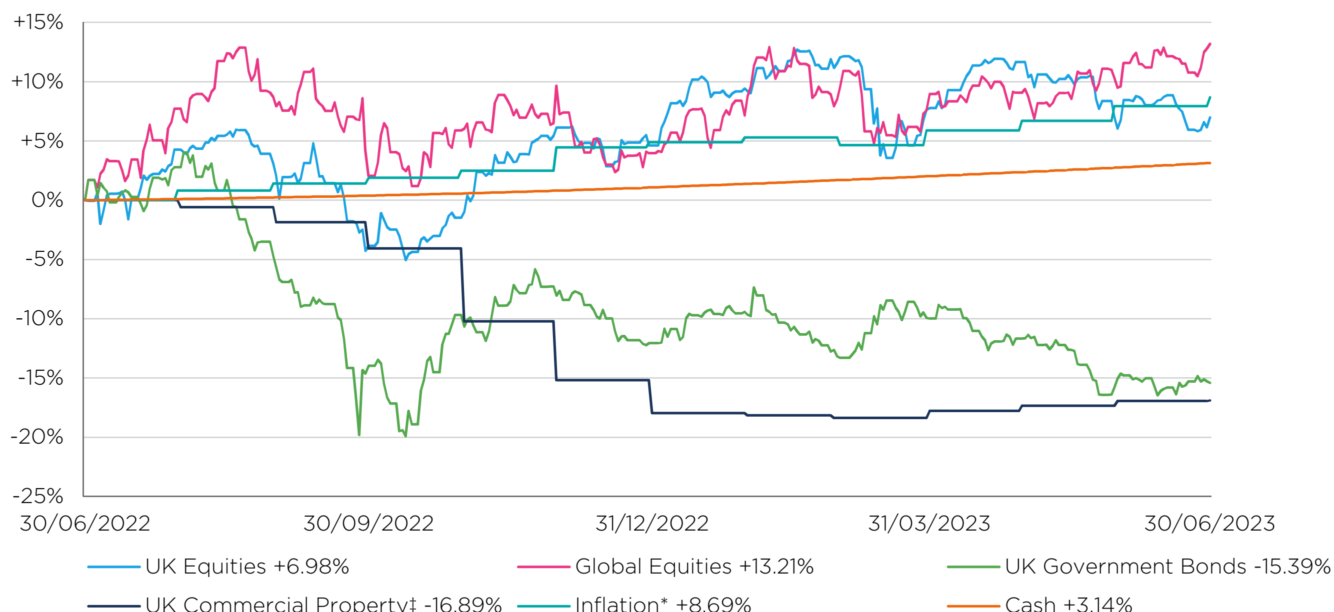
CCLA

QUARTERLY BULLETIN

30 June 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)	-0.72	+6.98	+10.06	+2.70
Global Equities (MSCI World Index)	+3.90	+13.21	+11.11	+9.90
Global Equities ex UK (MSCI World ex UK Index)	+4.09	+13.43	+11.09	+10.26
UK Govt. Bonds (Markit iBoxx £ Gilts Index)	-6.02	-15.39	-12.14	-4.38
Sterling Bonds ex UK Govt, (Markit iBoxx £ Non-Gilts Index)	-3.39	-6.93	-6.30	-1.51
UK Commercial Property (AREF/MSCI™ All Prop Monthly) ‡	+1.08	-16.89	+3.91	+2.56
Inflation (CPI) *	+2.66	+8.69	+6.56	+4.41
Cash (SONIA) §	+1.09	+3.14	+1.15	+0.88

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 reported on a 1m lag.
‡ MSCI UK Monthly Property is estimated for the most recent month.

The second quarter of 2023 was another period of mixed fortunes for equity markets. April was relatively quiet when compared to the swings experienced in the first quarter of the year, and most markets made modest gains. Short terms shifts in sentiment during the month were driven by emerging macroeconomic data and official commentary, and by company results and forecasts as the earnings season got under way.

The month of May brought a couple of spells of anxiety. Firstly, strong US economic data increased the perceived chance of monetary policy staying tighter for longer, which would be expected to suppress asset valuations. In the second half of the month, concerns over the possibility of the US defaulting on its obligations, by failing to reach agreement on the debt ceiling, also raised concerns. Fortunately, a deal was reached, alleviating those concerns, and allowing the US market to end the month marginally in positive territory.

Further progress was made in June, but with increasing divergence between sectors. A handful of technology companies, especially those benefiting from surging interest in artificial intelligence (AI) continued to advance strongly. In contrast the majority of the market, and especially the traditional energy and materials sectors, languished as demand weakened and costs were impacted by inflation.

The global equity index delivered total returns for the latest quarterly period of +3.9% in sterling terms, bringing returns for the first half of the calendar year to +8.9%. 'Growth' stocks, which include most of those in the IT sector, once again outperformed the more defensive 'value' category. In the dominant US market, for example, the value index was down -6% (sterling terms) for the quarter compared with +12% from growth names. The US equity market as a whole added +5.5% for the second quarter to bring first-half returns to +11.2%.

The European market made more modest progress with quarterly gains of +2.5%, taking the year-to-date outcome to +13%. The UK-listed market once again lagged its global peers, thanks mainly to the dominance in the domestic market of under-performing sectors such as traditional energy and mining stocks. Banks, which are also heavily represented in the UK index, continued to struggle. Returns from the broad UK equity market were -4.6% over latest quarter, paring first-half returns back to +1.4%.

After a positive start to 2023, fixed interest assets faltered in the second quarter as inflation news and central bank commentary pointed to 'higher for longer' interest rate policies in the major western economies. Bond yields rose in response: the yield on the benchmark 10-year UK government bond (gilt) ended the period at 4.4%, close to the peak seen in the damaging aftermath of last year's so-called 'mini-budget'. Bond prices move in the opposite direction from yields, resulting in losses for fixed income investors. The UK government bond market as a whole gave total returns of -6%, reversing the previous quarter's gains to leave returns for the first six months of the year at -3.8%.

