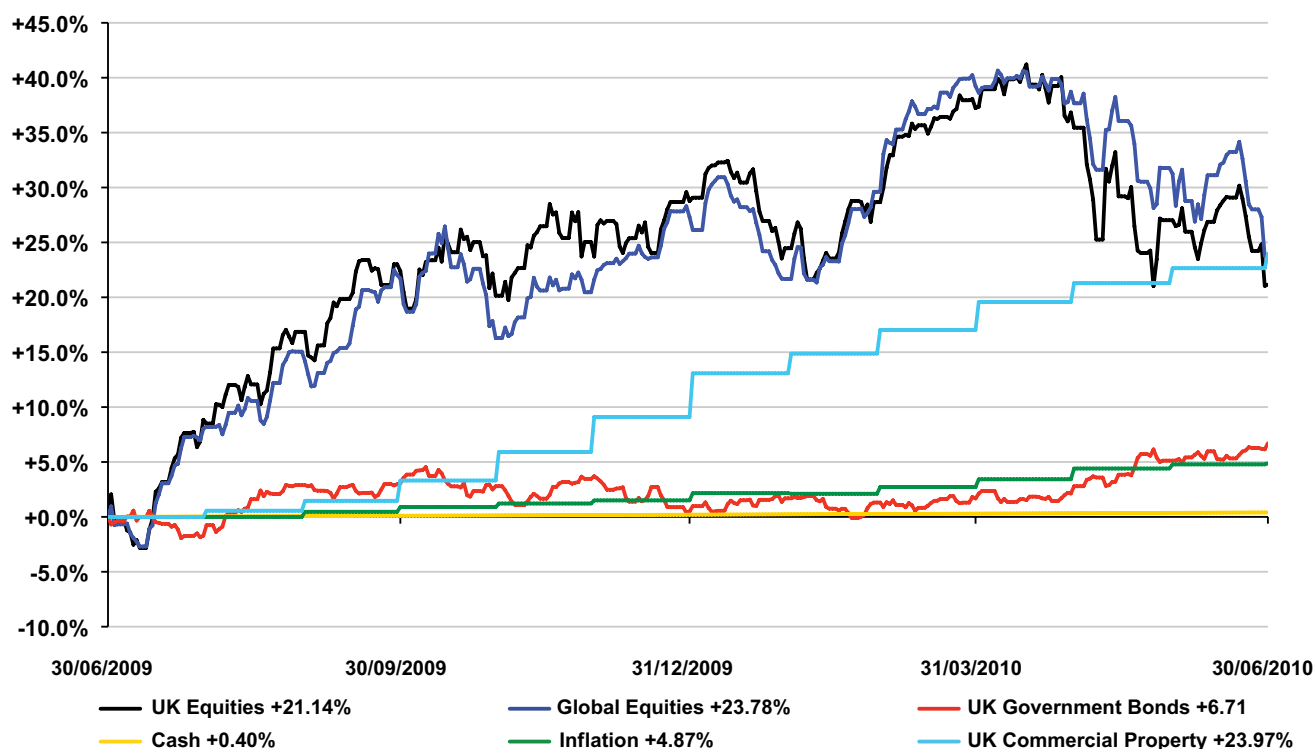
Michael Quicke



for the Church of England

Market Review and Outlook

Markets at a Glance - 12 Months to 30 June 2010



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

- Global equity markets fell back over the quarter as investors became more cautious on the prospects for economic growth. The return on the FTSE All-World Index to a UK based investor was -10.70%, effectively cancelling the gain earned in the first three months of the year. All the main regional indices moved lower, the US by -10.37%, Japan by -8.73%. In Asia the regional index declined by -6.86%, although a number of the national indices actually moved higher. In contrast Europe was uniformly weak, falling by -14.32% but with the average masking falls of over 20% in Austria and Finland and nearly 40% in Greece. The UK equity performance was in line with its international peers, the FTSE All-Share Index returned -11.80%. Over the past twelve months the UK equity return is still positive, at +21.14%.
- Fixed interest markets benefited from the more cautious mood with government bonds (gilts) in particular finding support after a Budget which promised a swifter deficit reduction programme and a reduced level of new gilt issuance. Government bonds gave a positive return of +4.49%, lower quality corporate bonds +0.98%.
- Commercial property valuations improved although at a slower pace to that experienced earlier in the year. Buyers for good quality assets remain but they have become reluctant to chase prices at the higher levels.
- In currency markets the main feature was the weakness of the euro, against which sterling improved by +8.68%. This strength was not maintained against either the US dollar or yen however, which rose against the pound by +1.57% and +6.88% respectively.
- The dominant concern over the period was the problem of debt, on two levels. The first related to the scale of borrowings outstanding relative to the ability to repay them. These fears came to the fore with the Greek crisis but swiftly became more widespread, affecting the ability of banks but also some countries to access capital markets. The second related to the effect debt reduction programmes could have on what has so far been a lacklustre recovery in economic activity. The worry was that an increased focus on cutting government activity will cause a weak upturn to slow – or even go into reverse.
- Looking forward, we expect continued near term support for fixed interest markets but also for this to fade later in the year. Property values can improve further from current levels but the main attraction of the sector is the high level of income it currently provides. Equities are very good long term value but volatility will stay high and the range of fluctuations could test sentiment over the summer when trading volumes are usually thin.
- Diversification is critical and we expect that a high and consistent income flow will be an important contributor to overall returns in a low growth environment.

