

THE CBF CHURCH OF ENGLAND DEPOSIT FUND  
INTERIM REPORT AND  
UNAUDITED FINANCIAL STATEMENTS

Half year ended 30 June 2018

**CCLA**

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\*Collectively, these comprise the Manager's Report.

References to "CCLA" refer to the CCLA Group, comprising CCLA Investment Management Limited and CCLA Fund Managers Limited.

**Disability Discrimination Act 1995**

Extracts from the Interim Report and Unaudited Financial Statements are available in large print and audio formats.

**REPORT OF THE TRUSTEE****for the half year ended 30 June 2018 (unaudited)**

On behalf of the Trustee, I have pleasure in presenting the Interim Report and Financial Statements of The CBF Church of England Deposit Fund (the Fund), which includes a separate report from CCLA Investment Management Limited (the Manager) as Manager of the Fund.

**Structure and management**

The Fund is a Common Fund established by the Church Funds Investment Measure 1958 as amended by the Church of England (Miscellaneous Provisions) Measure 1995, Church of England (Miscellaneous Provisions) Measure 2000 and the Trustee Act 2000 (together, the Measure). The Fund was established on 1 May 1958. The Fund is neither a Collective Investment Scheme nor an Unregulated Collective Investment Scheme within the meaning of the Financial Services and Markets Act 2000 (FSMA).

CBF Funds Trustee Limited (CBFFT), a company incorporated under the Companies Act, limited by guarantee and not having a share capital, is the Trustee and Operator of the Fund. CBFFT has an Audit Committee which meets twice a year to review the Financial Statements and monitor the control environment in which the Fund operates.

CBFFT has delegated to the Manager, which is authorised and regulated by the Financial Conduct Authority (FCA), the investment management, administration, registrar, secretarial and company secretarial functions of the Fund under Management Agreements dated September 2008.

Under the provisions of the Financial Services and Markets Act 2000 (FSMA), CBFFT is not considered to be operating the Fund by way of business. In consequence, it is not required to be authorised and regulated by the FCA and the trustee directors of CBFFT are not required to be authorised by the FCA for this purpose.

Deposits taken by the Fund are exempted from the FSMA by virtue of the Financial Services and Markets Act (Exemption) Order 2001 and are not covered by the Financial Services Compensation Scheme. The Manager will pay fair compensation on eligible claims arising from its negligence or error in the management and administration of the Fund.

**Charitable status of the Fund**

The Fund is entitled to charitable status by virtue of section 96(2) of the Charities Act 2011. In the administration of the Fund, CBFFT is exempt from the jurisdiction of the Charity Commission by virtue of section 5(1) of the Church Funds Investment Measure 1958.

**REPORT OF THE TRUSTEE****for the half year ended 30 June 2018 (unaudited)****Investment Objective**

The Fund aims to provide a high level of capital security and competitive rates of interest.

**Investment Policy**

The Fund is an actively managed, diversified portfolio of sterling denominated money market deposits and instruments. It will principally invest in sterling denominated Call Accounts, Notice Accounts, Term Deposits and Money Market Instruments, but may invest in other assets.

The Fund is managed in accordance with the policies of the Church of England's Ethical Investment Advisory Group.

**Benchmark**

London Interbank Sterling 7-Day Bid Rate (7-Day LIBID) is the benchmark for the Fund.

**Suitability**

The Fund is suitable for all of a Church of England charity's short-term investments where they are seeking a high level of capital security and a competitive rate of interest.

**Responsibilities of the Trustee**

CBFFT receives a report on the published Financial Statements from the Manager twice a year and is wholly responsible for the Fund. CBFFT monitors the investment management, administration, registration, secretarial and company secretarial services provided by the Manager under respective Management Agreements. It meets quarterly with the Manager to monitor investment strategy, interest rate policy, distribution policy, investment diversification, risk and to review the Fund's performance. In addition, CBFFT reviews the Annual Report and Financial Statements of the Fund which are prepared on its behalf by the Manager. CBFFT is responsible for appointing an Audit Committee and the Auditor. It reviews annually the objectives of the Fund in the light of current circumstances.