The rise in bond yields continued to depress valuations among alternative assets, such as some infrastructure and contractual income vehicles. The UK commercial property sector also faces valuation challenges but was much steadier than during the savage downgrading of late 2022 and even showed modest increases in capital values at times. Total returns from property, supported by continued resilience in occupier markets and income flows, have been broadly flat for the year to date.

Outlook

Policy makers and market observers have been surprised by the continued resilience in economic activity, with the widespread recession that was expected by many having so far not materialised.

However, growth is decidedly subdued and there are reasons to expect that recession will affect individual economies in coming periods, even if such downturns are relatively shallow and short-lived and if at the global level growth remains positive. Activity has been supported by consumer demand for services in particular, and it is likely that this in turn has benefited from pandemic-era savings which are now being run down.

The UK has joined the US in having an inverted yield curve, meaning that the yield on long-dated government debt lower than on short-dated bonds. Historically this has been a very reliable indicator of an impending recession. The eurozone has already reported a modest technical recession; while in China, the expansion that followed the ending of most pandemic restrictions has already faltered. In all these economies, purchasing managers' index (PMI) indicators of activity levels have reported that manufacturing activity has been contracting while services activity, although still expanding, has been doing so at a much slower rate than in recent periods.

Overall economic growth appears set to take some time to recover from the shock of surging inflation and the tighter monetary policy intended to control it. This will limit earnings growth in equity markets, but fortunes will not be evenly spread, and we can expect to see continued divergence between sectors and individual stocks as investors digest the prospects for different businesses in a higher inflation and higher yield environment. The peak of the interest rate cycle, which currently appears set to be reached before too long, could mark the beginning of a more positive long-term trend. However now that we have left behind the era of ultra-loose monetary policy and the support that it provided for asset markets, elevated volatility is likely to remain a feature of asset markets for the foreseeable future.

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.

What do higher interest rates mean for portfolios?

Official interest rates in most major economies have climbed sharply over the last year and a half. Today's rates aren't especially elevated by historical standards: the average for the Bank of England's official rate over the last hundred years or so has been slightly above the 5% reached in June. But after the ultra-low rates that had been in place since the onset of the global financial crisis some 15 years ago, the marked change in policy has had a dramatic effect on investment markets.

Equities suffered sizeable declines in value from the onset of central banks' policy tightening efforts. If investors can find a worthwhile income stream in generally risk-free assets such as cash and government bonds, they may see less justification in accepting the risks associated with real economic assets such as company shares.

Some other assets took longer to feel the effects of rising yields, but when it came the damage was often severe. Commercial property investors endured steep valuation falls late last year, resulting in losses, at least on paper, even while tenant demand remained solid and rental flows largely secure. Many alternative investment vehicles such as those managing social, transport and energy infrastructure assets, which for years had been a valuable source of the income which could no longer be found in the bond market, also fell out of favour as bond yields rose.

Vulnerable though they are to price volatility, equities and these other assets will remain the mainstay of most long-term portfolios, because the pursuit of returns which can rise with inflation requires exposure to real economic activity. Many assets are a good deal less expensive, relative to their underlying cash earnings, than they were two years ago. This improves the prospects for future returns, although a selective approach is merited as some businesses will be more challenged than others by the new higher-yield, higher-inflation backdrop.

In CCLA's multi-asset funds for long-term investors we avoided fixed-interest assets – government and corporate bonds – throughout the years when yields were at historically low levels. The potential returns from bonds fell far short of the funds' inflation-plus target. Meanwhile, because bond prices move inversely to yields, there was a clear risk to valuations should yields pick up. Sure enough, the year 2022 brought record losses for bond investors as yields surged and prices plummeted. The sharp decline, at the same time as equities were falling, also came as a shock to those who had been holding bonds for their supposed diversification benefits.

The transformed yield environment means that for the first time in a number of years we are now finding meaningful opportunities in fixed interest markets for our multi-asset funds. Holdings of UK government bonds (gilts), in addition to contributing to income yield, represent assets which are likely to rise in value if, as we expect, a forthcoming UK economic slowdown prompts a downturn in yields. In non-government bonds, there are holdings in investment-grade corporate debt where we see yields which more than compensate for the associated risk; and in a short-duration bond fund which aims to benefit from selective credit exposure while keeping interest rate risk to a modest level.

Cash deposits

For cash savers, higher official interest rates should of course be welcome. However, to the chagrin of regulators and many other observers, most banks and building societies have so far been reluctant to pass on anything like the full benefit to their customers. Charity depositors are finding it even harder than other customer groups to access decent savings rates from their banks.

Not surprisingly, then, money market funds such as the COIF Charities Deposit Fund and the CBF Church of England Deposit Fund have seen sizeable inflows. These funds focus on maintaining the highest possible degree of capital security and liquidity by placing depositors' funds across a diversified range of carefully screened institutions, and offer yields much closer to the Bank of England rate. The latest yields and important fund information can be found at:
https://www.ccla.co.uk/investments/strategy/cash-and-bonds

Amazon and workers' rights

As the second largest employer in the US and one of the world's most influential businesses, Amazon attracts criticism on a range of issues. Some of the most serious of these relate to working conditions and trade union rights.

The topic grew in prominence over the course of 2022, after Amazon workers at a large fulfilment centre on Staten Island made history by voting to form the first Amazon Union. Since then, the Union has faced widespread and well-publicised opposition and anti-union interference from the company. An alleged $14 million was spent by Amazon on efforts to quash union drives at the company, including $4 million spent on anti-union consultants, brought in to dissuade people from joining the Union[i]. We are told that intimidation, retaliation[ii] and surveillance[iii] were commonplace.

There have also been concerns about the company's approach to unions closer to home. In April this year Amazon was on the verge of being forced to recognise a trade union in the UK for the first time, after more than 50% of workers (the typical threshold for mandatory union recognition) was reached at a fulfilment centre in Coventry.

