

QUARTERLY BULLETIN

31 December 2009

Note from the Chief Executive of CCLA

As I write this at the end of 2009 we can look back over what has been a remarkable year for investors.

Only a year ago economies were falling into a severe recession, the depth of which was made much worse by the effects of the credit crisis; weak banks were a poor source of finance to their customers. A mark of the severity of the downturn is that, at the March low point, 75% of the world's economies were contracting. Investment markets reacted to the deteriorating conditions with concern and equity prices fell sharply. At the end of March the FTSE All-World Index was down by 20% over the preceding 12 months, the UK market was nearly 30% lower.

Just as sentiment became most depressed, so conditions changed; suddenly and with little warning as is so often the case in investment markets. The initial move up in prices reflected not so much optimism for the future, that came later, but rather relief that governments internationally were taking concerted and determined action to build a recovery. Equity markets rose until June, paused and then rose again into the final quarter of the year.

Observers of investment markets looking at the strength of the upturn might reasonably have expected it to be broadly based, but this was not the case. In fact, the gains were very concentrated and it was the extreme strength of a small number of

stocks and sectors which pulled the overall market higher. Speculative recovery stocks and in particular the resource sector, were at the forefront of this phenomenon. Against a backdrop of a 30% return for 2009 on the broad UK market, Kazakmys rose by 475%, Vedanta by 327%, Fresnillo by 244% and Xstrata by 209%. In contrast, many high quality household names participated in the rally in only a modest way and some well known companies, including Wm Morrison, BT Group, Cable & Wireless and Severn Trent, were all lower at the end of the year than they were at the start.

The nature of investment markets is to discount expected economic events rather than simply reflect the prevailing conditions and although the mood in investment markets improved markedly in anticipation of recovery to come, the economy remained difficult. Profits fell across industries and in an environment of financial shortages, dividend cuts were common place. Our approach to asset selection is to find investments which offer good value; typically companies with strong balance sheets and the resources to pay high dividends which will grow in the future. This approach has allowed us to increase the income payments on all of our equity, property and balanced funds over the past year. It also gives us considerable confidence that, although the economic environment is expected to remain difficult, as the UK limps out of recession, we will provide further increases in income to our investors in the year ahead.