Distributions for the Quarter to 31 May 2010

The CBF Church of England Fund	Distribution per Income Share	Payment Date	
Investment Fund	13.00p	30/06/10	<ul style="list-style-type: none"> The diversified portfolio structure and focus on quality has enabled us to maintain the income payment for the quarter. The payment is up by +3.11% over the past year. We expect to increase the distribution for 2010.
Global Equity Income Fund	1.70p	30/07/10	<ul style="list-style-type: none"> The income payment for this quarter has been maintained. Over the past twelve months the payment is +8.60% higher, a reflection of growth plus changes in the timing of some income receipts. The distribution for the year as a whole will be up on that for the previous twelve months.
UK Equity Fund	1.37p	30/07/10	<ul style="list-style-type: none"> The quarterly payment to investors has been maintained; the distribution for the past 12 months is up +3.06%. We expect to increase the payment for the full year – despite some high profile dividend cuts.
Property Fund	2.00p	30/07/10	<ul style="list-style-type: none"> The payment is up by +2.56% over the quarter and that for the past 12 months is +3.10% higher. We expect the payment for 2010 as a whole to exceed that for 2009.
Fixed Interest Securities Fund	2.20p	30/07/10	<ul style="list-style-type: none"> The income payment to share holders has again been maintained. Based on the price at the end of June and an annual distribution of 8.80p the income yield on the Fund is 5.58% and the gross redemption yield is 2.82%*.

*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.

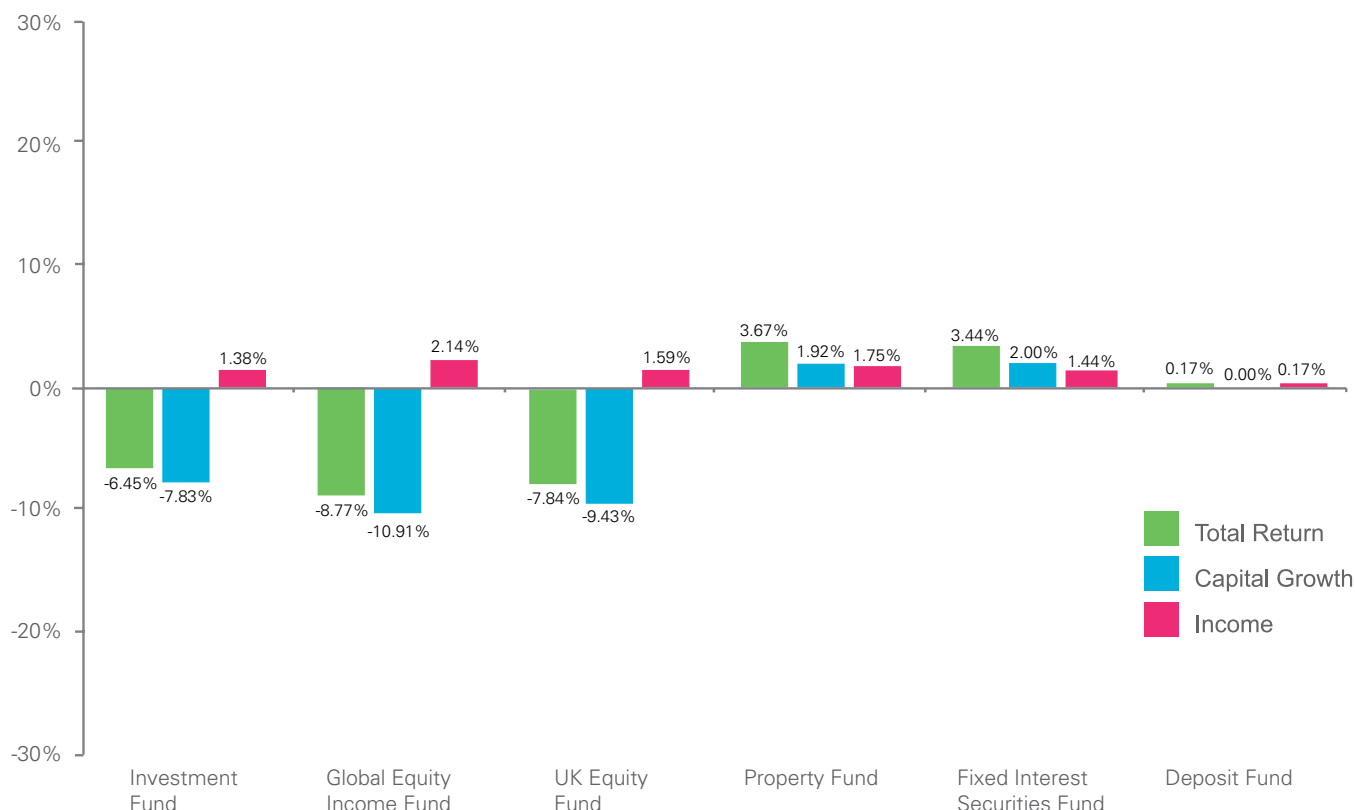
Interest for the Calendar Quarter to 30 June 2010

