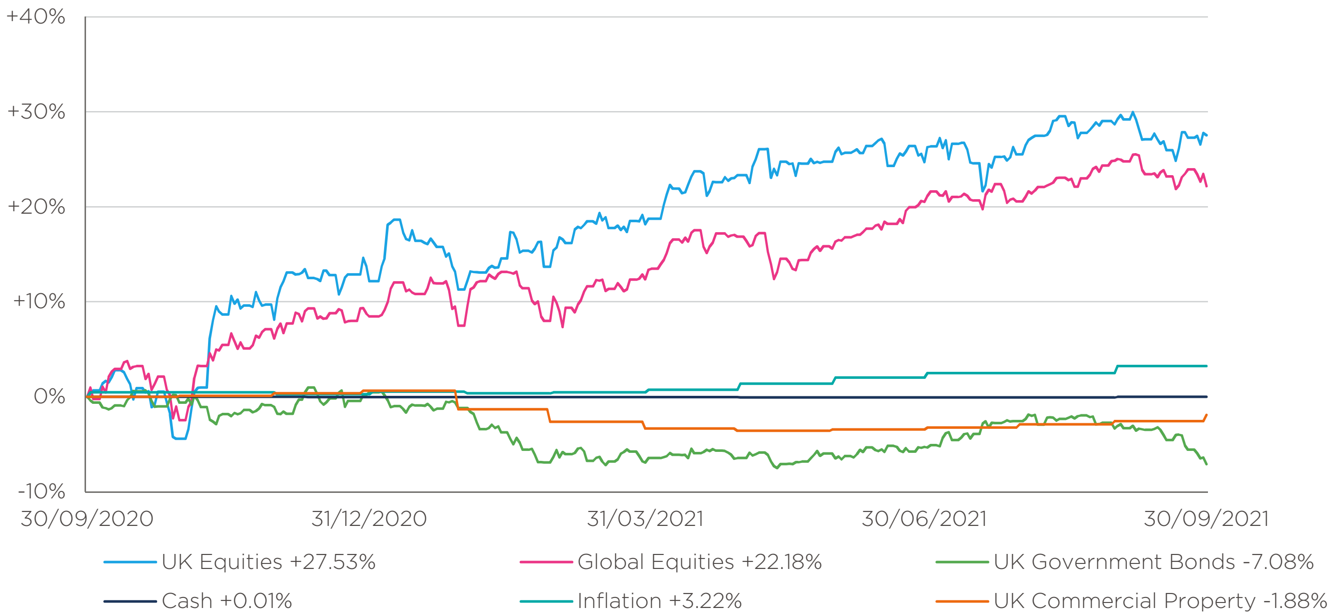
CCLA

QUARTERLY BULLETIN

30 September 2021

Quarterly market review and outlook



Source: CCLA

In the early part of the period, investment markets were supported by expectations of a sustained uptrend in economic activity, monetary environment of low interest rates and quantitative easing. The mood changed later as growth slowed and inflation rose. There was also a recognition that, whilst policy adjustments were not imminent there was less justification for exceptional monetary policies. Therefore, investors came to recognise that quantitative easing programmes would soon be reduced, and in time, interest rates increased. The effect on markets was an early uptrend gave way to a phase of consolidation and profit taking. Most equity markets achieved progress overall whilst ending below their quarterly peaks. Domestic fixed income markets however ended lower.

The global equity index gave a total return to a sterling-based investor of 2.45%, a gain which brings the return for 2021 to date to 14.56% and to 23.51% for the past 12 months. Most of the major regional indices improved, with Japan, where sentiment was boosted by vaccination progress and hopes that strict restrictions on mobility would be eased, the clear leader. The Japan market index returned 7.13% compared with gains of 2.77% from the US and 0.50% from Europe. Asian markets were the exception to the positive trend, losing -6.16% due to weakened sentiment towards China. At the individual market level in Europe, Austria improved by 13.1% whilst Belgium weakened by 3.32%. In Asia, India improved by 15.34% and in contrast, the China index fell by 16.16%. The UK posted a gain of 2.15%. Within markets, leadership shifted from growth to value, including the banking and energy sectors which had underperformed in recent months.

Domestic fixed income assets lost value as sentiment weakened due to higher inflation and commentary from the Bank of England which was interpreted as warning that interest rates could increased materially earlier than previously thought.

