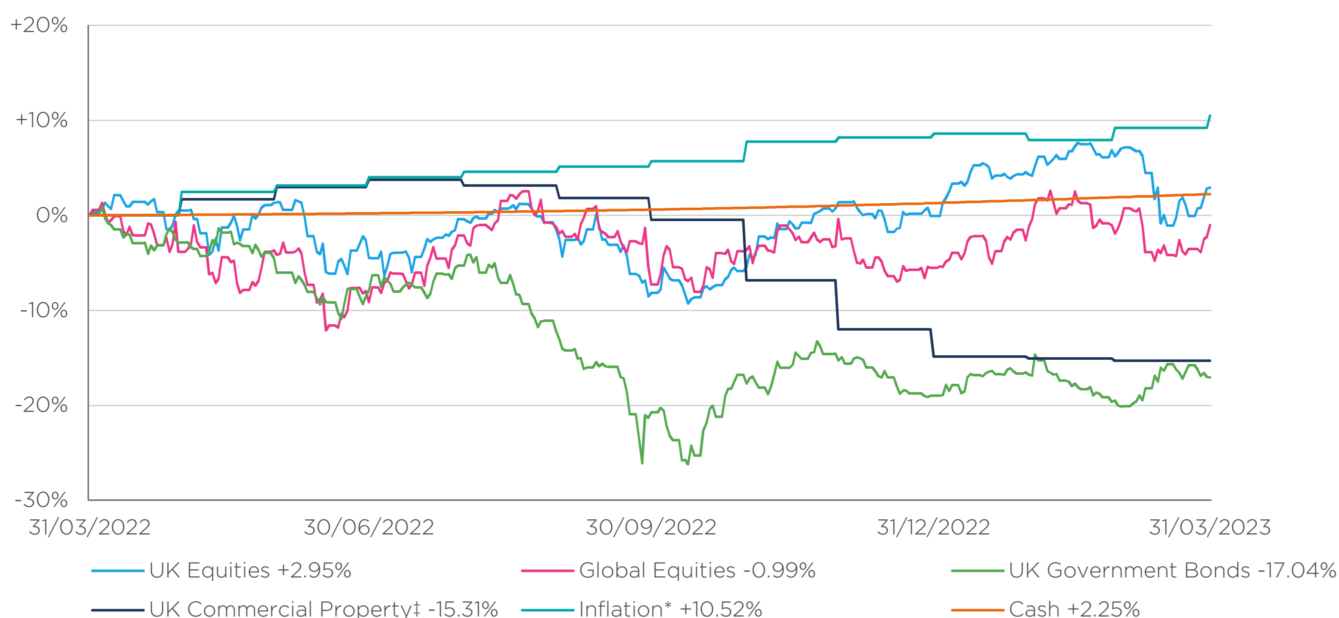
CCLA

QUARTERLY BULLETIN

31 March 2023

Market review and outlook



General Market Indices

	Current quarter (%)	Last twelve months (%)	Last three years annualised (%)	Last five years annualised (%)
UK Equities (MSCI UK Investable Markets Index)	+3.02	+2.95	+13.59	+4.70
Global Equities (MSCI World Index)	+4.81	-0.99	+16.51	+10.77
Global Equities ex UK (MSCI World ex UK Index)	+4.87	-1.28	+16.61	+11.07
UK Govt. Bonds (Markit iBoxx £ Gilts Index)	+2.38	-17.04	-9.53	-3.16
Sterling Bonds ex UK Govt, (Markit iBoxx £ Non-Gilts Index)	+2.39	-10.20	-3.07	-0.85
UK Commercial Property (AREF/MSCI™ All Prop Monthly) ‡	-0.52	-15.31	+2.50	+2.63
Inflation (CPI) *	+1.74	+10.52	+6.02	+4.27
Cash (SONIA) §	+0.94	+2.25	+0.78	+0.68

Source: Bloomberg (Data shown is daily except for Inflation and UK Commercial Property where data shown is monthly)

§ SONIA (Sterling Overnight Index Average) is estimated for the most recent month. From 1/1/21: SONIA. Prior to 1/1/21: 7-Day London Interbank Sterling Bid Rate (7-Day LIBID).
* CPI (Consumer Price Index) is estimated for the most recent month.
‡ MSCI UK Monthly Property is estimated for the most recent month.

Equity markets had mixed fortunes over the first quarter of 2023 but made progress overall. January was strongly positive, as investors began to anticipate a peak in the current monetary policy tightening cycle. The mood changed in February, however, amid signalling from the US Federal Reserve and other central banks that they regarded the fight against inflation as having some way to go.

Although headline inflation continued to fall, employment data indicated that jobs markets remained too tight for the regulators' liking, and core inflation measures which strip out volatility energy and food prices continued to rise. This reinforced expectations that interest rates would move higher and stay there for longer than had recently been priced in by markets.

Financial stocks were especially volatile in the month of March, as difficulties emerged at a handful of institutions including Credit Suisse and the specialist Silicon Valley Bank, making this one of the worst-performing sectors over the quarter. Swift action by regulators and the realisation that the turmoil was not systemic to the banking system as a whole brought some relief to financials as the period end approached. More broadly, signs in March that labour markets were finally beginning to soften and that the peak of interest rate tightening was approaching – seen as even more likely if central banks concluded that a rising yield environment had contributed to banks' woes – improved support for equities as a whole.

The global equity index delivered total returns for the latest quarterly period of +7.7%; although a weakening in the dollar meant that for sterling-based investors these gains were pared to +4.8%. In a further sign of improving sentiment, 'growth' stocks outperformed 'value' – with value also held back by the weakness of banks which fall within that category. In the dominant US market, for example, the value index was down -3.2% (sterling terms) while growth was well into positive territory at +15% for the quarter. Uncertainty in the banking sector and a lower oil price contributed to underperformance by the UK market relative to its global peers, as both these and other 'value' sectors are heavily represented in the UK index. Returns from UK equities were +3.0% over the first three months of the calendar year. Looking back further to the last 12 months, however, the UK market remains ahead with total returns of +2.95% compared to the world index return of -0.99%.

The year also got off to a positive start for fixed interest assets with yields falling (and hence, valuations rising) as markets anticipated less hawkish monetary policy than had previously been priced in. The UK government bond (gilts) market as a whole gave total returns of +2.4%, although still nursing losses of more than 17% over the last year; while non-government bonds were up 2.4% over the quarter, and down -10.2% for the latest 12-month period.

In UK commercial property there were modest further declines in capital values and transaction volumes remained low by historical standards. However, the market appeared to have regained some composure after the savage downturn in valuations in 2022, which as with other asset classes was prompted by the sharply rise in bond yields. Income returns from property, meanwhile, remained healthy, and rental growth was reported to be marginally positive.

Outlook

Many commentators are now forecasting modest growth, rather than recession, for the world's major economies in 2023 and 2024. Even the UK, widely regarded as being in a weaker position than its peers, has better prospects than was the case a few months ago: the Office for Budget Responsibility (OBR), in its report accompanying the recent government Budget, predicts that the UK will avoid a technical recession in 2023. The more optimistic tone stems from a variety of factors, including the impact on global demand and supply of China's post-Covid reopening, and the mild winter in Europe limiting the economic damage from higher energy prices.

Nevertheless a number of indicators suggest that there are significant headwinds to growth, with recession remaining a distinct possibility. The constraining effects of higher interest rates come some months after the related announcements by central banks, and have yet to be fully felt. Commercial bank lending standards were already tightening before the recent clutch of financial distress cases and may well tighten further, representing a further brake on spending and investment. Perhaps most compellingly, the US yield curve remains significantly inverted; historically this has been one of the most reliable indicators of a forthcoming recession. Given the US's dominant position as an economy and as an investment market, a slowdown or contraction there would have implications for investors around the world.