Amazon's response was reminiscent of its activities in the US. Managers allegedly intimidated the wider workforce, organising compulsory closed meetings with workers and even accompanying union representatives to the toilet to control who they could speak to. It has also been alleged that the company flooded the site in Coventry with temporary workers, such that the crucial 50% threshold could not be reached and the paperwork for union recognition had to be withdrawn.

Freedom of Association and Collective Bargaining - context

The rights to Freedom of Association and Collective Bargaining are ILO Core Conventions and a key part of the ILO Declaration on Fundamental Principles and Rights at Work. This means that they are internationally recognised as Human Rights norms that should be upheld, regardless of local legislation.

In practical terms, the rights translate to the ability of workers to speak freely to whoever they like about their work, and to organise as unions and elect representatives to negotiate with management on their behalf. The rights are considered 'fundamental' because without them, other rights – such as living wages, health and safety, and working environments free of intimidation and harsh treatment – are harder to achieve.

Furthermore, the UN Guiding Principles on Business and Human Rights (UNGPs) set out the expectation that businesses respect human rights in their global operations and supply chains. The UNGPs explicitly and unambiguously require companies to adhere to the international standard where national law differs.

Amazon's own policy documents on Human Rights recognise these rights and even reference the UNGPs. However, the activities described above illustrate that the company's practices fall far short of its policy commitments.

Engaging with Amazon

As shareholders, we believe that we have a duty to try to put this right. We also believe that Amazon itself has much to gain from supporting its workers' efforts to organise. Evidence suggests that trade unions can result in higher corporate productivity, lower staff turnover, a better health and safety record, and greater innovation.

At the end of 2022, we co-signed a letter to Amazon, calling for the Board of Directors to commission an independent, third-party assessment of Amazon's adherence to its stated commitment to workers' freedom of association and collective bargaining rights as outlined in its Global Human Rights Principles. Six weeks later, having received no meaningful response, we escalated the engagement by co-filing a shareholder resolution at the company for its 2023 annual general meeting.

The proposal went to vote on 24th May. Our resolution achieved 34.6% of the overall vote and 41.8% of independent shareholders' vote. This was down on the 47% of independent shareholders vote from a similar resolution in 2022, despite having been filed by a much larger international group of investors. This may be symptomatic of the politically charged ESG-backlash in the US.

The resolution may not have passed, but we will continue to engage with Amazon on its approach to worker rights. Next, we will write a collective open letter to Amazon, and will continue to support efforts to organise in the UK. We have had productive discussions with several other investors, and we look forward to reporting back in due course.

i Amazon spent unmatched $14 million on labor consultants in anti-union push | The Hill

ii Fired, interrogated, disciplined: Amazon warehouse organizers allege year of retaliation (nbcnews.com)

iii https://www.cnbc.com/2020/10/24/how-amazon-prevents-unions-by-surveilling-employee-activism.html

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 commenced engagement with four UK-listed companies asking them to become Living Wage accredited. In Q2, one of the four indicated that they will now seek Living Wage accreditation. A second company told us they are committed to accreditation in time; we will continue to engage.

During the quarter, we supported ShareAction's Healthy Markets coalition on engagement meetings with PepsiCo, Nestlé, Coca-Cola, and Unilever. Unilever and Nestlé are ahead of their US peers on this important public health topic and we continue to explore how we can accelerate progress.

In Q2, CCLA's Tessa Younger joined the advisory committee for the Principles for Responsible Investment-led (PRI) Collaborative Stewardship Initiative on Nature.

In June, we submitted written evidence to the Home Affairs Committee's Human Trafficking Inquiry. We used evidence gathered from our modern slavery initiative, Find it, Fix it, Prevent it, to support our submission. Our paper is now published on the Home Affairs Committee's website.

CCLA is a member of the PRI's 'Advance' programme on human rights and social issues. We lead engagement with NextEra Energy for Advance. Forty-five percent of polysilicon feed stocks (a key component of solar panels) come from the Xinjiang Province, an area notorious for state-sponsored forced labour and genocide. We met NextEra in June; the company confirmed its aim to leave China by the end of 2024 and is also working on a new Human Rights Policy.

Quarter two 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 20% of resolutions at investee companies this quarter (15% for the UK Equity Fund, 23% for the Better World Global Equity Fund).

Our most common reason for withholding support for the re-election of a director this quarter was remuneration concerns (c. one in three). Lack of diversity at director level was the second most common reason, at approx. one in four. This is a marked increase on previous quarters. We aim to support all pro-active shareholder proposals, particularly where a proposal complements one of our existing engagement priorities. On proposals relating to equity and diversity this quarter, we supported the proposal at Amazon seeking Median and Adjusted Gender/Racial Pay Gaps, along with calls for a report on the Effectiveness of Diversity, Equity, and Inclusion Efforts at Danaher.

2023 CCLA Corporate Mental Health Benchmark - UK 100

In June, we published the 2023 iteration of the UK 100 corporate mental health benchmark. The benchmark seeks to evaluate and compare major UK-listed companies on the extent to which they create the working conditions for people to thrive.

Of the 100 companies assessed, 64 engaged directly with CCLA over the past year. Forty-three companies improved their score against the benchmark's assessment criteria by greater than or equal to 5%, and 24 companies improved sufficiently to move up by at least one performance tier. Those 24 companies employ between them 1.3 million people worldwide. We are delighted with these results, especially at such an early stage in the benchmarking project. The full benchmark report is available at www.ccla.co.uk/mental-health.

Our attention now turns to the Global 100+ corporate mental health benchmark, which will be published on 10th October. Since October last year, 35 of the world's largest listed companies have engaged with us, sought our advice, or used our recommendations to strengthen their approach to workplace mental health. Those companies are: Accenture*, Adobe*, Amazon*, ASML*, AstraZeneca*, Bank of America*, Cisco*, Comcast, Eli Lilly, Goldman Sachs, Home Depot*, HSBC, Intuit*, Mastercard*, Microsoft*, Morgan Stanley, Novartis*, Novo Nordisk*, PepsiCo*, P&G*, Roche*, Shell, Salesforce, SAP, Tencent, Toronto-Dominion Bank, TotalEnergies, Toyota, TSMC*, Unilever*, Union Pacific, UnitedHealth*, Verizon, Visa*, and Walmart.