**Delegation of functions**

Following its regular meetings and consideration of the reports and papers it has received, CBFFT is satisfied that the Manager, to whom it has delegated the administration and management of the Fund, has complied with the terms of the Measure and with the relevant Management Agreements.

**REPORT OF THE TRUSTEE****for the half year ended 30 June 2018 (unaudited)****Ethical Investment**

The CBF Deposit Fund follows the guidance of the Church of England's Ethical Investment Advisory Group as available at <https://www.churchofengland.org/about-us/structure/eiag/ethical-investment-policies.aspx>.

**Controls and risk management**

CBFFT receives and considers regular reports from the Manager. Other ad hoc reports and information are supplied as required.

CBFFT has appointed HSBC Bank plc to monitor the Manager in respect of its activities related to the management, oversight, supervision and administration of the Fund including the custody and safekeeping of the property of the Fund. It is also responsible for the appointment and supervision of the Registrar of the Fund. The division between management and these functions provides an additional layer of protection for shareholders. HSBC Bank plc provides a formal review of its findings to the Audit Committee. HSBC Bank plc has not raised any material issues.

The Manager has established an internal control framework to provide reasonable, but not absolute, assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the directors and senior management of the Manager on a continuing basis.

CBFFT receives internal audit reports on the controls of the Manager. During the year CBFFT, assisted by the Manager, reviewed the Fund's systems of internal control.

At each of its meetings, the Audit Committee receives and reviews a formal risk management report from the Manager. This sets out the main risks facing the Fund, the controls in place to mitigate those risks and the assessment of each risk in terms of both gross and residual exposure after application of mitigating controls.

A Brookes, Chairman  
CBF Funds Trustee Limited  
10 September 2018

## REPORT OF THE INVESTMENT MANAGER for the half year ended 30 June 2018 (unaudited)

### Strategy

The Fund is structured to provide both capital security and adequate daily liquidity. The short-term nature of the Fund allows us to alter the portfolio composition quickly to reflect our assessment of changing market conditions. The assets of the Fund are placed strictly within agreed limits, with a diversified list of quality counterparties, in order to achieve a very low overall level of risk and high security of capital. The list of approved counterparties is constantly monitored, and lending limits amended, following credit rating changes. The Fund has maintained a high level of liquidity to ensure that sufficient money is always readily available to meet client withdrawals. The balance of the Fund was deposited for periods of up to one year, with the aim of boosting the overall yield of the Fund, for the benefit of the depositors. The weighted average maturity as at 30 June 2018 was 90 days.

### Performance

Over the reporting period the Fund achieved a total return before management expenses of 0.29%; this was higher than the Fund's benchmark, the London Inter-Bank Sterling 7-Day Bid rate (7-day LIBID), which returned 0.18%.

The Deposit Fund's declared rate over the reporting period averaged 0.39% (an annual equivalent rate (AER) of 0.39%) and at the 30 June 2018 the declared rate was 0.50%, (0.50% AER).

Client deposits (excluding those of the other CBF Funds) decreased by £2 million and as at 30 June 2018, totalled £584 million.

### Market Review

In late January and into February, the Bank of England's (BoE) Monetary Policy Committee (MPC) meeting minutes and other comments from members of the Committee had an important influence on investor expectations. In particular, the Committee noted that monetary policy needed to be tightened "somewhat earlier and to a somewhat greater extent" than expected in November of last year. This led the market to anticipate a further 25 basis point increase in BoE's Official Bank Rate (OBR) in May.

There were three main reasons for this tougher stance. Firstly, the global economy was expanding at its fastest pace in seven years and the UK was benefiting from the devalued pound, which had put its exports into a more competitive position. The BoE revised up its economic growth expectation accordingly to 1.8% in both 2018 and 2019.