With little income yield to support stretched valuations, prices eased back. Government bonds so far this year have given a negative total return of -7.08%. Property values continued to recover due mainly to the strength of the industrial sector. Gains elsewhere were more modest, but there were encouraging signs of improvement from retail warehouses.

Global growth slowed in the third quarter, held back by an increase in infection rates, product shortages and an unexpected slowdown in China. These factors should ease in the final months of the year. Growth will moderate in 2022 but slower growth does not mean low growth and activity should remain above long-term trend rates through the period. Inflation is a concern but hopefully a temporary one, certainly central banks have held to the mantra that the increase in price pressures will fade as inventories are rebuilt and capacity catches up with the recovery in demand.

Increasingly investors will have to come to terms with some moderation in the exceptional monetary conditions which have been a keystone of the recovery. Quantitative easing programmes will be reduced and interest rates will rise, an environment which is likely to be unhelpful to fixed income markets. We expect yields to move higher over time from current low levels. Equities are better placed and although high valuations increase the risk of short-term volatility, we see further upside potential quality companies with secure growth prospects. Property values have enjoyed a phase of recovery we expect to continue although growth ahead may not match that achieved so far this year.

2020 Stewardship Code

What is stewardship?
The Financial Reporting Council (FRC) defines it as 'the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.'

The UK Stewardship Code (the Code) is a set of principles that sets high stewardship standards for the UK investment industry. It applies to asset owners, asset managers and service providers, and until 2020, it had about 300 signatories. To become a signatory, a company simply had to provide the FRC with a stewardship statement.

In 2020, the Code was updated for the first time since 2012. New themes covering environmental, social and governance (ESG) topics were introduced. Rather than disclosing only policies, aspirational signatories had to report on their specific stewardship activities, and the outcomes achieved.

As a result of the upgraded standards, the list of signatories to the Code was whittled down to 125. In asset management, barely 60% made the grade. We submitted our response to the Code (see website) in March and were delighted to receive our successful outcome this quarter.

Why is this relevant to investors?
This is a watershed moment. Asset owners and managers are now expected to play a role in promoting not only a profitable but also a well-functioning financial system. They are expected to report on the impact and influence that they have beyond the small handful of companies that they own. For the first time, they are expected to identify and address both company-specific and systemic risks.

What is systemic risk?
Evaluating risk is an essential part of determining the worth of a potential investment. Traditionally, asset managers assess only the risks visible to them through the lens of financial metrics. These take account of a company's valuation, its historical share price, debt to equity ratios, and forecast earnings, among others. This type of company-specific risk analysis can be quantitative or qualitative.

Yet there are some risks that are not specific to companies. Risks that companies may be subject to but that, alone, they can do little to address. One example is climate action failure; it will affect every company in time. Another is forced labour in modern supply chains; research indicates that it is almost ubiquitous among listed companies. A third example is a poor culture of workplace health and safety; applicable to every company with workers. These systemic risks are universally relevant, regardless of sector or geography.

What can we do?
Investment markets, and the returns they deliver, will only be as healthy as the environment and communities that support them. As investors with a truly long-term client base, we have a duty to drive real and positive change. This ambition should be focussed on addressing risks embedded in the system: systemic risks.

Get this right and we can extend our influence beyond the small handful of companies that we own, on behalf of our clients, at any point in time. By delivering positive change we can make capitalism more sustainable, contribute to the common good and control risks before they impact upon the performance of our clients' investments. This is the essence of the 2020 UK Stewardship Code.

What does it mean for portfolios?
At CCLA, we are continually trying to improve the effectiveness of our work. Over the past few years, we have increased the resource allocated to stewardship activities that are designed to have a systemic impact. These include:

- A long-held focus on climate-related public policy. We are co-leading the development of the Powering Past Coal Alliance Finance Principles in partnership with the UK and Canadian Governments.
- Creating the Find It, Fix It, Prevent It modern slavery initiative. This seeks to mobilise the investment industry in pushing companies to develop more effective action to tackle modern slavery in supply chains.
- Building the CCLA Corporate Mental Health Benchmark. This aims to hand companies a framework to develop a positive environment for mental health in the workplace. In doing so, we will improve the working experience across the employee lifecycle and increase productivity along the way.

Looking ahead
To remain a signatory to the Code, we will need to submit an annual Stewardship Report to the FRC, demonstrating how we have applied the Code's Principles over the previous 12 months. This is a crucial part of our work, and we will continue to achieve the highest stewardship standards on behalf of our loyal clients.