The CBF Church of England Deposit Fund

Average interest rate over the calendar quarter	0.50% (0.50% A.E.R.)**	<ul style="list-style-type: none"> The interest rate payable on the Fund is ultimately dependent on the rates available in the money markets. Over the period these interest rates have been relatively stable.
Interest rate at the calendar quarter end	0.50% (0.50% A.E.R.)**	<ul style="list-style-type: none"> The Fund is rated AAA/V1 by Fitch Ratings: this reflects the quality of the lending portfolio and its low volatility.

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

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

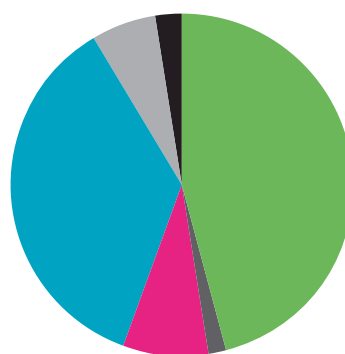
- Despite weakness in equity markets over the previous quarter, investment returns over the past year have been strongly positive, with all major categories contributing to returns.
- Income flows have remained difficult, with low interest rates, falling property rental values and cuts in equity dividend payments in the UK and overseas. Despite this the distribution on the Fund has been maintained and is expected to increase for the year.
- Returns on the Fund have lagged those on the composite index over the past year, a continued echo of stock selection factors in 2009 and in particular a low relative exposure to recovery stocks in the mining sector. In the first half of 2010 Fund returns are above those of the comparator.

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

	2010	2009	2008	2007	2006
Fund	+17.2%	-14.9%	-11.0%	+15.3%	+17.1%
Comparator	+20.5%	-16.1%	-10.5%	+15.0%	+16.8%

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 30 June 2010



Overseas Equities %

Europe	11.0
USA	12.0
Japan	2.3
Pacific Ex Jap	7.2
Other	3.3
Total	35.8

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

- A weak quarter for global equity markets has undone the progress made earlier in 2010, over the past 12 months however equities have shown strong positive returns.
- The income payment for the quarter has been maintained. Over the past 12 months is up by +8.60%, a substantial part of this growth however reflects timing differences on income receipts.
- Performance is below that of the comparator for the year, this reflects underperformance in 2009 predominantly by the high yielding companies which comprise the Fund's investment universe. Returns for 2010 to date are above those on the comparator.

The CBF Church of England UK Equity Fund

- Although UK equity market indices have fallen back in the past quarter, returns over the past year have been strongly positive.
- The Fund's income distribution to investors has been held for the quarter but is up by +3.06% over the past 12 months. We expect to increase the payment for 2010 as a whole.
- The returns achieved by the Fund are slightly ahead of those on the Benchmark.

The CBF Church of England Property Fund

- The income payment to investors is up by +2.56% over the quarter and by +3.10% over the past 12 months. We expect the payment for the year to be higher than that for last year.
- Property values have risen strongly from their lows of 12 months ago although the pace of improvement has slowed in more recent months.
- The Benchmark return data is not available as we go to print but our expectation, based on estimates, is that the portfolio has continued to outperform.

The CBF Church of England Fixed Interest Securities Fund

- The income payment on the Fund has again been maintained at 2.20p per Income Share, we expect to maintain the payment for the year as a whole.
- The overall trend in fixed income markets has been positive and although corporate bonds were strongest early in the period, more recently government bonds have rallied.
- The performance of the Fund has been broadly in line with the Benchmark.