Secondly, the UK's labour market remained strong, with the unemployment rate dropping to 4.2% in the three months to February 2018, the lowest level since 1975. The number of people in work reached a record high of 32.2 million, giving an employment rate of 75.4%. Although these numbers demonstrated that the UK's economy was proving resilient to uncertainty over the United Kingdom's exit

## REPORT OF THE INVESTMENT MANAGER for the half year ended 30 June 2018 (unaudited)

from membership of the European Union and related headwinds, there were fears that labour shortages could constrain UK output in coming years. Crucially, after a lengthy period of falling real earnings, data released by the Office of National Statistics showed that average earnings were increasing more quickly, a trend which was expected to continue, assisted by the government easing pay caps on public sector workers.

Thirdly, even though inflation caused by the decrease in the valuation of sterling post referendum would gradually fall away, domestic factors, such as the low level of unemployment and general lack of slack in the economy, were expected to keep the rate of inflation (CPI) just above the 2% target throughout the coming year.

Remarkably, soon after expectations for a May increase became established, the language of the BoE Governor, Mark Carney, changed and created fresh uncertainty. Against a backcloth of disappointing economic data, including a Q1 GDP growth estimate of just 0.2%, he suggested he would not be voting for a rate increase at the May MPC meeting, noting “that there are other meetings over the course of this year”.

Whilst the underlying trend for UK economic growth has looked subdued, surveys do point to some near-term recovery from the poor first quarter performance. The improved global growth picture is helping the UK economy and there is a recovery in domestic activity data such as retail sales, consumer confidence, lending volumes, and business sentiment. All of this is

consistent with a stronger second quarter after the weather-related hit to output recorded in the first three months.

While placing most of the burden on the incoming data to support a hike in August, the June MPC minutes also highlighted the strong appetite that the MPC had to make monetary policy less accommodative, particularly with the economy judged to have little, to no, spare capacity left.

The structure of the deal to be agreed between the UK and the European Union remains uncertain, leading to the BoE to caution that there is a significant margin for error in their forecasts. Their base case is that there is a ‘smooth’ departure from the European Union, however, the specific terms agreed in the final deal will be critical influences on how monetary policy evolves over the short to medium term.

### **Rated AAf/S1 by Fitch Ratings**

The Fund was assigned a AAf/S1 fund and volatility rating by Fitch Ratings, which was affirmed on 11 October 2017. This rating reflects the high quality of the Fund’s approved lending list, the employment of an appropriate investment policy, a low overall level of risk through diversification, and the quality of management and internal controls. The rating is awarded to funds that have the lowest credit risk and where the total returns exhibit relative stability, performing consistently across a broad range of interest rate scenarios and changing market conditions.

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**REPORT OF THE INVESTMENT MANAGER**  
for the half year ended 30 June 2018 (unaudited)**Outlook**

The Bank of England's MPC voted unanimously to raise the Official Bank Rate by 25 basis points to 0.75% on 2 August; this is the first time the Rate has been above the emergency level introduced after the 2008/09 financial crisis. The Bank said recent data appeared to confirm that the dip in economic output in the first quarter was temporary and that the labour market had continued to tighten and wage growth had firmed. Also, the Bank signalled that a gradual tightening of monetary policy over the next few years would be appropriate to return the rate inflation to the 2% target.

S Freeman  
Director, Investments (Cash)  
CCLA Investment Management Limited  
10 September 2018

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**Risk warning**

CBFFT cannot give guarantees regarding repayment of deposits in the Fund, but undertakes to exercise reasonable care in the placing of deposits.

The daily deposit rate will fluctuate. Past performance is no guarantee of future returns. Deposits in the Fund are not covered by the Financial Services Compensation Scheme.

## RISK AND REWARD PROFILE

The European Union imposed regulations which sets out detailed guidelines for the calculation of the risk ratings to be portrayed through this summary risk indicator. It is intended to be a guide to the level of risk of this product compared to other products and how likely it is that the Fund will lose money because of movements in markets. The risk indicator assumes investment in the Fund for the recommended holding period of less than one year.

In practice, the risk of the Fund may be significantly higher than that represented in the summary risk indicator. This may include the effect of holding the Fund for less than the recommended holding period, or if market volatility in the future is higher than that experienced over the past.