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

Having submitted our response to the revised UK Stewardship Code in March, we were delighted to receive a successful outcome this quarter. Remaining a signatory to the Code is important to us and we are now building a programme of work to address the specific feedback points raised by the Financial Reporting Council.

As part of our public health stewardship work, we are signatories to the Access to Nutrition Index. The Index ranks the 25 leading food and beverage manufacturers on their contribution to addressing malnutrition in all its forms: overweight & obesity, undernutrition, and micronutrient deficiency. The 2021 Index includes four CCLA holdings: PepsiCo, Unilever, Nestle and Coca-Cola. We have joined the collaborative investor engagement groups for these companies and co-signed letters to each in Q3. We have had in-depth engagement meetings with two of the companies so far. The overarching aim to make these companies more accountable for their role in shaping public health.

On the CCLA Corporate Mental Health Benchmark, preliminary assessments for the 30 UK companies within scope were sent out this quarter. Companies now have four weeks to come back to us with any additional public information before assessments are finalised. Results will be released in Q4.

During the third quarter, we conduced 65 discrete engagements with investee companies. For high priority companies, engagement was heavily weighted to social topics, predominantly on health and human capital.

Quarter three voting in detail

CCLA aims to vote at all company meetings where we have portfolio holdings. The CBF Church of England Investment Fund did not support 5% of the resolutions proposed by management at our investee companies this quarter (16% for the UK Equity Fund, 31% for the Global Equity Income Fund).

We continued our longstanding focus on executive remuneration. One example is Electronic Arts, where we voted against the Named Executive Officer's compensation package. We do not expect executive directors in receipt of competitive salaries to be offered annual bonuses of more than 100% of base salary (unless an executive director has delivered extraordinary results through exceptional performance to the significant benefit of shareholders). The proposal was not compliant with our remuneration guidelines and breached our maximum multiple of salary.

Modern slavery project - lobbying update

CCLA's Find It, Fix It, Prevent It initiative is now supported by investors with more than £7 trillion in assets under management or advice. The project to tackle modern slavery has three distinct workflows: engagement, data and academia, and public policy.

Governments and policy makers have a key role to play in developing the legal frameworks to facilitate effective corporate action on modern slavery. Our focus to date has been on strengthening the UK's Modern Slavery Act.

During the quarter, we continued meeting staff from the Home Office Modern Slavery Unit (MSU), both individually and as part of our membership of the Transparency in the Supply Chains section of the Home Office's Modern Slavery Strategy Implementation Group.

The UK Government has agreed to implement many of the changes to legislation that we have been asking for in relation to corporate transparency. Although there is no firm date for these legislative updates, we are told that the MSU is making a bid for the changes to be included in the 2022 Queen's speech.

Elsewhere, the Home Secretary has announced a review of the Government's modern slavery strategy. The MSU held a roundtable as an early stage of this review, which we attended. Investors are seen as a key player in these discussions, and we plan to coordinate and host an investor roundtable on the subject in collaboration with the Home Office in the Autumn.

Ethical constraints

We confirm that the CBF Funds have been managed to their respective ethical exclusion policies this quarter. The EIAG's 'Big Tech' review continues, in light of recent calls for tougher regulation.

The CBF Church of England Investment Fund

Performance comment

The world economy continued to recover over the period although the pace of expansion slowed, held back by the effects of the pandemic, higher prices, and product shortages. Expansion was again supported by an accommodative fiscal and monetary environment. Higher levels of demand were a major factor in pushing inflation higher due to frail stock pipelines and manufacturing industries which struggled to regain past output levels. Despite the pressure on prices central banks kept interest rates unchanged, taking the view that the problem would prove passing. The combination of growth, rising company earnings and ample liquidity gave early support to equity markets but progress stopped as growth slowed, and inflation became more of a concern. Within the equity markets sector leadership switched to favour cyclical and recovery linked sectors which had underperformed. Fixed interest assets lost ground as investors became concerned over the impact on returns of higher inflation and the perceived increased risk of an early move to increase interest rates.

Over the quarter the Fund returned 2.01% compared with the comparator return of 1.76%. Over the last 12 months, the Fund returned 16.13% compared with the comparator return of 18.19%.

In the period stock selection made a negative contribution to relative performance reflecting the bias to high quality companies. In contrast, asset allocation was positive, particularly the low weighting to fixed income securities.