Michael Quicke

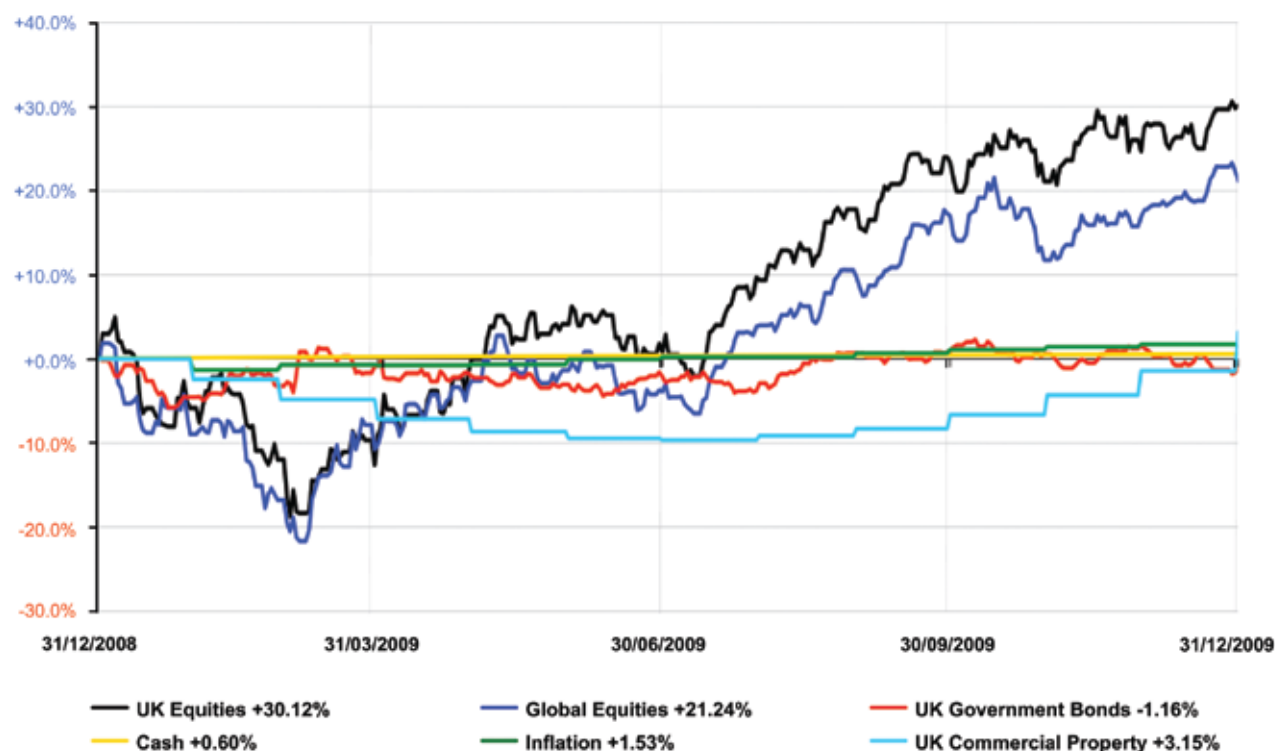


for the Church of England

Market Review and Outlook

Markets at a Glance - 12 Months to 31 December 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* (*Latest monthly return estimated by CCLA).

Market Review & Outlook

- Global equity markets rose over the quarter, extending the uptrend which began in March. To a sterling based investor the FTSE All-World Index gave a total return of +3.63% and there were gains of +0.48% from Europe, +4.95% from USA and +5.15% from Asia. In Japan the market rose in local currency terms by +0.75%, but currency exchange rate changes turned this into a return of -4.04% when expressed in sterling. The domestic equity market participated fully in the rise with the FTSE All-Share Index posting a return of +5.47%. In the UK large companies performed slightly better than the market as a whole, with a gain of +6.16%, but small companies fell back on profit taking and declined by -7.71%.
- The UK government bond market (gilts) gave a negative return of -2.04%, weakening as concerns rose over the scale of the new issuance programme and the lack of detail on the spending cuts necessary to reduce the budget deficit to acceptable levels.
- Property values rose steadily over the quarter despite continued downward pressure on rental values. Buyers were keen to lock-in attractive yield levels.
- In currency markets sterling strengthened; modestly against the dollar and more substantially against the euro and yen.
- Economic data evidenced the gradual recovery of global activity levels. Estimates suggested that the US emerged from recession during the third quarter, ending the longest downturn in that economy since the Great Depression. Japanese growth continued, but remained frail and whilst the Eurozone edged further out of recession, the pace of progress was pedestrian.
- Of the major economies only the UK continued to decline, with output falling by an estimated 0.2% in the quarter to end September. Reflecting the poor economic performance, government finances continued to deteriorate; lower tax revenues and higher spending combined to push borrowing ever higher. Total borrowings for the twelve months to end October were £138 billion, three times the total for the previous twelve months.
- We expect the improvement in world economic activity to continue but only at a modest pace, there remain risks even to this cautious scenario. One outcome of this is that interest rates are expected to stay low for some time.
- Against this background we expect further progress in equity markets and for commercial property. We consider government bonds to be vulnerable and expect yields to move higher. Corporate bonds will be less affected but are still exposed to weakening sentiment. Sterling is stabilising but we still consider it vulnerable on a medium and longer term basis.