Fortunately a weak outlook for economic growth does not mean that investment markets cannot progress, although some businesses will be better placed than others to prosper in a low-growth environment. The widespread damage to valuations suffered in the face of rapidly rising yields is unlikely to be repeated now that policy tightening appears to be approaching its peak. However in the coming weeks investors will be scrutinising corporate earnings reports for signs of how inflation and interest rates are affecting revenues and margins. We can expect to see divergence between sectors and between individual stocks as results and guidance are published.

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The market review, analysis and any projections contained in the document are the opinion of the owner only and should not be relied upon to form the basis of any investment decision.

Banks in the spotlight

Within the space of a few days in March 2023, two US regional banks and Europe's Credit Suisse failed, prompting regulators to intervene and dragging down equity prices across the banking sector. What happened – and should investors be concerned?

Conventionally, banks prosper by borrowing (i.e. taking deposits) at relatively low interest rates, and lending at higher rates, to businesses and individuals such as mortgagors. A general rise in interest rates wouldn't necessarily cause the sector any difficulty; in fact it would often be regarded as helpful for its potential to increase the margin between the rates at which banks can lend and borrow money.

In the current cycle, events have played out rather differently. The demand from borrowers looking to invest in business and property over the long term has not kept up with the volume of short-term cash deposits. Even whilst paying very modest rates to depositors, many banks have seen margins decline as they have struggled to put their balance sheet assets to sufficiently productive use. To enhance profitability, some have bought portfolios of slightly higher-yielding bonds.

If held to maturity, these bonds would present very little risk to nominal cash flows. However bonds may also be considered available to be sold prior to maturity if required to support a bank's liquidity. Because bond prices move inversely to yields, the steep rise in interest rates caused the market value of these bonds to decline sharply, and in the case of the now-defunct Silicon Valley Bank (SVB) sizeable losses were realised when bonds were sold in order to raise cash levels. Alerted to the state of its balance sheet, a large swathe of SVB's depositors took fright and sought to withdraw their cash, prompting the US regulator, the Federal Deposit Insurance Corporation (FDIC) to step in, brokering and underwriting the sale of its assets and liabilities to another bank. Meanwhile SVB's UK arm was sold to HSBC for £1.

The failure of SVB alarmed many customers of another specialist US, Signature, which had significant exposure to cryptocurrency and had already been weakened by 2022's slump in crypto asset prices and the collapse of crypto exchange FTX. Once again the FDIC intervened to forestall a run on Signature Bank and avert the risk of contagion to the wider banking sector.

A few days later, Credit Suisse finally succumbed to the pressure created over a number of years by a series of scandals, unstable governance and commercial mis-steps. A loss of investor confidence, highlighted by the bank's difficulty in attracting new funds to support liquidity, led the Swiss National Bank to step in with Credit Suisse being sold at a knock-down price to rival UBS.

Should investors be worried?

Fortunately, widespread failures among major banks are unlikely, for several reasons. Firstly, regulatory intervention worked as intended, and swiftly, including full protection for depositors and thus reducing the risk of 'contagion' in the shape of panicked bank runs by customers of other institutions. The affected banks also had risks and challenges, such as highly concentrated client bases and substantial exposure to volatile assets, that aren't characteristic of the sector's dominant players. Thanks to regulatory changes in the wake of the financial crisis of 2008-09, large banks now have much higher liquidity buffers than at that time; and regulation of the largest banks, which account for the majority of the sector's assets, is more stringent than the regime for the smaller US banks which collapsed.

Nevertheless, the recent failures have highlighted some important risks and put investors on alert.

Questions are being asked about oversight of risk exposure, especially at US mid-tier banks. The episode has served as a reminder of the commercial challenges facing banks in a low-growth environment, leaving markets wary of the sector's potential to deliver strong shareholder returns. More widely, economic activity is likely to be hampered as banks toughen up their already-tightening lending conditions in order to limit risk. A banking crisis may have been averted, but the impact of the recent turbulence could be felt for some time.

Promoting Healthier Markets

Investment markets will only be as healthy as the environment and communities that support them. From tackling obesity to addressing workplace ill-health, investors can play a key role in driving positive change.

Why health?

The private sector undertakes many activities that affect people's health, both positively and negatively. Within a company's immediate sphere of influence, its approach to the health, safety and welfare of its own workforce can have a direct impact on its profitability. More broadly, the products or services that a company offers come with consequences for customers and society.

Nutrition and the obesity crisis

Worldwide, obesity has nearly tripled since 1975 (WHO). The World Obesity Federation estimates that by 2020 around 770 million adults globally were affected by obesity; that figure is anticipated to exceed one billion by 2030. Obesity is closely linked to several health conditions, which are estimated to cost $2 trillion annually.

Companies that produce or sell unhealthy food and drinks rightly come under fire for the role they play in fuelling the obesity crisis. Yet some of the largest manufacturers of 'bad food' also produce a great deal of 'good food' as well. For instance, while Nestlé owns brands such as Häagen-Dazs, KitKat and Quality Street, it also owns three pure water brands, four baby food brands, and produces a wide range of vitamins, minerals and supplements via its Nestlé Health Science business.

Engaging with Big Food

Recent engagement with Unilever, PepsiCo, Nestlé and Coca-Cola aims to persuade these companies to commit to producing healthier products and to make these products more accessible, more affordable and more available. Our specific asks relate to disclosure, target setting, and reporting on progress against those targets.

On the back of prolonged engagement, Unilever pledged last year to set a new industry-leading standard on transparency around sales of healthy foods. It has now disclosed the 'healthiness' of its global portfolio against six government-endorsed nutrient profiling models, in both sales volume and revenue.

We have had similar discussions with Nestlé over the past two years as part of our support for ShareAction's Healthy Markets Coalition and the Access to Nutrition Foundation.

There was notable success in 2022. On increased shareholder pressure, Nestlé agreed a set of new nutritional commitments. These require the company to (among other things):

- Benchmark and disclose the nutritional information of its products in 14 countries (now published).
- Raise the target age of marketing of unhealthy foods.
- Cease marketing on gaming platforms where the user base is significantly comprised of under 16s.
- Cease the marketing of infant formula milk from 1st January 2023.

After an initial reluctance to set targets on sales of healthy foods, we escalated the engagement and considered co-filing a shareholder resolution. The company eventually agreed to set targets on absolute sales of healthy products. While this falls short of the proportional targets we were seeking, we will continue to ask for further commitments in 2023.

Investor Coalition on Food Policy

In 2021, the UK government-commissioned National Food Strategy was published. The review includes 16 recommendations to build a more sustainable food system, for both health and environment.

In 2021, we signed a letter to the Prime Minister, along with 17 other institutional investors, urging the Government to act on the Strategy's recommendations. We subsequently met the Minister of State for Farming, Fisheries and Food at the Department for Environment, Food and Rural Affairs (DEFRA), and representatives from the Department of Health and Social Care. We discussed why mandatory nutritional reporting is important for investors, the role that investors could play, and how it could work in practice. The meeting was positive but non-committal.

In Q1 2023, following several months of significant change in the government, we co-signed letters to the Secretary of State for Environment, Food and Rural Affairs and the Secretary of State for Health and Social Care. The letters reiterate the investor case for mandatory reporting and our support for the Food Data Transparency Partnership. We await a response.

Ethical and responsible investment report

Our work has four 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. Responsibilities under the UK Stewardship Code and the UN Principles for Responsible Investment (PRI).

Quarterly highlights

In Q1, we sent letters to four companies asking them to become Living Wage accredited: Greggs, Watches of Switzerland, Admiral Group and Safestore Holdings. Admiral responded and Greggs agreed to a meeting. The discussion was positive but non-committal. We are now considering contacting The Bakers, Food and Allied Workers' Union for further insight.