Fund update

The investment objective of the Fund is to achieve real long-term growth in capital values and a rising income from a portfolio managed within a clear risk control framework. The portfolio has a bias towards real assets, predominantly global equities but also including property and infrastructure. Stock selection is on a 'bottom-up' basis. We favour companies with strong free cash flows and the potential to grow more predictably than the general economy. This has resulted in relatively high weightings to sectors such as health, the consumer and technology. Recent activity has focussed on reducing the exposure to companies which have reached our valuation targets, switching into lower rated but still high- quality alternatives.

Income

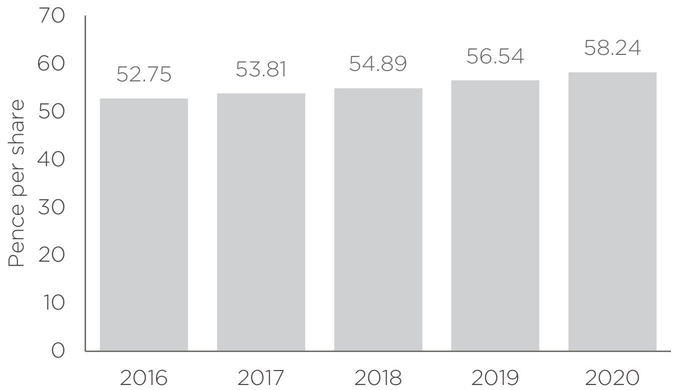
Gross dividend yield 2.71%*

MSCI $ UK IMI dividend yield 3.39%

MSCI $ World ex UK dividend yield 1.65%

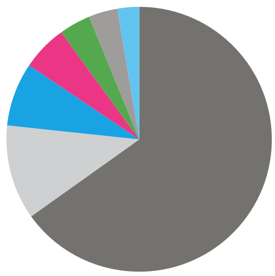
* Based upon the net asset value and an estimated annual dividend of 59.99p.

Past distributions



The accounting period for the Fund changed in 2015 and is now aligned with calendar quarters.

Asset allocation as at 30 September 2021



- Overseas Equities 65.13%
- UK Equities 11.55%
- Infrastructure & Operating Assets 7.75%
- Cash & Near Cash 5.56%
- Property 3.84%
- Private Equity & Other 3.52%
- Contractual & Other Income 2.65%

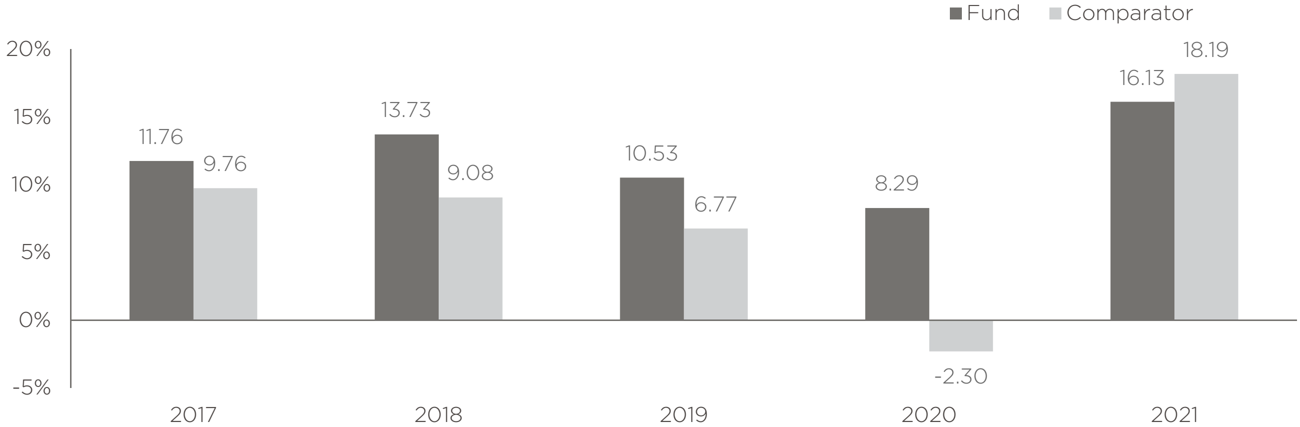
Overseas Equities	**%**
North America	44.91
Developed Europe	12.75
Asia Pacific ex Japan	5.89
Other	1.10
Japan	0.47
	65.13