Distributions for the Quarter to 30 November 2009

The CBF Church of England Fund	Distribution per Income Share	Payment Date	
Investment Fund	14.40p	24/12/09	<ul style="list-style-type: none">• Despite a difficult background for income generation the total income payment to investors for 2009 has been increased by 3.11% from 2008 levels.• We expect to increase the payment again in 2010.
Global Equity Income Fund	1.79p	28/01/10	<ul style="list-style-type: none">• The total payment for 2009 is 3.17% higher than that for 2008 despite a difficult environment of dividend cuts.• We expect to be able to make a further increase in the payment in the year ahead.
UK Equity Fund	1.61p	28/01/10	<ul style="list-style-type: none">• The payment for 2009 has been increased by 3.06% on that for the previous year.• Our expectation is that the total payment for 2010 will show an increase on that achieved in 2009.
Property Fund	2.09p	28/01/10	<ul style="list-style-type: none">• The payment for 2009 is 3.12% higher than that achieved in 2008.• Our target is to make a further increase in this payment over the year ahead.
Fixed Interest Securities Fund	2.20p	28/01/10	<ul style="list-style-type: none">• The payment to share holders for 2009 has been maintained at the rate achieved for 2008.• Based on the Income Share price at the end of December 2009 and an annual payment of 8.80p, the income yield on the Fund is 5.69% and the gross redemption yield is 3.45%*.

*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.

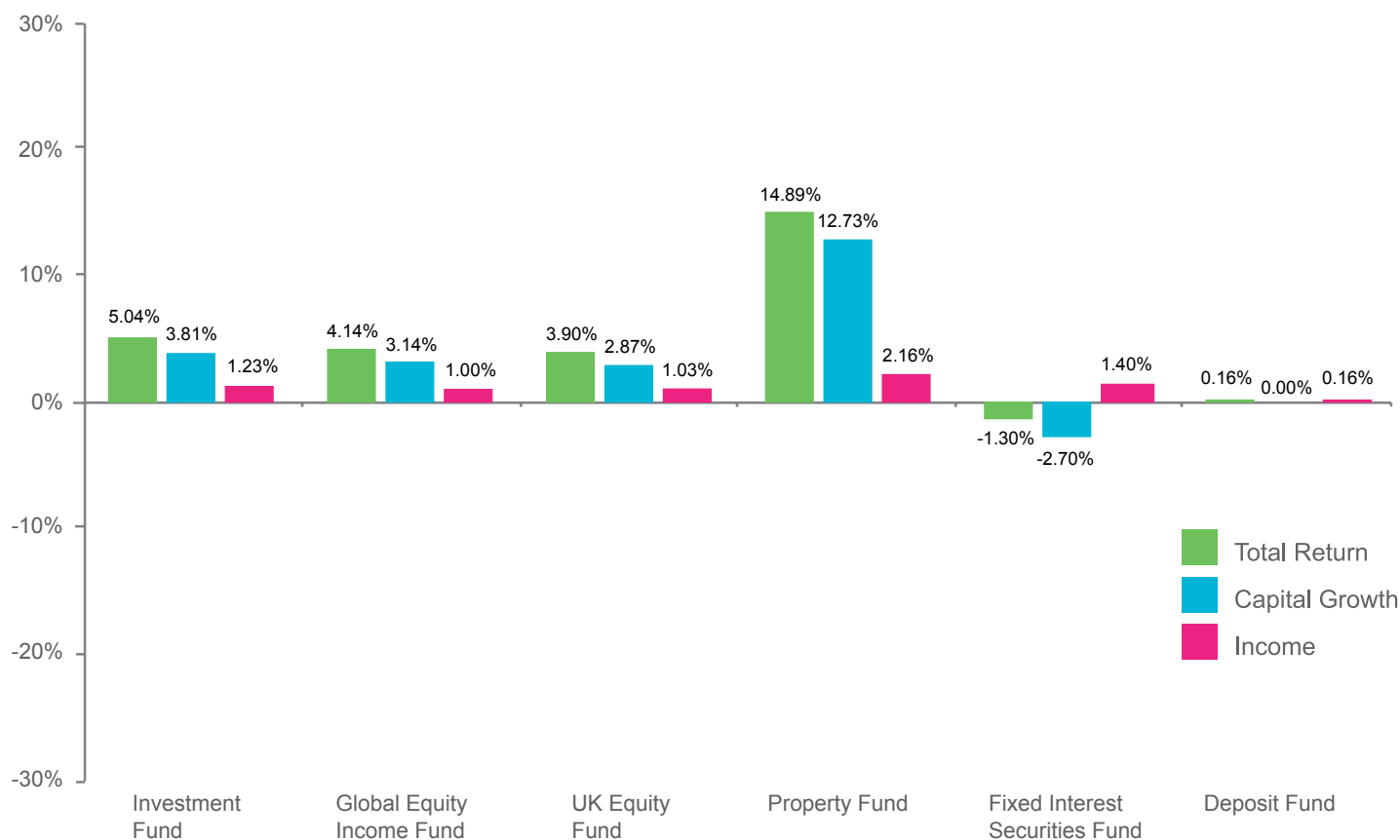
Interest for the Calendar Quarter to 31 December 2009