In Q3 last year, we wrote to the 100 largest UK-listed employers, asking for details of what they are doing to support their workers through the cost-of-living crisis. In Q1, we wrote to these companies again, and have now had responses from 61 of them.

Late last year, we co-filed climate-related shareholder resolutions at JP Morgan Chase and Bank of America. In Q1, we met JP Morgan to discuss the company's climate transition plans. We are asking it to report on annual progress towards decarbonisation and to forecast in more detail its emissions reduction journey (annual projection vs achieved).

In Q1, we signed a letter to c.400 FTSE All Share companies asking for a 'Say on Climate' vote. This requires companies to put their carbon reduction strategy to shareholders for approval. We have received 44 responses to date.

Our focussed engagement on nutrition and obesity continues and during the quarter, we met Coca-Cola, PepsiCo and Nestlé. In Q1 we also co-signed letters to ministers at DEFRA and the DHSC on food policy in UK. We reiterated the investor case for mandatory nutrition reporting, as recommended in the National Food Strategy.

Assessments for the 2023 CCLA Corporate Mental Health Benchmark - UK 100 took place in March. The benchmark findings will be published in early June.

By the end of March, CCLA had reached a landmark 100 organisations signed to our sustainability initiatives, with a combined £17 trillion in assets under advice or management.

Quarter one voting in detail

CCLA aims to vote at all UK and overseas company meetings where we have holdings. The CBF Church of England Investment Fund did not support 17% of resolutions at investee companies this quarter (15% for the UK Equity Fund, 19% for the Better World Global Equity Fund).

We aim to support all pro-active shareholder proposals, particularly where a proposal complements one of our existing engagement priorities. Within our 'Better Work' engagement theme, we have been focussing on freedom of association and collective bargaining rights as a growing salient and material risk, relevant to several companies in which we own shares.

One of these companies is Starbucks. In Q1, we supported a shareholder resolution at the company, asking it to commission a third party assessment of its commitment to freedom of association and collective bargaining rights. While the company has made a commitment to freedom of association in policy, there has been repeated evidence that it is not upholding its workers' rights to organise.

Changes to 2023 vote guidelines: gender and cost-of-living

To generate 'healthy' long-term returns for our clients, we must push for progress at the companies in which we invest. Voting is one tool in the armoury and when used well, it can be a powerful driver of change.

Our vote guidelines are reviewed and updated every year. We seek to step in where we believe corporate practice may be unjust or detrimental to shareholder value.

Accordingly, there are two significant updates to our 2023 vote guidelines. We have expanded our approach to women in the boardroom beyond the UK; our 40% female rule now applies also to Northern Europe, North America and Australia.

In addition, we see the coming proxy season as an opportunity to accelerate corporate efforts to address the rising the cost-of-living crisis in the UK. We will no longer approve remuneration-related proposals where a company's response to our cost-of-living engagement (opposite) is poor.

CCLA's 2023 vote guidelines and full voting records by quarter are available at www.ccla.co.uk.

Ethical constraints

We confirm that the CBF Funds have been managed to their respective ethical exclusion policies this quarter. In Q1, Hannah Wooley started in her role as the new Ethical Investment Advisory Group (EIAG) secretary. She will begin a review and update of all EIAG advice papers/policies.

The CBF Church of England Investment Fund

Performance comment

Global equity markets fared well in the first few weeks of 2023 before fading on signs that economies were not yet slowing down as policy makers intended, leading investors to anticipate that monetary policy tightening had some way to go. News of three bank failures also unsettled markets. Over the quarter as a whole, equity returns were positive but with significant divergence between sectors. Not surprisingly, banks fared poorly, as did energy and the traditional 'defensive' sectors of healthcare and consumer staples. Technology, communications services and consumer discretionary all performed well at the sector level, with some outstanding results from individual companies.

Bond markets also had a period of mixed fortunes but were positive for the quarter overall. In commercial property, valuations were much steadier than in the previous quarter, when valuations were savaged by 2022's steep climb in bond yields. Declining valuations continued to beset some infrastructure assets, notably in social and healthcare property; but elsewhere in infrastructure, clean power assets fared better as power prices remained solid.

Over the quarter the Fund returned 4.02% compared with the comparator return of 3.99%. Over the last 12 months, the Fund returned -0.67% compared with the comparator return of -3.97%.

Security selection in the equities portfolio was the main contributor to relative returns.

Fund update

The investment objective of the Fund is real long-term growth in capital values and a reliable income distribution within a clear risk control framework. There is a bias towards real assets, predominantly global equities but also property and infrastructure. Individual stocks are selected on businesses' fundamental characteristics including environmental, social and governance risks. We favour companies with the potential to grow more predictably than the general economy, resulting in relatively high weightings to sectors such as healthcare and IT. During the quarter we reduced the Fund's cash balance, which had been elevated throughout 2022 to give the portfolio a tactically defensive bias, by adding selectively to equity holdings and, within fixed interest, introducing exposure to corporate debt alongside the UK government bonds which were acquired in the previous quarter.

Income

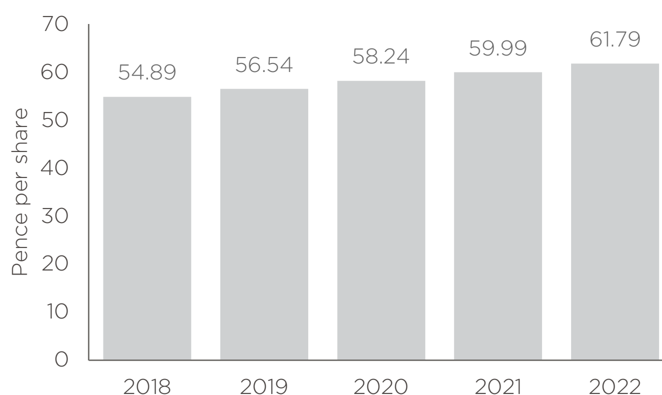
Gross dividend yield 2.90%*

MSCI $ UK IMI dividend yield 3.69%

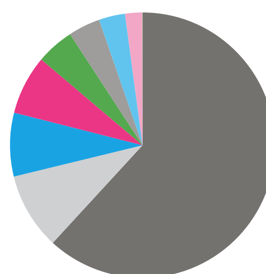
MSCI $ World ex UK dividend yield 2.04%

* Based upon the net asset value and an estimated annual dividend of 61.79p.

Past distributions



Asset allocation as at 31 March 2023



- Overseas Equities 61.83%
- UK Equities 9.38%
- Fixed Interest 7.75%
- Infrastructure & Operating Assets 7.23%
- Cash & Near Cash 4.60%
- Private Equity & Other 3.89%
- Property 3.22%
- Contractual & Other Income 2.08%
- Derivatives 0.02%