With effect from 1 January 2018, new EU regulations changed the requirements for the calculation of the summary risk indicator, which, for the most part, has had the effect of reducing the level. The risk indicator for this Fund in the 31 December 2017 annual report was 1 out of 7.

It is important that investors recognise that, whilst the calculation has changed, there has been no change to the nature of, or the risk associated with, the Fund.



This year, based on the new legislative obligations, we have classified this fund as 1 out of 7.

The Fund should be considered illiquid as it is not admitted to trading on a secondary market and no alternative liquidity facility is promoted by the Manager or a third party. This product does not include any protection from future market performance so you could lose some or all your investment.

A more detailed description of risk factors that apply to this product is set out in the latest Scheme Information document available on CCLA's website or by request.

**AVERAGE RATES OF INTEREST PAID**  
for the half year ended 30 June 2018 (unaudited)

Month	Actual % p.a.	Gross AER* % p.a.
January 2018	0.35	0.35
February 2018	0.35	0.35
March 2018	0.36	0.36
April 2018	0.40	0.40
May 2018	0.40	0.40
June 2018	0.45	0.45
Calendar Year	Actual % p.a.	Gross AER* % p.a.
2013	0.55	0.55
2014	0.50	0.50
2015**	0.50	0.50
2016	0.47	0.47
2017	0.28	0.28
Six months to 30 June 2018	0.39	0.39

\* Annual Equivalent Rate (AER) illustrates what the annual interest rate would be if the quarterly interest payments were compounded.

\*\* 13 months to 31 December 2015.

The rates are published in the Financial Times and on the Manager's website at [www.ccla.co.uk](http://www.ccla.co.uk).

## INTEREST PAID TABLE

for the half year ended 30 June 2018 (unaudited)

Period ended	Date of payment	Total £'000	Average rates of interest paid	
			2018 %	2017 %
31 March	4 April	552	0.35	0.33
30 June	4 July	656	0.42	0.27
		1,208	0.39	0.30

Amounts paid include interest paid on closed accounts during the period.

## SUMMARY OF DEPOSITS PLACED BY MATURITY

for the half year ended 30 June 2018 (unaudited)

Repayable	Period ended 30.06.2018		Period ended 31.12.2017	
	£'000	%	£'000	%
On call	11,442	1.74	69,435	10.63
Within 5 business days	84,000	12.76	85,000	13.02
Within 30 days	30,000	4.56	28,001	4.29
Between 31 and 60 days	87,500	13.29	87,503	13.40
Between 61 and 91 days	152,002	23.08	123,000	18.83
Between 92 and 182 days	184,500	28.02	175,200	26.82
Between 183 days and one year	109,000	16.55	85,000	13.01
Total deposits	658,444	100.00	653,139	100.00

**STATEMENT OF TOTAL RETURN**  
for the half year ended 30 June 2018 (unaudited)

	Period ended 30.06.2018 £'000	Period ended 30.06.2017 £'000
Revenue	1,916	1,534
Expenses	(815)	(804)
<b>Net revenue</b>	<b>1,101</b>	<b>730</b>
Distributions	(1,208)	(909)
<b>Net decrease in income reserve</b>	<b>(107)</b>	<b>(179)</b>

**STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO DEPOSITORS**  
for the half year ended 30 June 2018 (unaudited)

	Period ended 30.06.2018 £'000	Period ended 30.06.2017 £'000
<b>Opening net assets attributable to depositors</b>	<b>–</b>	<b>–</b>
Increase in total assets	4,423	71,567
(Increase) in total liabilities	(4,423)	(71,567)
<b>Closing net assets attributable to depositors</b>	<b>–</b>	<b>–</b>

The note on page 14 forms part of these financial statements.