The CBF Church of England Deposit Fund

Average interest rate over the calendar quarter (0.52% A.E.R.)**	0.52%	<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 continued to decline.
Interest rate at the calendar quarter end (0.50% A.E.R.)**	0.50%	<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

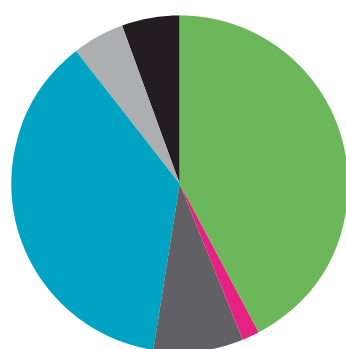
- Despite a very difficult income environment the payment on the Fund has been increased, up by 3.11% on the payment for 2008.
- Equity investment markets have risen strongly from the low point reached in March, this has been the main contributor to the strongly positive returns achieved by the Fund over the year.
- The Fund has lagged the comparator index. This is mainly because the good quality, high income paying shares which make up a large part of the portfolio did not match the returns on the domestic equity market.

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

	2009	2008	2007	2006	2005
Fund	+15.5%	-21.9%	+6.1%	+14.3%	+19.8%
Comparator	+21.8%	-22.8%	+5.2%	+13.0%	+20.9%

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 2009



UK Equities	42.4%	Overseas Equities	36.9%
Fixed Interest	1.6%	Property	5.1%
Infrastructure	8.7%	Cash	5.3%

Overseas Equities %

Europe	12.7
USA	11.7
Japan	3.5
Pacific Ex Jap	6.5
Other	2.5
	<u>36.9</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 to investors for the year has been increased by 3.17%, despite the difficult environment for dividends on international stock markets.
- After a weak start, global equity markets ended the year significantly higher. As a result the Fund produced a strong return for the year, one substantially higher than inflation.
- The Fund's return has not matched the gain on the comparator index, this reflects the focus on good quality, higher yielding stocks which, over this period, did not keep pace with the market as a whole. The strongest performing stocks tended to pay low incomes and so were inappropriate for the Fund.

The CBF Church of England UK Equity Fund

- The income payment to investors for the year has been increased by 3.06%, despite the difficult environment for dividends in the domestic equity market.
- The Fund has produced a strongly positive overall return for the year, a reflection of the significant rally in prices from the low point reached in March.
- The return on the Fund has not however matched that on the benchmark. This reflects an environment where the good quality, higher yielding stocks which form the main part of the portfolio underperformed a market where low yielding and recovery themed stocks led the way.

The CBF Church of England Property Fund

- The income payment for the year has been increased by 3.12% over that for 2008, this reflects the resilience of the portfolio at a time of falling rental levels.
- Commercial property values declined in the first half of the year but rose later to contribute to a positive total return for the year as a whole.
- The performance returns for the benchmark are not yet available.

The CBF Church of England Fixed Interest Securities Fund

- The income payment on the Fund has been maintained at 2.20p per Income Share. The payment for 2009 as a whole is at the same level as that for 2008.
- Government bonds have lost ground in recent months, sufficiently so for the results for the year as a whole to be negative for this segment of the market.
- Corporate bonds have been stronger and have produced positive returns.
- The Fund has produced modest positive returns over the period. 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 0.50% (0.50% AER*). There were no changes to official interest rates over the period.
- Interest rates are expected to stay at current low levels for some months. The Fund will continue to prioritise capital security.