Total return performance

Performance* to 30 September 2021	3 months	1 year	3 years p.a.	5 years p.a.
Investment	+2.01%	+16.13%	+11.60%	+12.05%
Comparator	+1.76%	+18.19%	+7.23%	+8.10%

Discrete year total return performance

12 months to 30 September	2017	2018	2019	2020	2021
Investment	+11.76%	+13.73%	+10.53%	+8.29%	+16.13%
Comparator	+9.76%	+9.08%	+6.77%	-2.30%	+18.19%



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%. From 31/12/17, MSCI UK IMI 45%, MSCI Europe ex UK 10%, MSCI North America 10%, MSCI Pacific 10%, AREF/IPD™ All Properties 5%, iBoxx £ Gilt 15% & 7 Day LIBID 5%. Source: CCLA

Top 10 holdings as at 30 September 2021

The CBF Church of England Property Fund	2.7%
CCLA Inv Mgmt Ltd Ord GBP1	2.7%
Alphabet Inc C Com NPV	1.8%
Microsoft Com NPV	1.7%
Pan European Infrastructure I	1.7%
Amazon.Com Com USD0.01	1.6%
Visa Com - Class A Shares USD0.0001	1.4%
Mastercard Com USD0.0001	1.3%
Bank Of America Com USD0.01	1.2%
HDFC Bank ADR(V3 Ord)	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 Fixed Interest Securities Fund

Performance comment

The UK economy continued to recover in the period although the pace of expansion did not match the improvement achieved in the second quarter. Government policies remained supportive. Fiscal policy was expansionary and monetary conditions stayed accommodative. Growth slowed as a result of lingering Covid effects and the impact of product shortages. Inflation rose as demand in many areas grew faster than supply could recover, domestic and international issues contributed to higher price pressures. The reaction of the Bank of England to higher inflation changed significantly, from an initial view that the issue would be limited in both extent and duration, to concern that pressure would be sufficient for a policy response to be required. In this environment investor expectations for interest rate policy changed to reflect an increased risk of a rise in borrowing costs.

Against this background fixed income markets failed to make progress. Sentiment became more cautious as inflation rose and turned negative as an increase in borrowing costs became more likely. Government bonds underperformed the corporate alternatives, the weakest part of the market was the longer dated sector.

Over the quarter the Fund returned -1.32% compared with the benchmark return of -1.45%. Over the last 12 months, the Fund returned -3.10% compared with the benchmark return of -3.78%.

Fund update

The portfolio has a defensive strategy, the managers take the view that, in the current low yield environment, the income available on longer dated issues is a poor and insufficient compensation for the risks involved. The cautious structure is reflected in a modified duration of 8.0 years compared with 10.11 years for the benchmark. There is a bias to corporate issues over gilts, with the former accounting for 62.29% of total assets. We expect fixed interest securities to move within a relatively narrow trading range in the immediate future with some upside risk to yields. At the end of the quarter the Fund had an income yield of 2.97% and a gross redemption yield of 1.34%.

Income

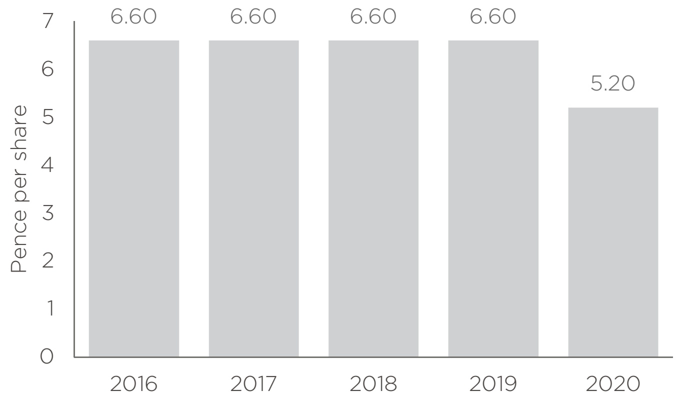
Gross dividend yield 2.65%*

Gross redemption yield 1.31%

* Based upon the net asset value and an estimated annual dividend of 4.20p.