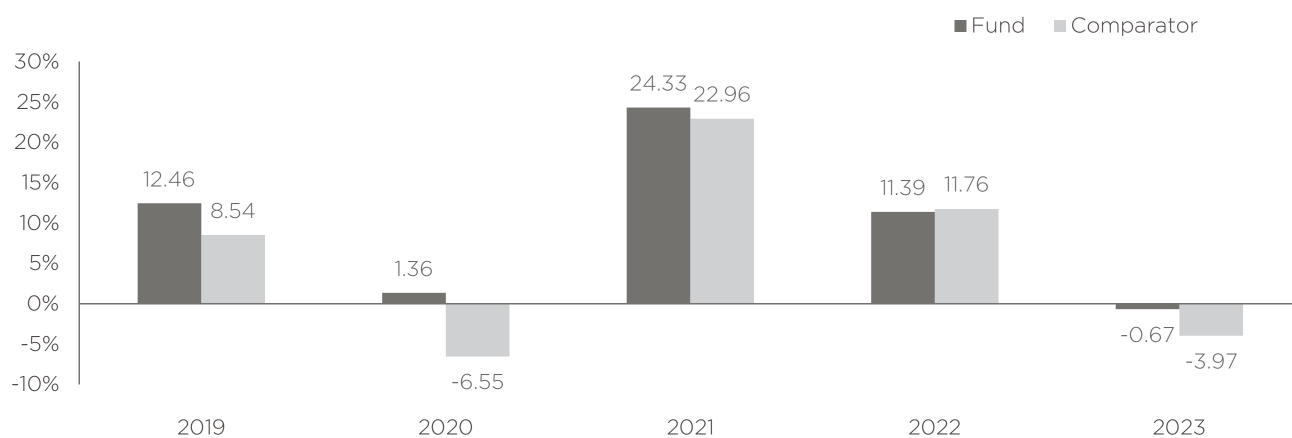
Overseas Equities	**%**
North America	44.21
Developed Europe	12.49
Asia Pacific ex Japan	3.04
Other	1.09
Japan	0.99
	61.83

Total return performance

Performance* to 31 March 2023	3 months	1 year	3 years p.a.	5 years p.a.
Investment	+4.02%	-0.67%	+11.22%	+9.42%
Comparator	+3.99%	-3.97%	+9.69%	+6.00%

Discrete year total return performance

12 months to 31 March	2019	2020	2021	2022	2023
Investment	+12.46%	+1.36%	+24.33%	+11.39%	-0.67%
Comparator	+8.54%	-6.55%	+22.96%	+11.76%	-3.97%



Comparator - composite: From 01/01/21, MSCI WORLD 75%, MSCI UK Monthly Property 5%, iBoxx £ Gilts 15% & SONIA 5%. From 01/01/18, MSCI UK IMI 30%, MSCI World ex UK 45%, MSCI UK Monthly Property 5%, iBoxx £ Gilt 15% & 7 Day LIBID 5%. Source: CCLA

Top 10 holdings as at 31 March 2023

Holding	%
CCLA Inv Mgmt Ltd Ord GBP1	2.8%
UK Treasury 4.25% 07/06/2032	2.7%
The CBF Church of England Property Fund	2.5%
Microsoft Com NPV	1.9%
Adobe Inc Com USD0.0001	1.4%
Novo Nordisk B DKK0.2	1.4%
United Kingdom Gilt 0.875% 31/07/2033	1.3%
LVMH EUR0.30	1.3%
Ansys Com USD0.01	1.2%
IntercontinentalExchange Group Inc Com USD0.01	1.2%

* Performance of the funds is shown net of management fees and other expenses with income reinvested. Comparator performance is based on market indices which are not adjusted for any management fees or investment expenses. Past performance is not a reliable indicator of future results.

The CBF Church of England Global Equity Income Fund

Performance comment

Equity markets had another volatile period but ended the first three months of the year with positive returns overall. In a reversal of the pattern seen through much of 2022, the sectors which suffered most from last year's inflation and yield shocks – information technology, communications services and consumer discretionary – were the winners in the latest quarter. Conversely energy stocks, the only sector to post positive returns in 2022, were the among weakest at the outset of 2023, along with financials which were hit hard in March by market jitters following the collapse of two US regional banks and Europe's Credit Suisse.

Over the quarter the Fund returned 4.37% compared with the comparator return of 4.81%. Over the last 12 months, the Fund returned -1.55% compared with the comparator return of -0.99%.

The portfolio has a bias to high quality growth companies and we avoid the most cyclical businesses especially those which have little independent pricing power, limited control over input costs or excessive balance sheet debt. Stock selection in line with this philosophy is the major driver of the portfolio's performance relative to the market as a whole. At times of rapid market change relative performance may also be affected by the intra-day movement in the benchmark index. This was the case over the latest quarter when the benchmark index rose in the hours between the Fund's midday pricing point and the end of the trading day.

Fund update

The portfolio, which is accessed through a holding of units in the CCLA Better World Global Equity Fund, has no predetermined allocations to any sector or geographic area; instead stocks are selected in a 'bottom -up' approach by which holdings are selected on their individual merits. We look for robust companies with strong free cash flows with which to support future growth and reward shareholders. This has resulted in a relatively high weighting in some of the consumer sectors, in health and technology. There is only a limited exposure to mainstream banks and no holdings in traditional oil and gas companies. There have been no significant structural changes to the portfolio; most recent activity has been driven by valuations and in particular trimming exposure to companies that have reached our valuation targets and reinvesting in those where we see greater return potential.

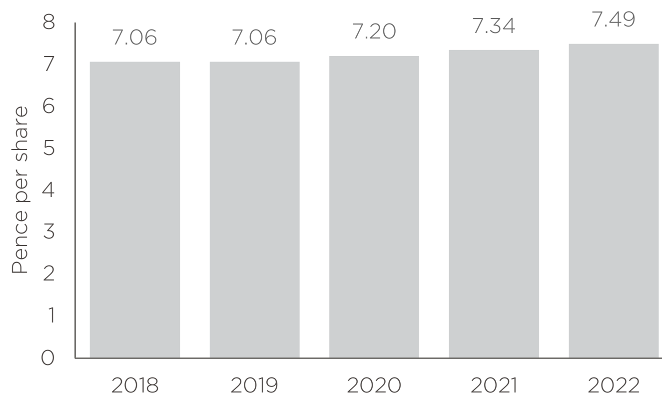
Income

Gross dividend yield 2.74%*

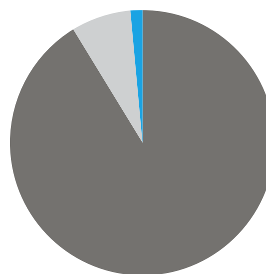
MSCI $ World dividend yield 2.11%

* Based upon the net asset value and an estimated annual dividend of 7.49p.

Past distributions



Asset allocation as at 31 March 2023



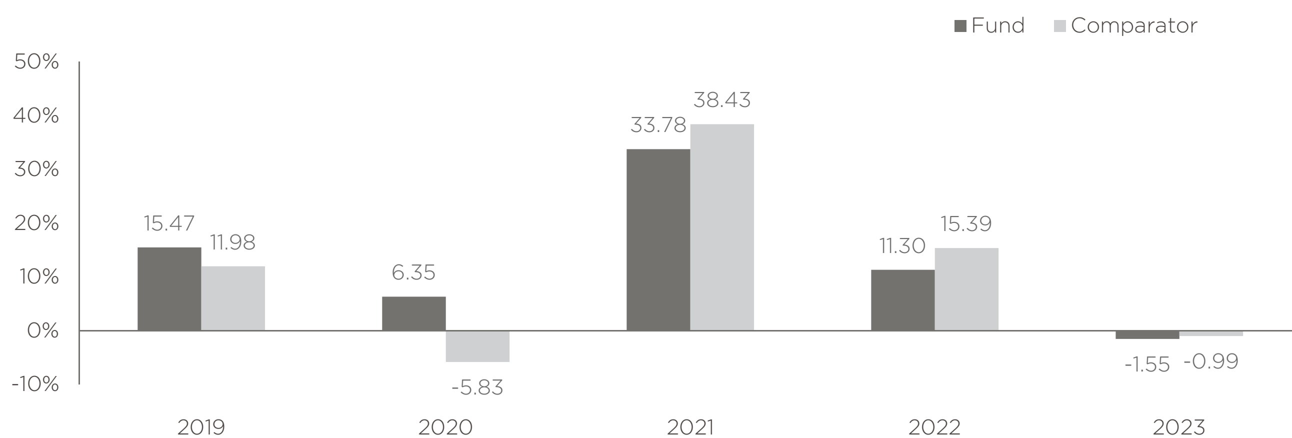
Overseas Equities	%
North America	65.51
Developed Europe	18.12
Asia Pacific ex Japan	4.59
Other	1.74
Japan	1.30
	91.26