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

	2009	2008	2007	2006	2005
Fund	+19.2%	-23.8%	n/a	n/a	n/a
Comparator	+30.1%	-29.9%	n/a	n/a	n/a

Comparator - FTSE All-Share Index

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

	2009	2008	2007	2006	2005
Fund	+18.4%	-29.1%	+6.6%	+17.2%	+20.7%
Benchmark	+31.1%	-31.3%	+4.0%	+16.7%	+21.3%

Benchmark - FTSE All-Share Index Adjusted for Ethical Restrictions

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

	2009	2008	2007	2006	2005
Fund	+4.4%	-19.6%	-2.9%	+20.9%	+17.3%
Benchmark	n/a	-26.0%	-5.4%	+19.8%	+18.9%

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

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

	2009	2008	2007	2006	2005
Fund	+1.7%	+9.4%	+4.7%	+1.1%	+7.9%
Benchmark	n/a	+6.5%	+4.0%	+1.1%	+7.8%

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

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

	2009	2008	2007	2006	2005
Fund	+1.5%	+5.8%	+5.9%	+4.8%	+4.8%
Benchmark	+0.6%	+4.8%	+5.8%	+4.7%	+4.7%

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 total return of inflation plus 5%, whilst maintaining the real value of the income paid.
- In order to meet these objectives the portfolio has a high weighting to assets such as equities, property and infrastructure which can provide good long term growth and a rising stream of income.
- There is a relatively high exposure to markets overseas to benefit from expected superior rates of economic growth. To control the effects of exchange rate fluctuations on valuations we employ a policy of partially hedging currency risks.
- In recent weeks we have substantially reduced the exposure to fixed income markets. These monies will be invested in real assets such as equities, at home and overseas, and property.
- We expect the difficult income environment to continue in the period ahead but despite this we have confidence that we will once again increase the income payment to investors.

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 increase their dividend payment in the future. The approach to building the portfolio is to work from the 'bottom up', selecting individual holdings on merit rather than fit the list of holdings to a pre-determined weighting to any geographical region or market sector.
- The global reach of the Fund means that whilst it can and does invest in good quality UK listed companies, it offers investors the chance to invest in faster growing economies and in sectors poorly represented in the UK's increasingly concentrated market.
- Our approach naturally leads us to stocks and sectors which are out of current favour and thus offer good long term recovery attractions. Although equities have rallied very substantially from the lows recorded in March, we still anticipate further progress to be made.
- We believe income generation will remain difficult in the period ahead but nevertheless expect to increase the payment to shareholders for 2010.

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, derived from a portfolio of good quality UK equities.
- Dividends in the UK have been under severe pressure and many have been cut or omitted altogether. Against this background the Fund's focus on sustainable income has allowed the dividend payment to investors to be increased in 2009, we expect further growth in the dividend payment in the year ahead.
- Although the UK equity market has risen strongly from

the lows we see scope for further upside in the months ahead. Day to day fluctuations however are likely to remain substantial.

The CBF Church of England Property Fund

- The improvement in values which began at the end of the summer has continued and indeed accelerated, but still remains centred on prime quality assets.
- We are optimistic about the outlook for the sector and expect to be buyers of more properties in the period ahead. Cash holdings will be kept as low as is practicable in this illiquid sector.
- Our favoured market segments currently are retail and industrial, but overriding any sector preferences will be the quality of the underlying asset.
- In an environment of low cash rates and with falling property yields as prices rise, income growth will be a challenge but we are nevertheless hopeful of making another increase in the payment to investors in the year ahead.

The CBF Church of England Fixed Interest Securities Fund

- Corporate bonds have continued to outperform government securities (gilts) as risk perceptions have fallen and the higher available yields in this area of the market have been seen as being more attractive.
- We have maintained a relatively high weighting to corporate bonds but with a clear focus on the underlying quality of the issues.
- Looking forward, the UK government bond market faces serious challenges from the huge increase in supply necessary to pay for the budget deficit. In an environment of growing political uncertainty and against a backdrop of economic recovery, our expectation is that this will force yields higher and thus prices lower. We expect to make the portfolio more defensive in the period ahead and to add further to non-government bonds at the expense of gilts.