We look forward to showcasing the global benchmark results in October.

[*CCLA equity holding as at June 2023.]

Ethical constraints

We confirm that the CBF Funds have been managed to their respective ethical exclusion policies this quarter. In Q2 the EIAG started the process of updating its advice papers, which influences the policies of the National Investing Bodies of the Church of England, where relevant. This project is extensive and will continue for at least a year.

The CBF Church of England Investment Fund

Performance comment

Within equities, which make up the majority of the portfolio, the Fund's returns were strong in absolute terms but lagged the market comparator. This reflected the fact that as a diversified portfolio, the Fund's allocation to the handful of technology stocks which accounted for almost all of the market's total returns is lower than the dominant share these companies represent in the market as a whole. Elsewhere, some of the Fund's healthcare stocks had a weaker period than of late, although those focusing on medical technology and surgical devices continued to perform well. Conversely, the Fund's avoidance of traditional energy companies was supportive of relative returns at a time when that sector underperformed the rest of the market.

Bond markets had a weaker quarter with negative returns overall, so it was helpful to relative performance that the Fund has a lower allocation to fixed interest than the comparator benchmark. The Fund's fixed interest holdings also performed better than the bond market as a whole. In other asset classes, rising bond yields continued to depress valuations for some holdings in infrastructure, contractual income and other alternative assets although not on the damaging scale seen in the second half of 2022.

Over the quarter the Fund returned 0.99% compared with the comparator return of 2.09%. Over the last 12 months, the Fund returned 6.28% compared with the comparator return of 6.42%.

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 information technology. In terms of portfolio activity this quarter was a fairly quiet one for the Fund. There were incremental changes within the equity portfolio, and we shifted the emphasis of the Fund's UK government bond holdings to take advantage of the significant rise in yields among longer-dated issues.

Income

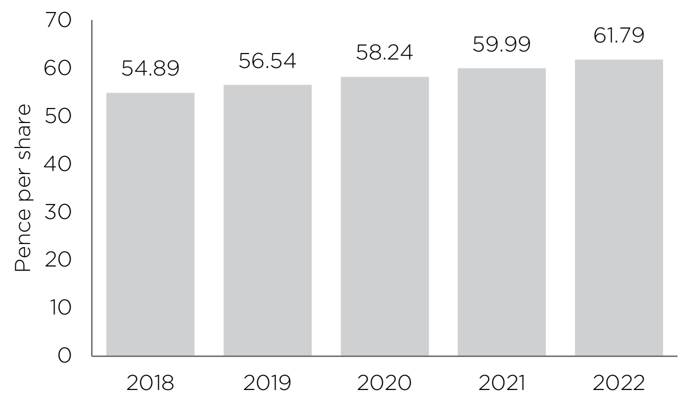
Gross dividend yield 2.89%*

MSCI $ UK IMI dividend yield 3.84%

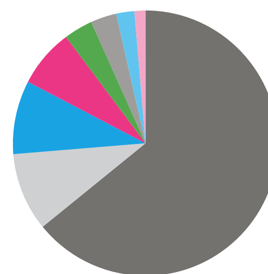
MSCI $ World ex UK dividend yield 1.92%

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

Past distributions



Asset allocation as at 30 June 2023



- Overseas Equities 64.13%
- UK Equities 9.55%
- Fixed Interest 8.95%
- Infrastructure & Operating Assets 7.11%
- Private Equity & Other 3.55%
- Property 3.17%
- Contractual & Other Income 2.21%
- Cash & Near Cash 1.3%
- Derivatives 0.03%

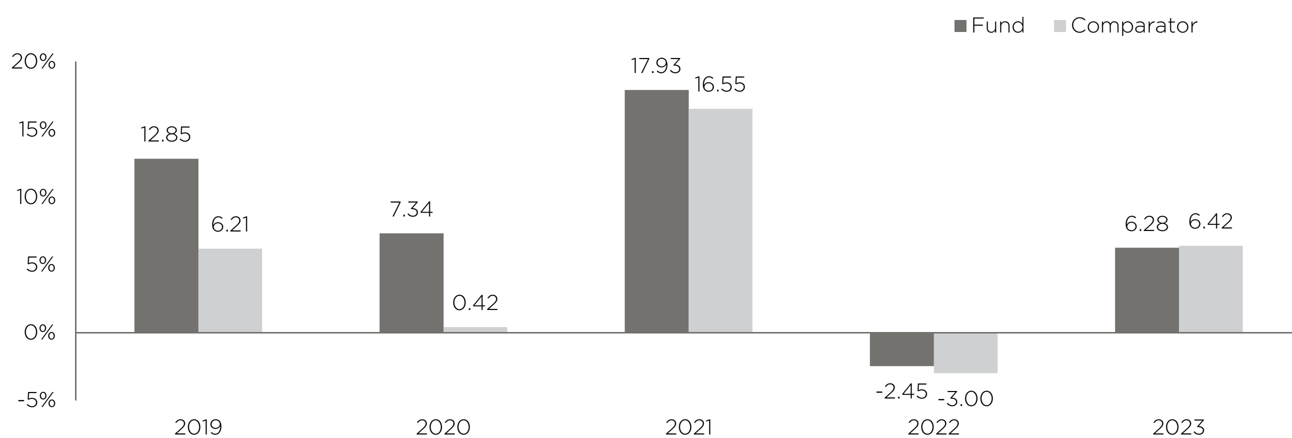
Overseas Equities	**%**
North America	47.05
Developed Europe	12.07
Asia Pacific ex Japan	3.03
Japan	1.01
Other	0.96
	64.13

Total return performance

Performance* to 30 June 2023	3 months	1 year	3 years p.a.	5 years p.a.
Investment	+0.99%	+6.28%	+6.93%	+8.17%
Comparator	+2.09%	+6.42%	+6.36%	+5.12%