Total return performance

Performance* to 31 March 2023	3 months	1 year	3 years p.a.	5 years p.a.
Global Equity Income	+4.37%	-1.55%	+13.60%	+12.48%
Comparator	+4.81%	-0.99%	+16.51%	+10.77%

Discrete year total return performance

12 months to 31 March	2019	2020	2021	2022	2023
Global Equity Income	+15.47%	+6.35%	+33.78%	+11.30%	-1.55%
Comparator	+11.98%	-5.83%	+38.43%	+15.39%	-0.99%



Comparator – MSCI £ World. Source: CCLA

Top 10 holdings as at 31 March 2023

Microsoft Com NPV	3.6%
Adobe Inc Com USD0.0001	2.1%
Intuit Com USD0.01	1.9%
LVMH EUR0.30	1.8%
Visa Com - Class A Shares USD0.0001	1.8%
UnitedHealth Gp Com USD0.01	1.8%
Novo Nordisk B DKK0.2	1.8%
Nice Ltd	1.7%
IntercontinentalExchange Group Inc Com USD0.01	1.7%
HDFC Bank ADR(V3 Ord)	1.6%

* Performance of the funds is shown net of management fees and other expenses with income reinvested. Comparator performance is based on market indices which are not adjusted for any management fees or investment expenses. Past performance is not a reliable indicator of future results.

The CBF Church of England Deposit Fund

Performance comment

The yield on the Fund has continued to increase as more attractive rates have become available from the carefully screened institutions with which it places cash. The Bank of England's policy rate rose by a further 0.75% over the quarter, from 3.5% to 4.25%. Market consensus is that the rate may still rise in the coming months but that we are approaching the peak; and signs of economic slowdown could lead to a pause in the tightening cycle sooner rather than later. Headline inflation is expected to fall for the remainder of 2023 but core inflation, which strips out the volatile food and energy components, is proving stickier. The Bank of England has signalled that it will prioritise the control of inflation, and therefore could refrain for some time from bringing interest rates back down, even if this causes further economic pain.

Although significantly higher than a year ago and with the potential to rise further, the income yield available from cash remains well below the rate of inflation. It is unlikely that real interest rates will be positive for any length of time during this cycle.

Fund update

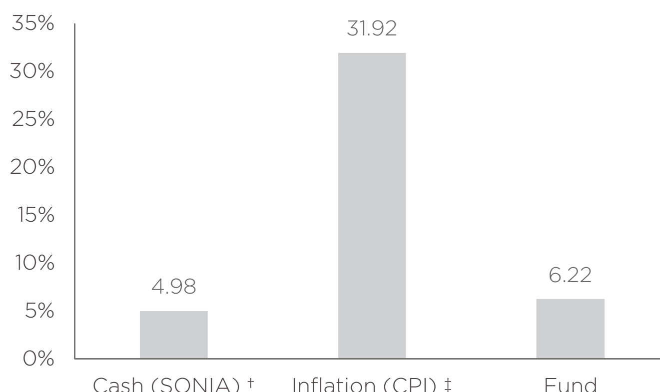
The prime focus of the investment strategy is to provide capital security with excellent liquidity and a competitive rate of interest. The portfolio is invested only in cash and near cash assets with a managed list of approved, high-quality counterparties.

Income

Average interest rate over the quarter 3.66% (3.71% AER)*

Interest rate over the quarter end 3.90% (3.96% AER)*

Cumulative total return over last 10 years



Deposit rate as at 31 March 2023

3.71% AER*

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

** Source: CCLA - Performance is shown gross of management fees and other expenses; net returns will be lower after the deduction of fees and other expenses. The daily rate on the Fund will fluctuate and past performance is not a reliable indicator of the future results. Deposits in the Fund are not covered by the Financial Services Compensation Scheme.

† Source: CCLA

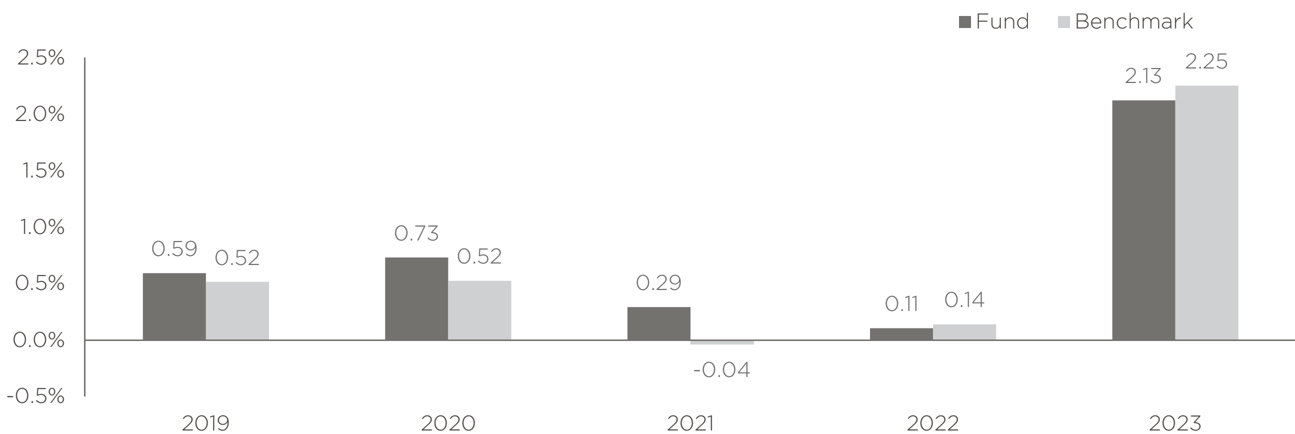
‡ CPI is estimated for the last month of the quarter.

Total return performance

Performance* to 31 March 2023	3 months	1 year	3 years p.a.	5 years p.a.
Deposit	+0.90%	+2.13%	+0.84%	+0.77%
Benchmark	+0.94%	+2.25%	+0.78%	+0.68%

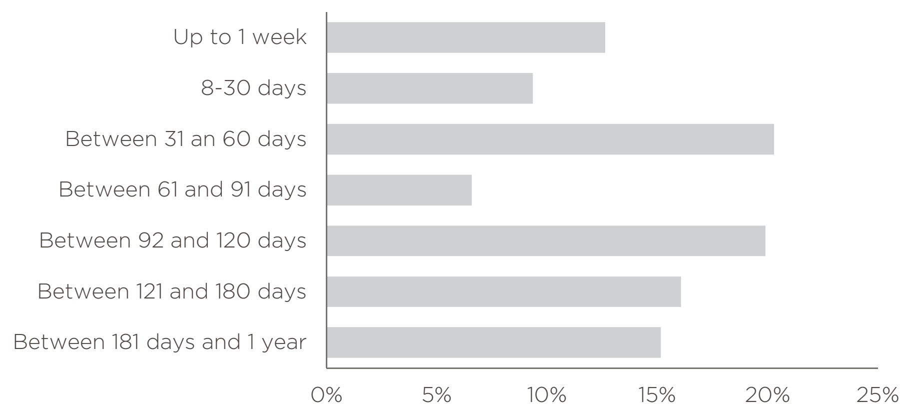
Discrete year total return performance

12 months to 31 March	2019	2020	2021	2022	2023
Deposit	+0.59%	+0.73%	+0.29%	+0.11%	+2.13%
Benchmark	+0.52%	+0.52%	-0.04%	+0.14%	+2.25%



Benchmark – From 1/1/21: Sterling Overnight Index Average (SONIA). Intial BM: 7-Day London Interbank Sterling Bid Rate (7-Day LIBID). Source: CCLA

The Fund's maturity profile



* Performance of the funds is shown net of management fees and other expenses with income reinvested. Comparator performance is based on market indices which are not adjusted for any management fees or investment expenses. Past performance is not a reliable indicator of future results.