The CBF Church of England Deposit Fund

- The prime focus of the Fund is on the safety and security of investments. The portfolio uses only bank deposits and does not buy securities. Deposits are made only to an approved list of high quality borrowers, the membership of this list is kept under regular review. If any borrower fails to match our standards they are simply excluded from future transactions.
- In recognition of the unrelenting focus on security the Fund has been awarded an AAA/V1 rating by Fitch Ratings, the leading international credit rating agency. AAA ('triple A') is the highest credit rating available.
- Market interest rates from top quality borrowers have remained at low levels and inevitably this is reflected in the interest rate paid by the Fund. It has been possible to achieve higher rates over the period but not at risk levels we considered to be acceptable.
- We expect rates to stay low for some time to come.

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

- Church and other institutional investors held a meeting with the Chair of Vedanta to discuss concerns about environmental, social and governance issues.
- Church Investor Group members also engaged with Shell (remuneration), Nestle (breast milk substitutes) and United Utilities (corporate responsibility).
- As a sponsor of National Ethical Investment Week, CCLA held trustee events in several locations.
- Victoria Barron joined the team as Research Assistant in October and she attended the climate change negotiations in Copenhagen as part of the official UK youth delegation (see opposite).

Voting in more detail

- The CBF Investment Fund voted at nine UK company meetings during the quarter, and the CBF UK Equity Fund at four meetings.
- Proxy voting statistics can be seen at www.ccla.co.uk
- During the quarter, CCLA opposed executive remuneration at Go-Ahead Group where sizeable transaction bonuses were paid to the Executive team for retaining a key rail franchise. Bonus supplements were also paid without considered explanation. CCLA abstained from supporting remuneration at mining company BHP Billiton where we viewed the structure of remuneration to be too closely tiered towards the short-term.
- We have been working with members of the Church Investors Group to plan the cost effective expansion of voting to global markets ready for 2010.

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).

Focus on Climate Change: "The biggest market failure the world has ever seen" – Sir Nicholas Stern

Recent Highlights:

- Chief Investment Officers and Chief Executives (including Michael Quicke) and from nearly 200 financial institutions with \$13tn of assets under management signed the '2009 Investor Statement on the Urgent Need for a Global Agreement on Climate Change' because "risks such as climate change that threaten to disrupt the global economy are significant risks that investors have to manage".
- We took an active role in building a \$3tn global coalition of institutional investors that is encouraging major carbon intensive companies to disclose carbon reduction targets to the Carbon Disclosure Project in 2010.
- We approved a timber investment with mainstream risk/return characteristics and carbon mitigation benefits.

Report from Copenhagen

- Having recently joined the Ethical & Responsible Investment Team, Vicky Barron attended the negotiations on behalf of CCLA and the UK Youth Climate Coalition (UKYCC).
- During her two weeks in the Bella Centre Vicky attended plenary sessions and a variety of events including side talks. She also attended the Institutional Investors Group on Climate Change dinner with negotiators and the Ecumenical service that was held in Copenhagen Cathedral (see below).

Ecumenical Service in Copenhagen Cathedral

- The Ecumenical service held on Sunday 13th December at the Lutheran Cathedral saw the Archbishop of Canterbury address an audience which included Queen Margerethe II of Denmark, Archbishop Desmond Tutu and the General Secretary of the World Council of Churches.
- The service began with a symbolic procession of glacier stones from Greenland, representing the glacier retreat that is occurring all over the world; dried up maize from Africa, a symbol of the hunger brought about by climate change; and bleached corals from the Pacific Ocean, signs of the dangerous acidification of the oceans.
- The Archbishop asked all leaders to act out of love and not to be paralysed by fear, and noted that "we cannot show the right kind of love for our fellow humans unless we also work at keeping the earth as a place that is a secure home for all people". 'Church and Earth' sets out the Church of England's new seven year plan to help tackle climate change, including the evolving role of its investments.

What next?

- The public policy workstream of the Institutional Investors Group on Climate Change is meeting in January to discuss plans for 2010, and UKYCC has a meeting scheduled with the Secretary of State for Energy and Climate Change.
- CCLA will continue to help address the systemic risks of climate change and assess investment opportunities related to the anticipated shift to a low carbon economy.



for the Church of England

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B17/Jan2010