Discrete year total return performance

12 months to 30 June	2019	2020	2021	2022	2023
Investment	+12.85%	+7.34%	+17.93%	-2.45%	+6.28%
Comparator	+6.21%	+0.42%	+16.55%	-3.00%	+6.42%



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 30 June 2023

Holding	%
UK Treasury Gilt 3.25% 22/01/2044	3.0%
UK Treasury 4.5% 07/12/2042	3.0%
CCLA Inv Mgmt Ltd Ord GBP1	2.6%
The CBF Church of England Property Fund	2.5%
Microsoft Com NPV	1.9%
Adobe Inc Com USD0.0001	1.3%
Amazon.Com Com USD0.01	1.3%
S And P Global Inc Com USD1	1.3%
IntercontinentalExchange Group Inc Com USD0.01	1.3%
LVMH EUR0.30	1.3%

* 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

Global equity markets remained sensitive to macroeconomic news and day-to-day fortunes were mixed. The latest quarter's returns were modestly positive for the market as a whole, but this progress was driven by a limited number of stocks and sectors. Several 'big tech' companies, especially those benefiting from surging interest in artificial intelligence (AI), enjoyed dramatic gains; while communications services and some consumer stocks also did well. In contrast, traditional energy has been the weakest industry sector over the year to date as oil and gas prices have softened.

Over the quarter the Fund returned 3.72% compared with the comparator return of 3.89%. Over the last 12 months, the Fund returned 13.20% compared with the comparator return of 13.20%.

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. In the latest quarter, relative performance was held back by the fact that the Fund's allocation to the handful of technology stocks which accounted for almost all of the market's total returns is lower than the market weighting. Conversely, the Fund's avoidance of traditional energy companies was helpful at a time when that sector underperformed the rest of the market.

Fund update

The portfolio has no predetermined allocations to any sector or geographic area; instead stocks are selected in a 'bottom -up' approach based 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.

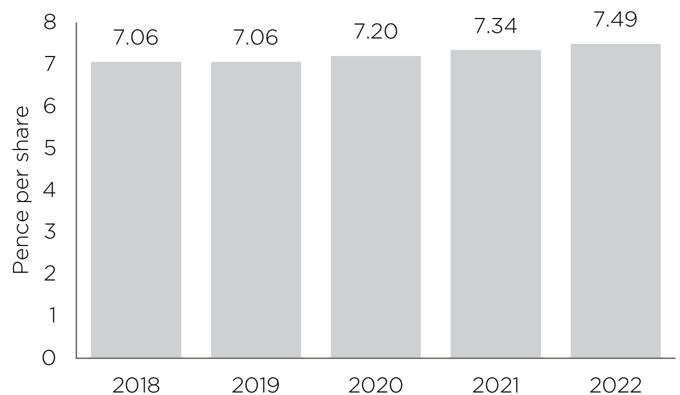
Income

Gross dividend yield 2.66%*

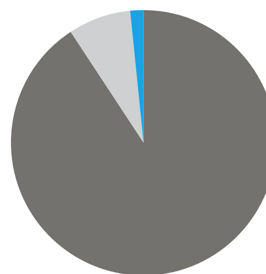
MSCI $ World dividend yield 2.00%

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

Past distributions



Asset allocation as at 30 June 2023



- Overseas Equities 90.75%
- UK Equities 7.64%
- Cash & Near Cash 1.62%

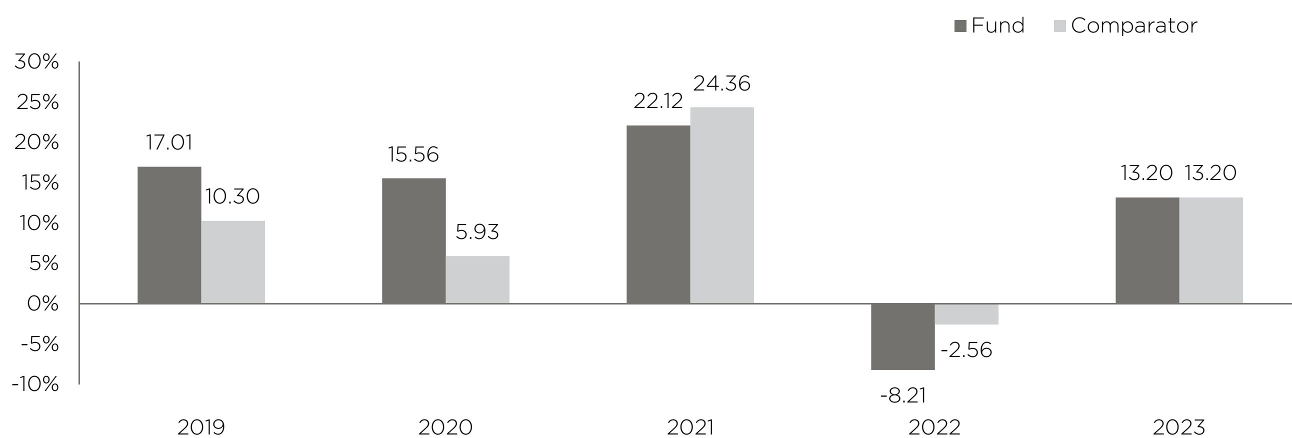
Overseas Equities	**%**
North America	66.73
Developed Europe	16.95
Asia Pacific ex Japan	4.30
Other	1.50
Japan	1.26
	90.75

Total return performance

Performance* to 30 June 2023	3 months	1 year	3 years p.a.	5 years p.a.
Global Equity Income	+3.72%	+13.20%	+8.26%	+11.40%
Comparator	+3.89%	+13.20%	+11.11%	+9.90%

Discrete year total return performance

12 months to 30 June	2019	2020	2021	2022	2023
Global Equity Income	+17.01%	+15.56%	+22.12%	-8.21%	+13.20%
Comparator	+10.30%	+5.93%	+24.36%	-2.56%	+13.20%