## BALANCE SHEET

at 30 June 2018 (unaudited)

	30.06.2018 £'000	31.12.2017 £'000
<b>ASSETS</b>		
Loans receivable	9,703	10,701
Other debtors	1,015	899
Cash	1,469	33,482
Cash equivalents	656,975	619,657
<b>Total assets</b>	<b>669,162</b>	<b>664,739</b>
<b>LIABILITIES</b>		
Current deposits	650,298	645,974
Other creditors	802	596
Income reserve	18,062	18,169
<b>Total liabilities</b>	<b>669,162</b>	<b>664,739</b>

The financial statements on pages 12 to 14 have been approved by the Trustee.

Approved on behalf of the Trustee  
10 September 2018

A Brookes, Chairman  
CBF Funds Trustees Limited

The note on page 14 forms part of these financial statements.

NOTE TO THE FINANCIAL STATEMENTS  
for the half year ended 30 June 2018 (unaudited)

1. Accounting policies

*Basis of preparation*

The financial statements have been prepared on a going concern basis, in compliance with FRS 102 and in accordance with the Trust Deed, and the Collective Investment Scheme Sourcebook in so far as it applies to the Fund.

The Fund is exempt from preparing a statement of cash flows under FRS 102 as substantially all of the Fund's investments are highly liquid, substantially all of the Fund's investments are carried at market value and the Fund provides a statement of change in net assets.

Unless otherwise stated, all other accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017 and are described in those financial statements.

## STATEMENT OF TRUSTEE AND MANAGER RESPONSIBILITIES

The Trustee shall comply with the duty of care when exercising their powers and discharging their duties under the Church Funds Investment Measure 1958 (as amended from time to time) and the Trustee Act 2000 (together the Measure) to:

- make and revise the written statement of the investment objectives of the Fund and details of such investment objectives will be included in the Scheme Information;
- determine the criteria and methods for evaluating the performance of the Fund;
- appoint the Auditor of the Fund and settle their terms of engagement;
- determine the rate of remuneration of the Manager in accordance with the Measure and the Scheme Information;
- exercise supervision and oversight of the Manager's compliance with the Measure and the Scheme Information. In particular, the Trustee shall be satisfied on a continuing basis that the Manager is competently exercising the powers and discharging the duties conferred or imposed on it by or pursuant to the provisions of the Measure and ensure the Manager is maintaining adequate and proper records;
- review the appointment, supervision and oversight of any Registrar or other delegate whom it has appointed in accordance with the provisions of this Scheme;
- review the custody and control of the property of the Fund and the collection of all revenue due to the Fund in accordance with the Measure;
- apply interest payments to depositors based on their average daily balance in the Fund; and
- take all steps and execute all documents which are necessary to ensure that the deposits and withdrawals for the Fund are properly completed.

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**STATEMENT OF TRUSTEE AND MANAGER RESPONSIBILITIES****Preparation of financial statements**

The Trustee of the Fund is required, by the Measure, to prepare Financial Statements which give a true and fair view of the financial position of the Fund at each half year and year end valuation date. The net revenue for the year, together with a report on the operation of the Fund is also required. In preparing these Financial Statements, the Trustee:

- selects suitable accounting policies that are appropriate for the Fund and applies them on a consistent basis;
- follows generally accepted accounting principles and applicable United Kingdom accounting standards;
- keeps proper accounting records which enables them to demonstrate that the Financial Statements, as prepared, comply with the above requirements;
- makes judgments and estimates that are prudent and reasonable; and
- prepares the Financial Statements on the going concern basis, unless it is inappropriate to presume this.

The Trustee is also required to manage the Fund in accordance with the Measure and has delegated to the Manager the day-to-day management, accounting and administration of the Fund, as permitted by the Measure.

**Manager responsibilities**

The Manager is required to carry out these duties in accordance with the Measure and take reasonable steps for the prevention and detection of fraud and other irregularities.