The CBF Church of England Deposit Fund

- Short term interest rates have remained low with Base Rates held at 0.5% since March 2009.
- We expect this trend to continue, to help stimulate economic activity at a time of cuts in government spending.
- There are occasional offers of premium interest rates from various institutions but our focus is on capital security and too often these do not meet our lending criteria.

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

	2010	2009	2008	2007	2006
Fund	+16.3%	-13.4%	n/a	n/a	n/a
Comparator	+21.1%	-20.5%	n/a	n/a	n/a

Comparator – FTSE All-Share Index

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

	2010	2009	2008	2007	2006
Fund	+21.5%	-24.1%	-12.1%	+17.1%	+19.0%
Benchmark	+20.1%	-22.0%	-13.5%	+17.6%	+19.7%

Benchmark – FTSE All-Share Index Adjusted for Ethical Restrictions

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

	2010	2009	2008	2007	2006
Fund	+26.2%	-23.9%	-13.0%	+14.8%	+21.9%
Benchmark	n/a	-29.5%	-17.2%	+13.8%	+23.3%

Benchmark – IPD Balanced Property Unit Trust Index
(Current Quarter Not Yet Available)

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

	2010	2009	2008	2007	2006
Fund	+8.5%	+10.1%	+5.3%	-0.2%	+1.8%
Benchmark	+8.7%	+11.1%	+5.1%	-0.8%	+1.3%

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

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

	2010	2009	2008	2007	2006
Fund	+0.7%	+4.0%	+6.1%	+5.3%	+4.7%
Benchmark	+0.5%	+2.5%	+5.7%	+5.2%	+4.6%

Benchmark – 7 Day LIBID

Strategy and Outlook

The CBF Church of England Investment Fund

- The investment objective of the Fund is to provide investors, over the course of the business cycle, with an average annual return of inflation +5%, whilst maintaining the real value of the income paid.
- The Fund's portfolio has a high weighting to those assets which over time are most likely to provide strong returns and a rising income. These include equities, at home and overseas, property and infrastructure.
- A feature of the portfolio is a relatively high exposure to international markets. This increases significantly the range and number of investment opportunities and gives exposure to economies enjoying faster rates of economic growth than the UK. Currency techniques are used to moderate the effects of changes in exchange rates.
- The Fund has a low exposure to fixed income markets; this reflects concerns that current yields are unattractive on a longer term view.
- Our expectation is that we will increase the income payment to investors for the current year.

The CBF Church of England Global Equity Income Fund

- The investment objective of the Fund is to provide investors with a high and growing income from a portfolio of global equities.
- The portfolio is constructed on the basis of the appeal of the individual equities under consideration and is not limited by any pre-determined allocation to any country or industry. This means that the portfolio construction will usually differ significantly from the major stock market indices, typically with a bias towards stocks and sectors which are currently out of fashion.
- Equity markets have eased back and are not expensive on a medium to long term view, we expect to keep cash holdings low and maintain a fully invested position.
- We expect to increase the income payment to investors for the current year.

The CBF Church of England UK Equity Fund

- The Fund aims to provide investors with a high and growing income from a portfolio of shares listed on the UK stock market. The approach is to select companies we consider to be offering good value and able to support higher dividend payments in the future.
- Although the UK market is substantially higher over the past year, the past three months have seen weakness which we believe has taken share prices down to levels which are attractive on a medium and longer term perspective.
- Despite the suspension of dividend payments by BP we expect to increase the income distribution on the Fund for 2010.

The CBF Church of England Property Fund

- The Fund seeks to provide investors with a high income, growing over time and some capital growth.
- Although the pace of valuation improvement has slowed this year after the swift recovery in the later months of 2009, we expect growth to continue a little longer. A sustained upturn however will need support from stronger occupier markets.
- The main attraction of the sector currently is therefore the high income it can provide from secure assets let to good quality tenants. We currently favour the industrial and retail warehouse segments of the market.
- We expect to increase the income payment to holders this year.

The CBF Church of England Fixed Interest Securities Fund

- The Fund aims to provide investors with a high and secure income from a portfolio comprising of UK government and corporate bonds.
- Bond markets have rallied in recent weeks following a Budget which promised a swifter reduction of government debt and a smaller flow of new bonds on to the market. Another positive factor has been fallout from the problems in the Euro zone as investors, cautious of those markets, have increased their allocations to the UK.
- We expect these factors to continue to support the market in the near term but then for prices to ease under the pressure of a reduced, but still very substantial, new issuance programme.
- We expect to adopt a slightly defensive strategy and maintain the current exposure to the higher yielding corporate bond sector.