Comparator – MSCI £ World. Source: CCLA

Top 10 holdings as at 30 June 2023

Holding	%	Holding	%
Microsoft Com NPV	3.6%	Intuit Com USD0.01	1.8%
Adobe Inc Com USD0.0001	2.1%	Alphabet Inc C Com NPV	1.8%
Amazon.Com Com USD0.01	2.0%	UnitedHealth Gp Com USD0.01	1.8%
Visa Com - Class A Shares USD0.0001	1.9%	LVMH EUR0.30	1.8%
S And P Global Inc Com USD1	1.9%	IntercontinentalExchange Group Inc Com USD0.01	1.8%

* 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 Deposit Fund

Performance comment

The declared interest rate on the Fund has continued to increase as more attractive yields 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 4.25% to 5%. Current market consensus is that the official rate may rise by a further 1% or more before signs of economic slowdown and lower inflation allow the Bank to pause and ultimately reverse this monetary policy tightening. Headline inflation has already begun to fall but core inflation, which strips out the volatile food and energy components, is proving stickier. The Bank 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

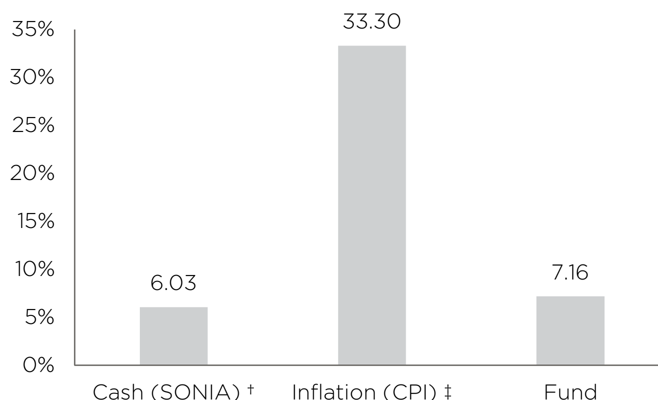
The prime focus of the investment strategy is to provide capital security with excellent liquidity and a competitive rate of interest. The portfolio is invested only in cash and near cash assets diversified across a number of approved, high-quality counterparties.

Income

Average interest rate over the quarter 4.12%
(4.18% AER)*

Interest rate over the quarter end 4.50% (4.58% AER)*

Cumulative total return over last 10 years



Deposit rate as at 30 June 2023

4.18% 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

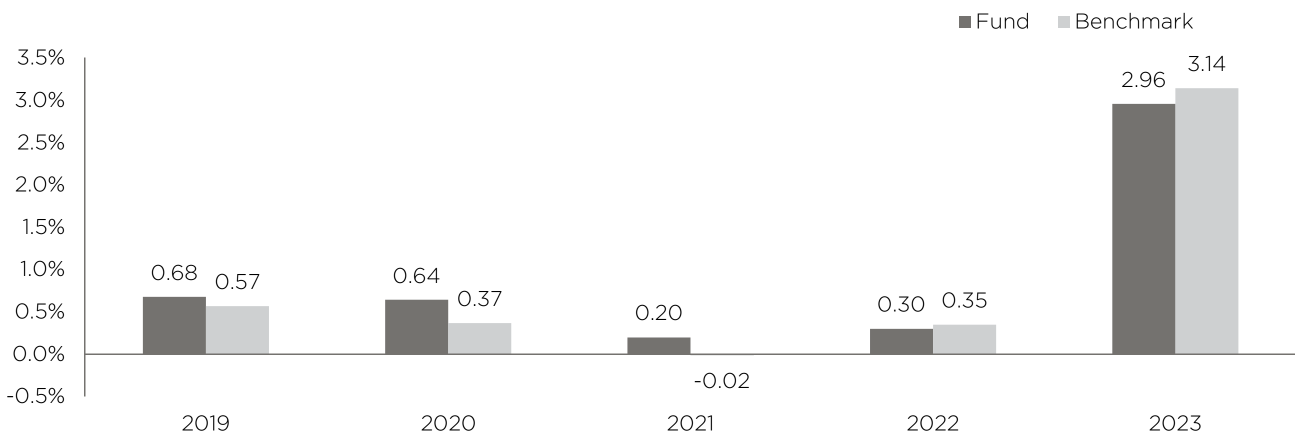
‡ CPI is reported on a 1m lag.

Total return performance

Performance* to 30 June 2023	3 months	1 year	3 years p.a.	5 years p.a.
Deposit	+1.01%	+2.96%	+1.14%	+0.95%
Benchmark	+1.09%	+3.14%	+1.15%	+0.88%

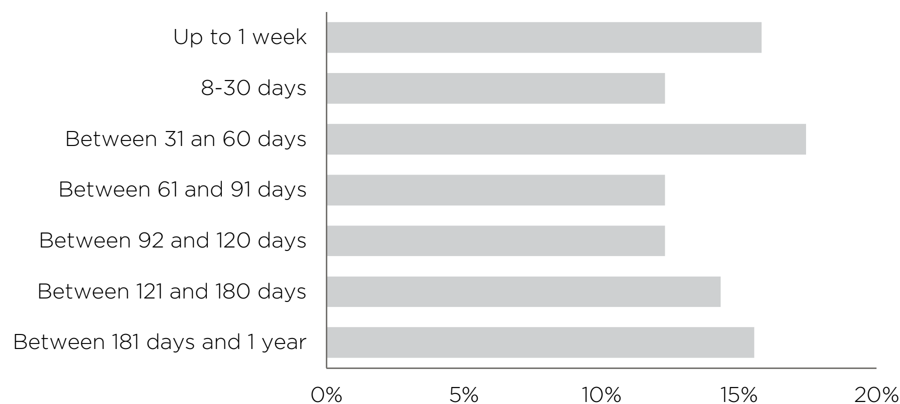
Discrete year total return performance

12 months to 30 June	2019	2020	2021	2022	2023
Deposit	+0.68%	+0.64%	+0.20%	+0.30%	+2.96%
Benchmark	+0.57%	+0.37%	-0.02%	+0.35%	+3.14%



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 Fund uses a wide range of fixed interest securities (bonds) and derivatives to pursue a target return of cash plus 1.75% p.a. (net of fees and expenses) over a rolling 3-year period. There is a focus on generating returns from credit risk, with limited appetite for interest rate risk.