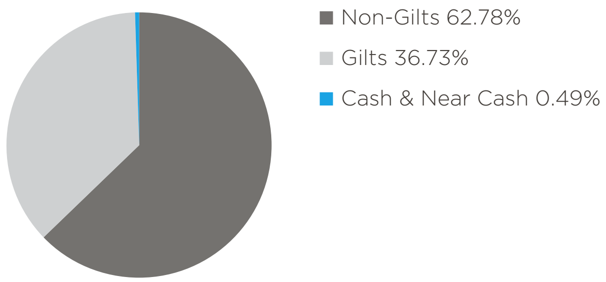
The gross redemption yield indicates what the total return would be if the Fund's current investments were held to maturity, in other words, the aggregate of gross interest received and the capital gain or loss at redemption, annualised.

Past distributions



The accounting period for the Fund changed in 2015 and is now aligned with calendar quarters.

Asset allocation as at 30 September 2021

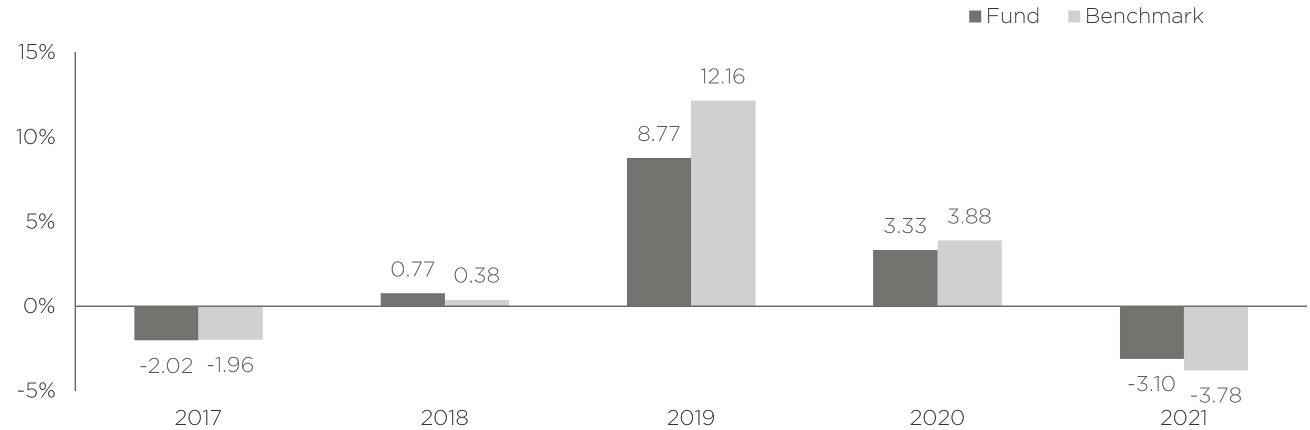


Total return performance

Performance* to 30 September 2021	3 months	1 year	3 years p.a.	5 years p.a.
Fixed Interest	-1.32%	-3.10%	+2.89%	+1.46%
Benchmark	-1.45%	-3.78%	+3.88%	+1.98%

Discrete year total return performance

12 months to 30 September	2017	2018	2019	2020	2021
Fixed Interest	-2.02%	+0.77%	+8.77%	+3.33%	-3.10%
Benchmark	-1.96%	+0.38%	+12.16%	+3.88%	-3.78%



Benchmark – composite: from 01.01.16 iBoxx £ Gilt 50% and iBoxx £ Non Gilt 50%. To 31.12.15 Barcap £ Gilt 50% and £ Agg 100mm Non Gilt 50%.
Source: CCLA

Portfolio asset allocation

By credit rating

Rating Category	*% Fund*
AAA	8.9
AA	47.5
A	29.6
BBB	13.3
Non Investment Grade	0.0
Not rated (Debentures/Prefs)	0.7

By term to maturity

Period	*% Fund*
0 - 5 years	34.0
5 - 10 years	27.5
10 - 15 years	14.0
Over 15 years	24.5
Duration (yrs)	8.1
Average term to maturity (yrs)	9.9

* 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

Sentiment in the commercial property sector continued to improve over the period. Although all areas saw valuations improve there was a wide disparity of returns between the strongest and weakest performers. The best showing, once again, was by industrial and distribution assets where the supply of good quality assets remained limited. This was the only part of the property sector to see rents moving higher. The weakest returns came from retail assets where problems continued in important areas such as high street shops and shopping centres. The bright spot in retail was the strength of retail warehouses where resilient tenant trading saw a good recovery in pricing. Offices improved overall but sentiment towards the sector remained mixed and there was a wide range of returns at the individual asset level. Reflecting the broad improvement in economic conditions, income flows strengthened. Transaction volumes continued to improve and regained historic trend levels. Buyer interest in good quality assets was strong but the supply remained limited.