The CBF Church of England Fixed Interest Securities Fund

Performance comment

The bond markets continued to be volatile by historical standards but overall had a positive quarter, as investors began to anticipate the peak of the monetary policy tightening cycle and the eventual easing back down of central banks' official interest rates. Moderating or declining interest rates are generally positive for bonds because prices move inversely to yields. The UK government bond market ('gilts'), for example, gave total returns of +2.2% over the period, while sterling non-government bonds were up +2.4%.

Whilst being positioned to limit its sensitivity to general interest rate movements, the Fund is able to take advantage of selected credit instruments. Controlled exposure to higher yielding bonds was helpful to relative performance as that part of the market outperformed both gilts and investment grade bonds: the index of high-yield bonds excluding financials delivered +4.3% in the first three months of 2023.

Over the quarter the Fund returned 2.08% compared with the benchmark return of 1.35%. Over the last 12 months, the Fund returned -4.01% compared with the benchmark return of -2.86%.

Fund update

The Fund is actively managed and uses a wide range of fixed interest securities and derivatives. The characteristics of the Fund include a target return of cash plus 1.75% p.a. (net of fees and expenses) over a rolling 3-year period; short average instrument life and duration, reflecting limited appetite for interest rate risk; and a focus on generating returns from credit risk.

Income

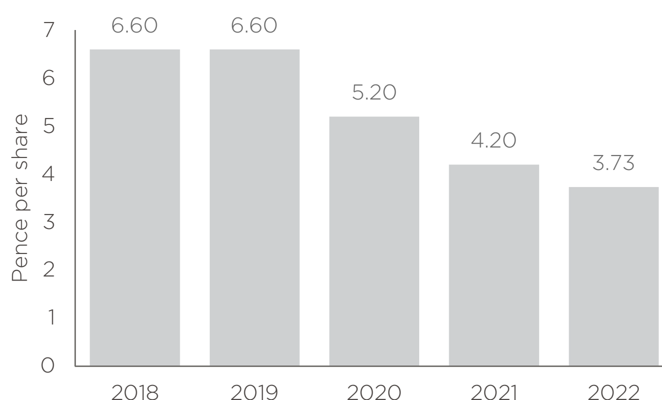
Gross dividend yield 2.50%*

Gross redemption yield 5.29%

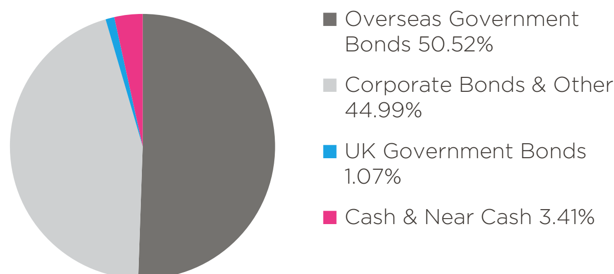
* Based upon the net asset value and an estimated annual dividend of 3.48p.

The gross redemption yield indicates what the total return would be if the Fund's current investments were held to maturity, in other words, the aggregate of gross interest received and the capital gain or loss at redemption, annualised.

Past distributions



Asset allocation as at 31 March 2023

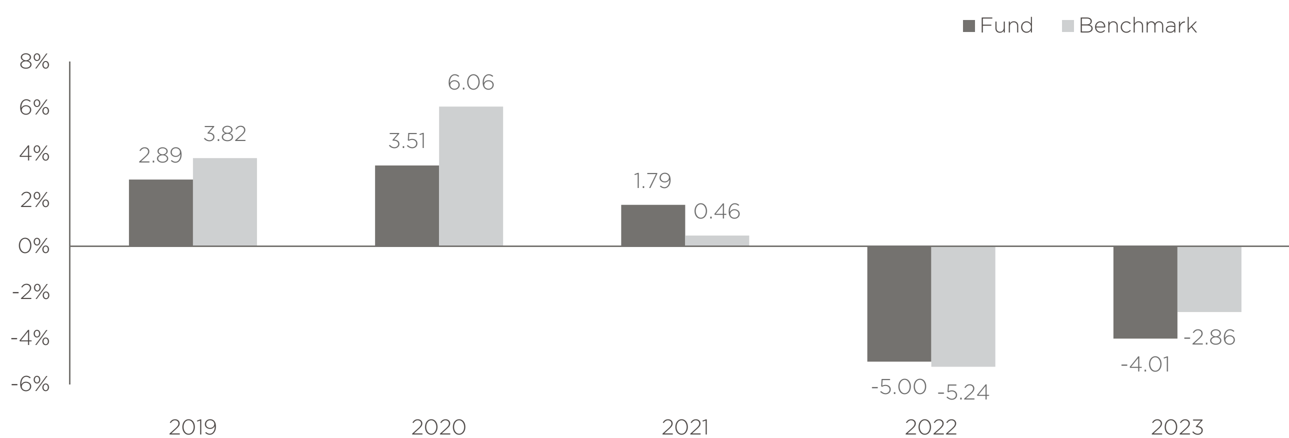


Total return performance

Performance* to 31 March 2023	3 months	1 year	3 years p.a.	5 years p.a.
Fixed Interest	+2.08%	-4.01%	-2.45%	-0.23%
Benchmark	+1.35%	-2.86%	-2.57%	+0.36%

Discrete year total return performance

12 months to 31 March	2019	2020	2021	2022	2023
Fixed Interest	+2.89%	+3.51%	+1.79%	-5.00%	-4.01%
Benchmark	+3.82%	+6.06%	+0.46%	-5.24%	-2.86%



Benchmark - From 27.07.22 SONIA + 1.75%. From 01.01.16 iBoxx £ Gilt 50% & iBoxx £ Non Gilt 50% Source: CCLA

Portfolio asset allocation

By credit rating

Rating Category	*% Fund*
AAA	42.6
AA	1.9
A	6.3
BBB	40.5
Non Investment Grade	7.9
Not rated (Debentures/Prefs)	0.8

By term to maturity

Period	*% Fund*
0 - 5 years	76.2
5 - 10 years	17.7
10 - 15 years	1.0
Over 15 years	5.1
Duration (yrs)	2.4
Average term to maturity (yrs)	10.8

* Performance of the funds is shown net of management fees and other expenses with income reinvested. Comparator performance is based on market indices which are not adjusted for any management fees or investment expenses. Past performance is not a reliable indicator of future results.

The CBF Church of England Property Fund

Performance comment

Investor nerves were much more settled in the latest period than in the second half of 2022, when the sharp climb in bond yields caused property valuations to fall. Capital values continued to decline over the quarter, but at nothing like the alarming pace seen in the later months of last year. Transaction volumes remained well below the long-term average, but were markedly higher than in the near-shutdown seen last summer. The industrial and retail warehouse sectors were the main beneficiaries of improving investor confidence; shopping centres and much of the office sector were still relatively out of favour. Overall, occupier and rental markets remained healthy as economic activity proved more resilient than many commentators had expected, and income flows remained solid.

Over the quarter the Fund returned -0.60% compared with the benchmark return of -1.05%. Over the last 12 months, the Fund returned -11.78% compared with the benchmark return of -14.84%.

Fund update

The portfolio is actively managed in support of the objectives of providing a high income and capital appreciation over the long term. There is a bias towards industrial assets and away from retail, where holdings are concentrated in the retail warehouse subsector with little exposure to high street retail. Following a busy and successful period of lease activity in the final quarter of 2022 the latest period was quieter, with the Fund's managers focusing on property improvements and the preparation for sale of selected assets, especially in the offices sub-sector.