Bond markets lost ground over the quarter, reversing the gains seen in the first three months of the year. The change in mood was prompted by growing anxiety over the persistence of inflation, prompting policy makers and market participants to price in 'higher for longer' interest rate expectations. Rising interest rates are generally negative for bonds because prices move inversely to yields. At a time when risk assets such as equities were more in favour, the only part of the bond market to provide positive returns was the riskiest 'high yield' or sub-investment grade sector.

The Fund's exposure to these higher yielding bonds is carefully limited and this was one factor in holding the Fund's total return over the period relative to the performance benchmark. Returns were favourable, however, relative to the wider bond market. Positive contributors to performance included securities in cyclical businesses such as financials, basic materials and packaging.

Over the quarter the Fund returned 0.39% compared with the benchmark return of 1.52%. Over the last 12 months, the Fund returned 2.36% compared with the benchmark return of 6.40%.

Fund update

At the beginning of the period under review a sizeable proportion of the portfolio was held in US government bonds. This cautious positioning followed the significant market uncertainty arising from regulatory turbulence in the banking sector. Over the course of the latest quarter the holding was substantially unwound in favour of selected individual corporate bond holdings. Meanwhile, within the corporate securities book, exposure to credit risk has been reduced over the period, reflecting the worsening outlook for business prospects in the face of weak economic growth and persistent inflation pressures.

Income

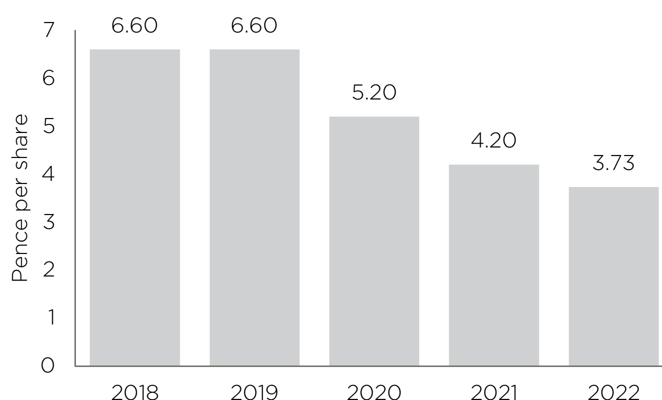
Gross dividend yield 2.25%*

Gross redemption yield 5.21%

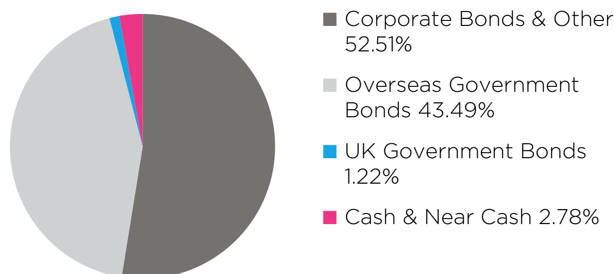
* Based upon the net asset value and an estimated annual dividend of 3.13p.

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 30 June 2023

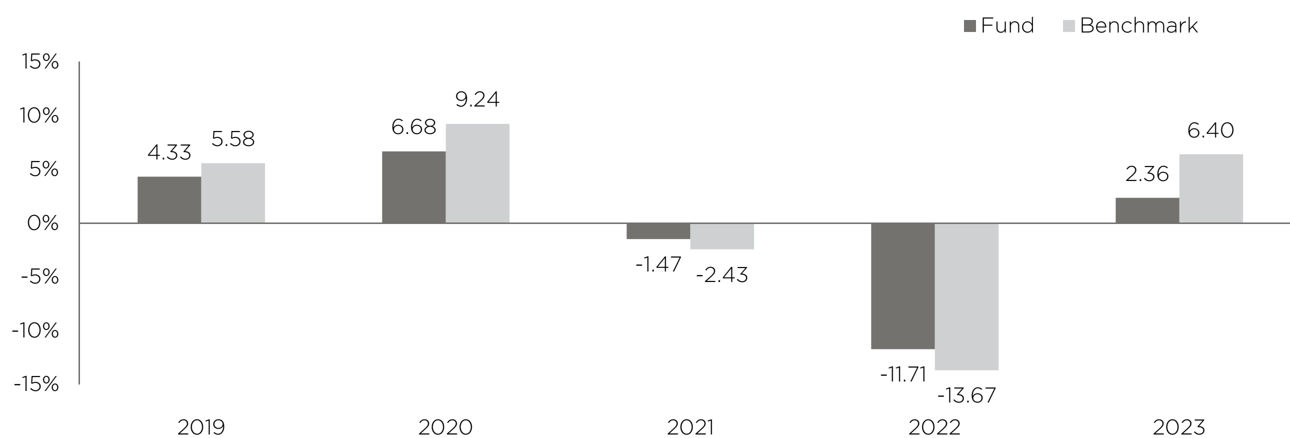


Total return performance

Performance* to 30 June 2023	3 months	1 year	3 years p.a.	5 years p.a.
Fixed Interest	+0.39%	+2.36%	-3.79%	-0.18%
Benchmark	+1.52%	+6.40%	-3.59%	+0.66%

Discrete year total return performance

12 months to 30 June	2019	2020	2021	2022	2023
Fixed Interest	+4.33%	+6.68%	-1.47%	-11.71%	+2.36%
Benchmark	+5.58%	+9.24%	-2.43%	-13.67%	+6.40%



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	42.1
AA	3.3
A	7.4
BBB	37.6
Non Investment Grade	8.6
Not rated (Debentures/Prefs)	0.9

By term to maturity

Period	*% Fund*
0 - 5 years	64.6
5 - 10 years	27.3
10 - 15 years	1.3
Over 15 years	6.8
Duration (yrs)	2.0
Average term to maturity (yrs)	10.3

* 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

Transaction markets remained quiet. Following on from a historically subdued start to 2023, provisional data for the latest quarter indicated that the market was on track for the lowest first-half volume since the financial crisis of 2008-09. There were some signs of improving interest from prospective buyers, no doubt seeking bargains after the valuation rout in the second half of 2022, but there was a shortage of sellers willing to transact at depressed prices. For the first time in many months capital returns were positive, albeit marginally, for a period, but later in the second quarter valuations came under renewed pressure as interest rate expectations began to rise once again. However, income flows remained steady thanks to resilient occupier and rental markets.