Over the quarter the Fund returned 4.34% compared with the benchmark return of 3.86%. Over the last 12 months, the Fund returned 14.66% compared with the benchmark return of 12.45%.

Relative performance was supported by the asset allocation of the portfolio which has a substantial allocation to industrial assets, a limited exposure to traditional shops and no shopping centre exposure.

Fund update

The portfolio is actively managed at both the strategic and individual asset level. Currently there is a bias towards industrial assets and away from retail. In the retail area there is only a limited exposure to traditional shops and none to shopping centres, instead holdings are weighted heavily to retail warehouses. In the quarter, in addition to leasing activity which has protected income flows, there were two important transactions, both sales. We sold an office in Bristol and an industrial asset in Scotland where valuation increases took the pricing above our assessment of worth. Looking forward, we expect the positive trend in the sector to continue with higher capital values being achieved in the period ahead.

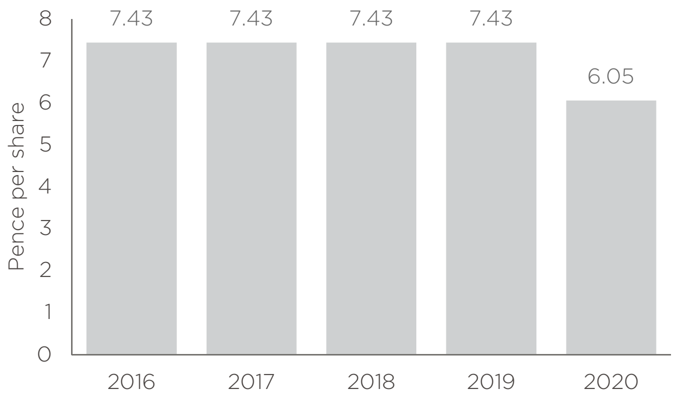
Income

Gross dividend yield 4.66%*

MSCI/AREF Other Balanced Property Fund Index Yield † 3.31%

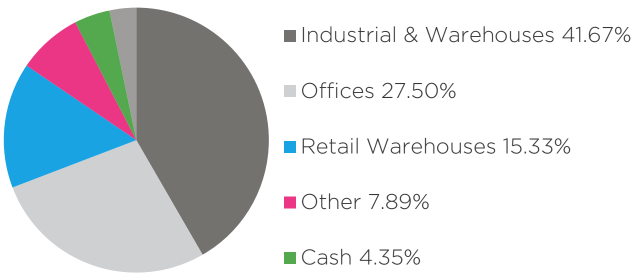
* Based upon the net asset value and an estimated annual dividend of 6.51p.

Past distributions



The accounting period for the Fund changed in 2015 and is now aligned with calendar quarters.