**CBF Funds Trustee Limited**  
(Charity Registration No. 1116932)

**Trustee Directors**

R Williams (Chairman resigned 21 May 2018)  
A Brookes (appointed Chairman 21 May 2018)  
Rev Canon E Carter  
S Chan\*  
C Johnson  
N Lewis\*  
G Pollard  
P Read\*  
S Steele\* (resigned 26 February 2018)  
Rev Dr R Turnbull\* (resigned 21 May 2018)  
M Woodmore\*

\* *Members of the Audit Committee*

**Secretary**

J Fox

**Manager and Registrar**

CCLA Investment Management Limited  
Senator House, 85 Queen Victoria Street  
London EC4V 4ET

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[www.ccla.co.uk](http://www.ccla.co.uk)

*Authorised and regulated by the Financial Conduct Authority*

**Administrator**

HSBC Securities Services (UK) Limited

1-2 Lochside Way

Edinburgh Park

Edinburgh EH12 9DT

*Authorised and regulated by the Financial Conduct Authority*

**Executive Directors of the Manager**

M Quicke, OBE (Chief Executive)  
J Bevan (Chief Investment Officer)  
A McMillan (Chief Operating Officer)  
A Robinson, MBE (Director Market Development)

**Non-Executive Directors of the Manager**

R Horlick (Chairman)  
R Norris  
T Salmon, OBE  
J Tattersall  
R Williams (resigned 8 June 2018)  
C Johnson (from 8 June 2018)

**Fund Managers**

S Freeman  
R Evans

**Company Secretary**

J Fox

**Head of Risk, Internal Audit and Compliance**

S Forrest (resigned 31 January 2018)  
R Plumridge (from 31 January 2018)

**Head of Ethical and Responsible Investment**

J Corah

**Third Party Advisors****Banker**

HSBC Bank plc  
60 Queen Victoria Street  
London EC4N 4TR

**Custodian**

HSBC Bank plc  
8 Canada Square  
London E14 5HQ

**Solicitors**

Farrer & Co LLP  
66 Lincoln's Inn Fields  
London WC2A 3LH

**Independent Auditors**

PricewaterhouseCoopers LLP  
7 More London Riverside  
London SE1 2RT

## The CBF Church of England Funds

The CBF Church of England Funds provide Church of England parishes, dioceses and other church charitable trusts with a ready-made service to look after their money and investments. These Funds aim to provide prudent management of Church money avoiding unnecessary risks, but at the same time seeking to deliver satisfactory investment results.

### A choice of Funds

The six CBF Church of England Funds aim to meet most of the investment and deposit needs of a church trust.

#### Investment Fund

- A suitable 'all-in-one' long-term fund for most church organisations
- Highly diversified and well-balanced spread of investments
- Designed to help meet growth and income requirements
- Focus on delivering attractive, growing income
- Working with the EIAG to reflect appropriately ethical values in your investments

#### Global Equity Income Fund

- Attractive income
- Steady income in the future
- Strong growth opportunities from the global economy

#### UK Equity Fund

- The only UK equity fund managed to reflect Church ethical values
- High quality, well-diversified portfolio
- Designed to help meet growth and income requirements
- Usually held with other investments such as overseas equities, bonds and cash to give a broad spread of assets and achieve overall objectives

#### Fixed Interest Securities Fund

- Long-term investment focused on income
- Gross income paid quarterly
- Usually held with other investments such as equities and cash to give a broad spread of assets and achieve combined income and growth objectives

#### Property Fund

- Investing in high quality, well-diversified commercial and industrial property
- Focus on delivering attractive income
- Actively managed to add value

#### Deposit Fund

- An attractive rate
- Interest paid gross
- No minimum balance
- Easy access
- Simple operation
- Excellent service
- Free BACS transfers
- AAAf/S1 Fund rating from Fitch Ratings

The Funds are common funds established under the Church Funds Investment Measure 1958 (as amended from time to time). CBF Funds Trustee Limited, a company incorporated under the Companies Act, is the Trustee and Operator of the Funds. CCLA Investment Management Limited manages the investment of the Funds.

The value of the investments may fall as well as rise and an investor may not get back the full amount originally invested.

# **CCLA**

**CCLA Investment Managers Limited**

Senator House, 85 Queen Victoria Street, London EC4V 4ET

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[www.ccla.co.uk](http://www.ccla.co.uk)

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