In terms of outlook, total returns are likely to be relatively modest but significantly better than in 2022. The office sector faces particular challenges, with changing work patterns suppressing demand and higher environmental standards placing additional expense on landlords. Valuations should stabilise but with property yields now enjoying a lower premium over the bond market, capital growth will be subdued. Income will therefore be even more than usually significant as the driver of property returns.

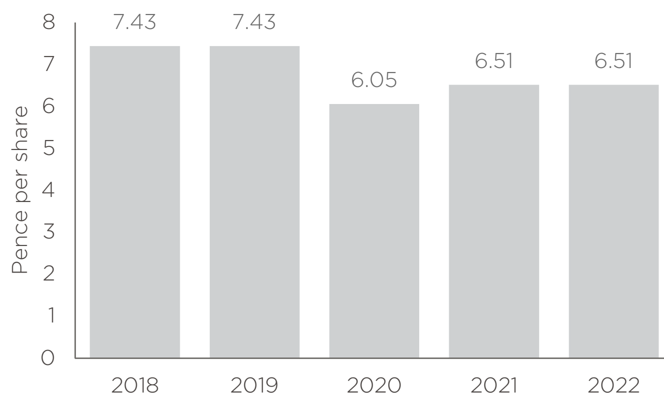
Income

Gross dividend yield 5.09%*

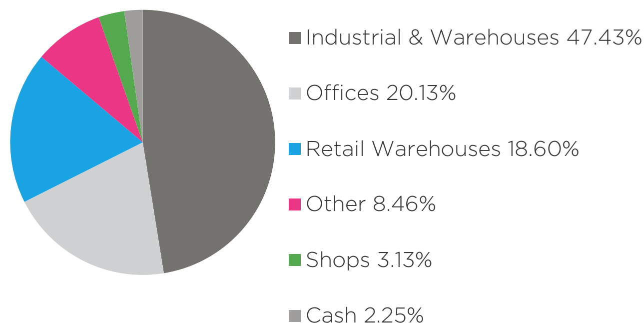
MSCI/AREF Other Balanced Property Fund Index Yield † 3.43%

* Based upon the net asset value and an estimated annual dividend of 6.51p.

Past distributions



Asset allocation as at 31 March 2023

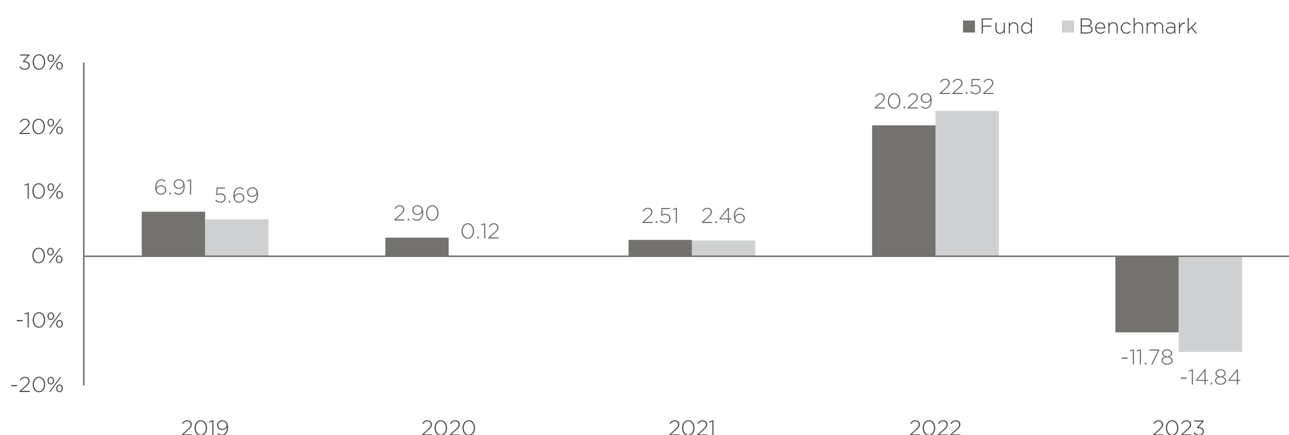


Total return performance

Performance* to 31 March 2023	3 months	1 year	3 years p.a.	5 years p.a.
Property	-0.60%	-11.78%	+2.85%	+3.66%
Benchmark	-1.05%	-14.84%	+2.25%	+2.50%

Discrete year total return performance

12 months to 31 March	2019	2020	2021	2022	2023
Property	+6.91%	+2.90%	+2.51%	+20.29%	-11.78%
Benchmark	+5.69%	+0.12%	+2.46%	+22.52%	-14.84%

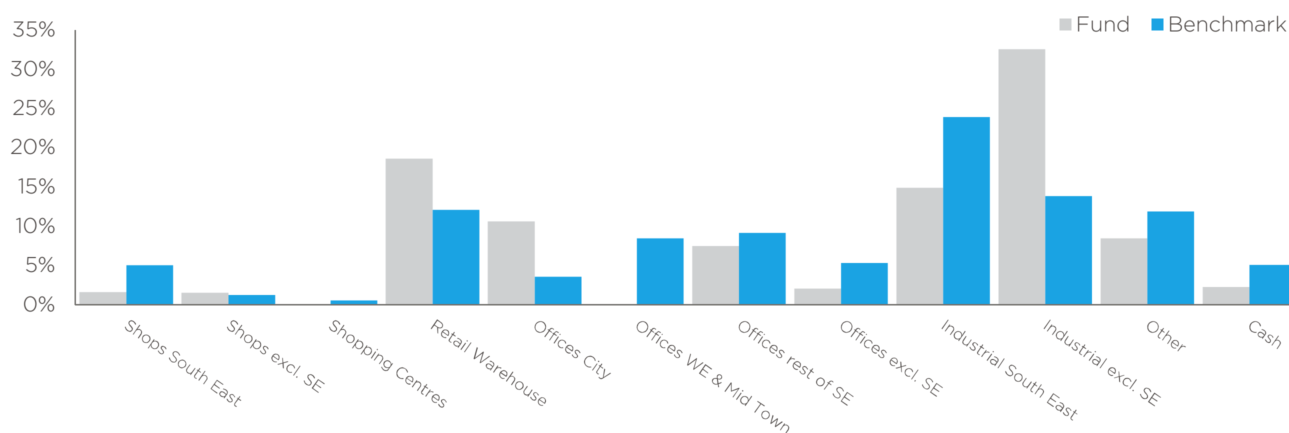


Benchmark – MSCI/AREF UK Other Balanced Quarterly Property Fund Index. Property performance is shown after management fees and other expenses (net). Source: CCLA

Top 10 underlying property holdings - total 46.18%

London, 80 Cannon Street	Bath, Rossiter Road, Waterside Travelodge
Mendlesham, Mendlesham Industrial Estate	1400-1600 Aztec West Business Park
Brighton, Pavilion Retail Park	Lutterworth 3220 Wellington Parkway, Magna Park
Zorro 238, Coalfield Way, Ashby-de-la-Zouch	1- 3 College Hill, London
Lutterworth 3320 Magna Park	7 St Andrew's Way, Bow

Asset allocation by region and category



* Performance of the Property Fund and its benchmark are shown after management fees and other expenses with income reinvested. Past performance is not a reliable indicator of future results.

The CBF Church of England UK Equity Fund

Performance comment

The outlook for economic growth remains weak, although the Office for Budget Responsibility (OBR) among others published forecasts suggesting that outright recession might be avoided in 2023. Equity markets around the world responded positively to tentative signals that the monetary policy tightening cycle might be nearing its peak. The pound (in common with most other currencies) ended the quarter higher against the dollar, and this helped returns from sterling-denominated asset relative to the global market which is dominated by US companies. Nevertheless the UK market fared less well than its global peers with returns of just under 3% compared to the total return from the global index, in sterling terms, of 4.4%. Weakness among banking stocks and the traditional energy sector, both of which feature heavily in the UK listed market, largely accounted for the difference.