Underlying asset allocation as at 30 September 2021

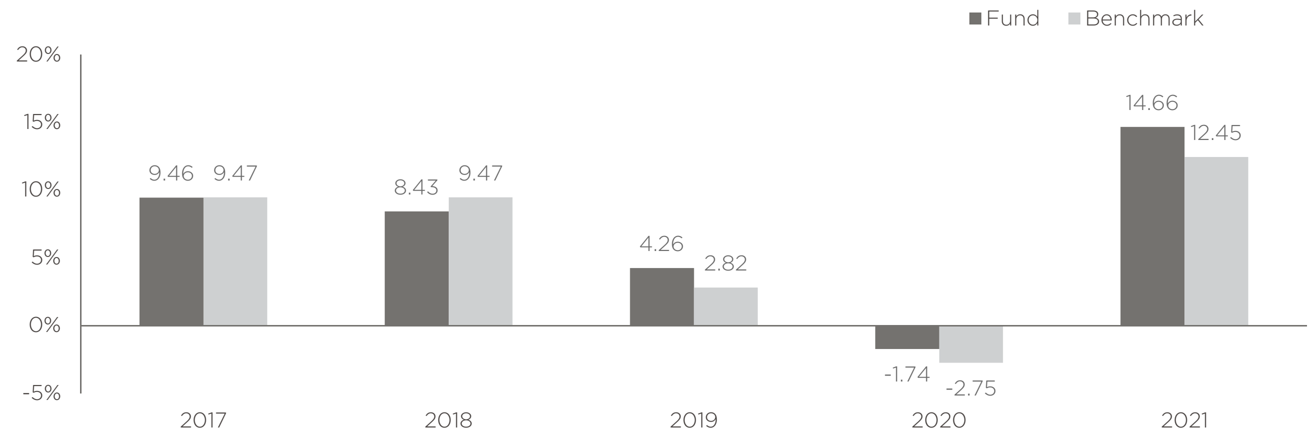


Total return performance

Performance* to 30 September 2021	3 months	1 year	3 years p.a.	5 years p.a.
Property	+4.34%	+14.66%	+5.51%	+6.87%
Benchmark	+3.86%	+12.45%	+3.98%	+6.14%

Discrete year total return performance

12 months to 30 September	2017	2018	2019	2020	2021
Property	+9.46%	+8.43%	+4.26%	-1.74%	+14.66%
Benchmark	+9.47%	+9.47%	+2.82%	-2.75%	+12.45%

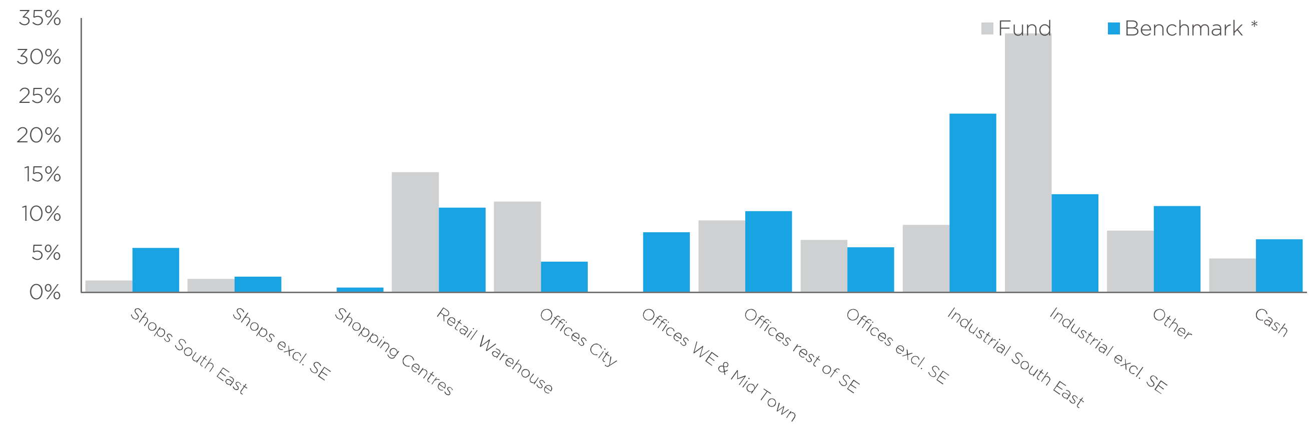


Benchmark – MSCI/AREF UK Other Balanced Quarterly Property Fund Index. Property performance is shown after management fees and other expenses (net). Source: CCLA

Top 10 underlying property holdings - total 46.15%

London, 80 Cannon Street	1400-1600 Aztec West Business Park Bristol
Mendlesham, Mendlesham Industrial Estate	Lutterworth 3220 Magna Park
Brighton, Pavilion Retail Park	Rossiter Road Bath
Bracknell, 5 Arlington Sq	1-3 College Hill London EC4
Lutterworth 3320 Magna Park	London E3 St Andrews Way

Underlying 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.

Risk Warning

Performance is shown net of management fees. Exchange rate changes may have an adverse effect on the value, price or income of investments. Nothing in this document should be deemed to constitute the provision of financial, investment or other professional advice. All sources are CCLA, unless otherwise indicated.

Disclosures

Investment in the Funds is only available to charitable trusts with objects closely connected with the work of the Church of England. 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. Any forward-looking statements are based upon our current opinions, expectations and projections. We undertake no obligations to update or revise these. Actual results could differ materially from those anticipated. 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. The CBF Church of England Funds are Common Funds established under The Church Funds Investment Measure 1958 (as amended or replaced from time to time). The Funds are not regulated Funds and are not Alternative Investment Funds. Investments in The CBF Church of England Funds and the Funds, and Investments or Deposits in The CBF Church of England Deposit Funds and the Funds are not covered by the Financial Services Compensation Scheme (FSCS).

GDPR

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