The CBF Church of England Deposit Fund

- The prime objective of the Fund is capital safety and security. The portfolio is invested only in bank deposits and does not hold securities or derivatives. The deposits are made to an approved list of high quality borrowers and on any typical day investments will be spread between 20-30 names to boost security even further.
- We expect official rates to stay at very low levels for the near term and this will be the dominant influence on the rate paid to depositors. From time to time higher rates are on offer in the market place but too often these are from borrowers which do not meet our credit standards.

Responsible Investment Report

Our work has five strands:

- 1 Engagement, focused on social and environmental issues in the context of Christian mission and witness.
- 2 Setting appropriate constraints on investment and exposure to activities considered unacceptable by the Church of England's Ethical Investment Advisory Group (EIAG) and the CBF Funds Trustee.
- 3 Proxy voting on corporate governance issues to protect shareholder value and address excessive remuneration.
- 4 Selecting some investments that deliver social or environmental benefits plus market-level risk-adjusted returns.
- 5 Integrating appropriate risk factors into stock selection.

Quarterly highlights

- The EIAG's 2009/10 annual report to General Synod is now available at www.cofe.anglican.org/info/ethical
- The Church's new defence investments policy (see opposite) has been disseminated and is available in full on the above website.
- CCLA is voting on a global basis for the first time (see below).
- EIAG members received a presentation from the Chief Executive of the Environment Agency Pension Fund about the fund's award winning approach to climate change and other environmental issues.
- An EIAG engagement meeting with BP board representatives has been organised for the autumn.

Voting in more detail

- Historically CCLA has only voted at UK company meetings. Given that equity portfolios have become more global in recent years this domestic focus was no longer satisfactory from a stewardship perspective.
- We have worked with other members of the Church Investors Group (CIG) to develop a cost effective way of working together through two proxy voting providers. This has allowed us to continue to reflect EIAG and CIG concerns about excessive remuneration, whilst following global best practice in other areas.
- In early April the Church's national investing bodies joined 15% of BP's shareholders in abstaining or voting against management in relation to the Canadian tar sands resolution that was co-filed by church, charity and co-operative investors to highlight risks to long-term shareholder value of unconventional oil.
- Global voting started in May. CCLA's quarterly record for the 1,187 UK resolutions voted was 14% abstentions or votes against management (mainly remuneration related).

Ethical constraints

- The EIAG is currently undertaking a comprehensive review of some of the restricted investment categories (currently pornography, financial services and alcohol). This process is supported by the CBF Funds Trustee.

Focus on the Church's new Defence Investment Policy

Background and summary:

- The old policy was developed in 2000 at a time when most of the Church's equity investments were in the UK.
- The new policy draws heavily on Christian 'just war' thinking, which sets out criteria for the legitimate resort to warfare and conduct of war (including avoiding harm to non-combatants).
- The policy involves a complete bar on investments in companies producing indiscriminate weapons like landmines and cluster bombs.
- The policy recognises that a great many companies in the modern global economy are involved in some way in conventional weaponry and sets a 10% turnover limit for strategic military sales to reflect the investing bodies' fiduciary duties.

The June press release

- The Church of England's national investing bodies have agreed an ethical investment policy on investments in the defence sector recommended by the EIAG.
- The EIAG followed its standard ethical method, examining biblical guidance, theology, ethics, Christian tradition and Anglican thinking.
- The policy involves a complete bar on investment in companies involved in the production of indiscriminate weapons – companies involved in landmines, cluster munitions, nuclear weapons and the processing, supply or storage of weapons-grade nuclear fissile materials.
- For companies involved in conventional weaponry, the EIAG recommended a threshold for turnover from strategic military sales which, once exceeded, should make a company an inappropriate investment for the Church national investing bodies. This threshold, which has been accepted by the investing bodies, is 10% of turnover.
- John Reynolds, Chairman of the EIAG, said "While many Anglicans accept that recourse to war may be justified, they are uncomfortable about war and the appropriateness of investing in, and deriving profit from, products purposefully designed to destroy human life".
- Mr Reynolds added: "The more restrictive approach to companies involved in indiscriminate weapons comes from Christian 'just war' thinking, which holds that warfare should avoid harm to non-combatants and that means of warfare should be proportionate".

Further detail and future reviews:

- The full policy, including the theological reasoning, is available at www.cofe.anglican.org/info/ethical.
- Clients with further questions or comments about any of the policy reviews are invited to contact James Corah (james.corah@ccla.co.uk), who supports the EIAG Secretary and is Secretary to the ecumenical Church Investors Group (www.churchinvestorsgroup.org.uk).



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