Over the quarter the Fund returned 5.16% compared with the benchmark return of 3.02%. Over the last 12 months, the Fund returned -1.36% compared with the benchmark return of 2.95%.

Underperformance in 2022 was due principally to the Fund's avoidance of oil and gas majors, which are highly cyclical and volatile and which lack the independent pricing power and predictably rising margins that we favour. This was the only major equity sector to deliver positive returns in 2022. Over the latest period, by contrast, several of the quality names in sectors such as consumer discretionary and technology that we prefer recovered strongly, while the traditional energy sector had a weak quarter. The Fund is permitted to hold up to 10% of the portfolio in non-UK listed stocks, and the technology stocks which are accessed in this way also performed well.

Fund update

The portfolio has no predetermined allocations to any sector; instead stocks are selected on the basis of their individual merits. We favour companies with strong free cash flows and growth potential which is not dependent on the broad trend of the economy. Our assessment of their ability to contribute to long term returns includes consideration of each stock's market valuation relative to its fundamental characteristics. During the period under review we continued to trim holdings in stocks whose prices had moved above our target level, reallocating the cash to those where we thought the value was better. We reduced the Fund's exposure to listed property investments and, through the sale of Unilever, to consumer staples.

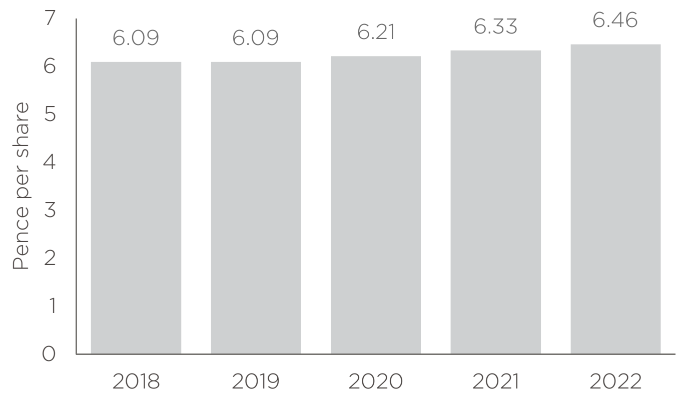
Income

Gross dividend yield 3.48%*

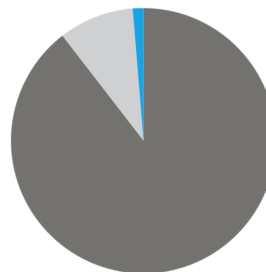
MSCI $ UK IMI dividend yield 3.69%

* Based upon the net asset value and an estimated annual dividend of 6.65p.

Past distributions



Asset allocation as at 31 March 2023



- UK Equities 89.53%
- Overseas Equities 9.2%
- Cash & Near Cash 1.27%

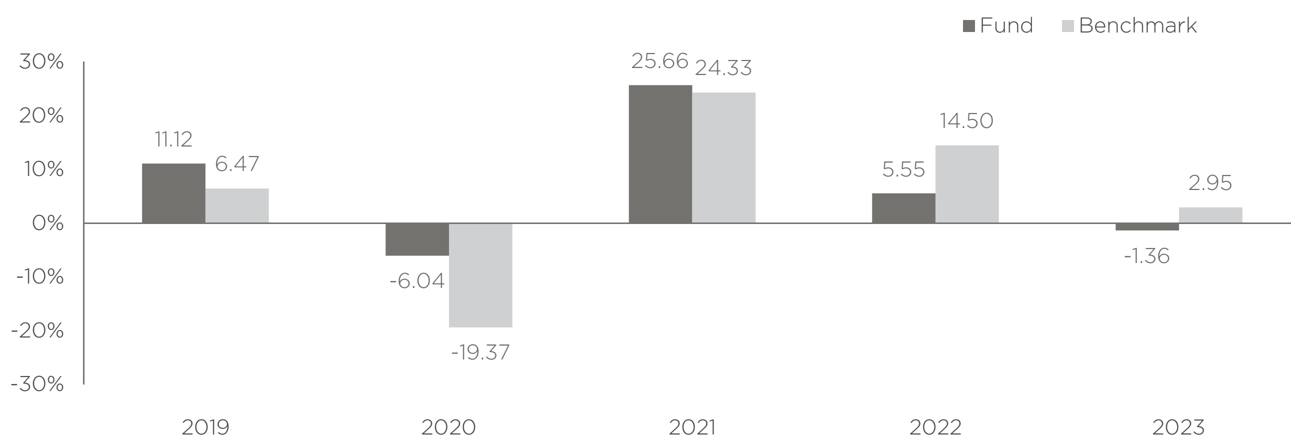
Overseas Equities	%
North America	7.18
Developed Europe	1.05
Asia Pacific ex Japan	0.96
	9.20

Total return performance

Performance* to 31 March 2023	3 months	1 year	3 years p.a.	5 years p.a.
UK Equity	+5.16%	-1.36%	+9.37%	+6.44%
Benchmark	+3.02%	+2.95%	+13.59%	+4.70%

Discrete year total return performance

12 months to 31 March	2019	2020	2021	2022	2023
UK Equity	+11.12%	-6.04%	+25.66%	+5.55%	-1.36%
Benchmark	+6.47%	-19.37%	+24.33%	+14.50%	+2.95%



Benchmark - MSCI UK IMI. Source: CCLA

Top 10 holdings as at 31 March 2023

Holding	%
London Stock Exchange Group GBP0.069186	4.2%
Relx PLC Ord GBP0.1444	3.8%
Experian Group Ltd GBP0.1	3.6%
Auto Trader Group PLC WI Ord GBP0.01	3.6%
Intermediate Capital Group PLC Ord GBP0.2625	3.5%
Burberry Group Ord GBP0.0005	3.5%
Rightmove Ord GBP0.0010	3.3%
Sage Group Ord GBP0.0105195	3.3%
Watches of Switzerland Group PLC Ord GBP0.0125	3.1%
Unilever Ord GBP0.031	3.0%

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Past performance is not a reliable indicator of future results. The value of investments and the income derived from them may fall as well as rise. Investors may not get back the amount originally invested and may lose money. A fund can be exposed to different currencies and movements in currency exchange rates may adversely affect the value of your investment. Investing in emerging markets involves a greater risk of loss due to greater political, tax, economic, foreign exchange, liquidity, and regulatory risks, among other factors. There may be difficulties in buying, selling, safekeeping or valuing investments in such countries. The Annual Management Charge is paid from capital (except for the Fixed Income Securities Fund and the Deposit Fund). Where charges are taken from capital rather than income, capital growth will be constrained and capital may be eroded.

Any forward-looking statements are based upon CCLA's current opinions, expectations and projections. CCLA undertakes no obligations to update or revise these. Actual results could differ materially from those anticipated.

Investment in a CBF fund is only available to charitable trusts with objects closely connected with the work of the Church of England. The CBF funds are Common Funds established under The Church Funds Investment Measure 1958 (as amended or replaced from time to time). The funds are not authorised by the Financial Conduct Authority.

The properties within The CBF Church of England Property Fund are valued by an external property valuer; any such valuations due to their nature are a matter of opinion rather than fact. The performance of The CBF Church of England Property Fund may be adversely affected by a downturn in the property market which could impact on the value of the fund.

Depositors in The CBF Church of England Deposit Fund should note that CCLA may change the fund documentation to allow for negative interest rates to be passed on to depositors. This means that in the event that interest rates on sterling deposits and instruments become negative, depositors may be charged these negative interest rates instead of earning interest.

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