Over the quarter the Fund returned 1.22% compared with the benchmark return of 0.56%. Over the last 12 months, the Fund returned -16.53% compared with the benchmark return of -16.92%.

Fund update

The portfolio is managed actively with the aim of providing a high income and long-term capital appreciation. There is a bias towards industrial assets, and retail warehouses are also well represented; whereas there is little exposure to high street shops. One asset sale, a retail outlet in Truro, was completed during the quarter and we are selectively disposing of other properties to reduce exposure to the office sector. Elsewhere in the portfolio, activity on new and renewing leases continued apace, helping to secure future income flows.

In terms of outlook, valuations are likely to remain under pressure until investors are confident that the peak of the interest rate cycle has been reached. Even then, with property yields now enjoying a lower premium over the bond market, capital growth will be subdued. Income will therefore continue to be the key driver of total returns from property. The office sector faces particular challenges, with changing work patterns suppressing demand and higher environmental standards adding to landlords' expenses.

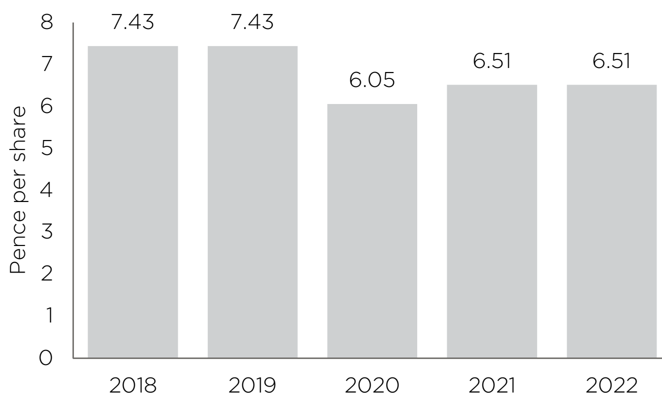
Income

Gross dividend yield 5.09%*

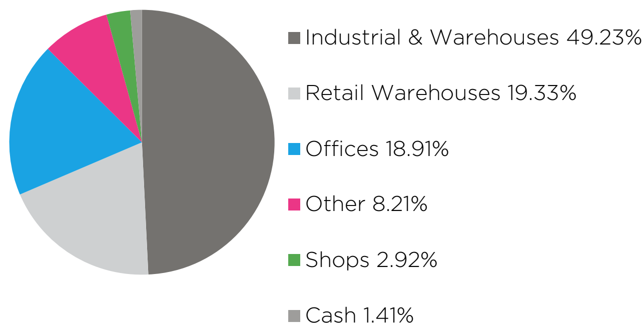
MSCI/AREF Other Balanced Property Fund Index Yield † 3.49%

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

Past distributions



Asset allocation as at 30 June 2023

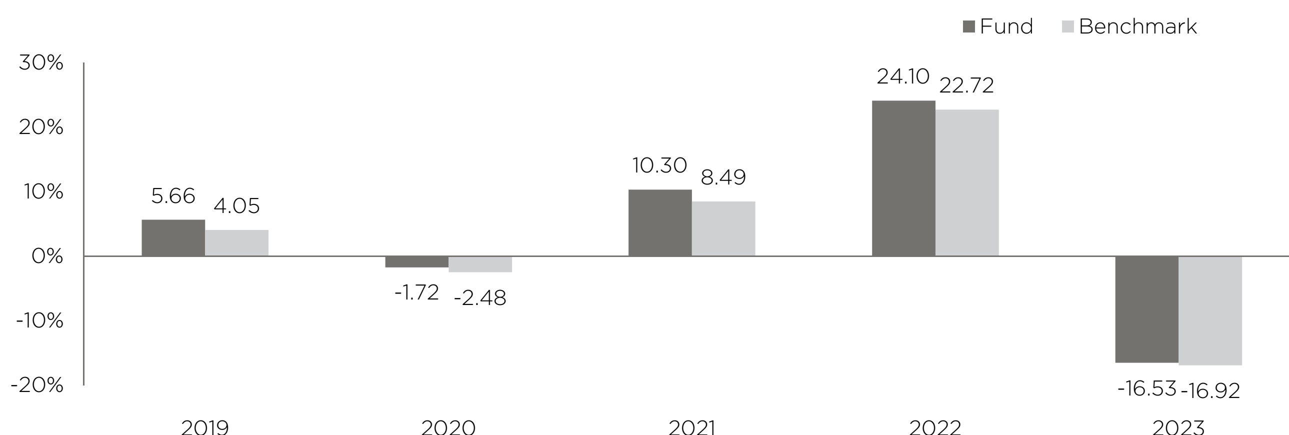


Total return performance

Performance* to 30 June 2023	3 months	1 year	3 years p.a.	5 years p.a.
Property	+1.22%	-16.53%	+4.54%	+3.48%
Benchmark	+0.56%	-16.92%	+3.42%	+2.34%

Discrete year total return performance

12 months to 30 June	2019	2020	2021	2022	2023
Property	+5.66%	-1.72%	+10.30%	+24.10%	-16.53%
Benchmark	+4.05%	-2.48%	+8.49%	+22.72%	-16.92%

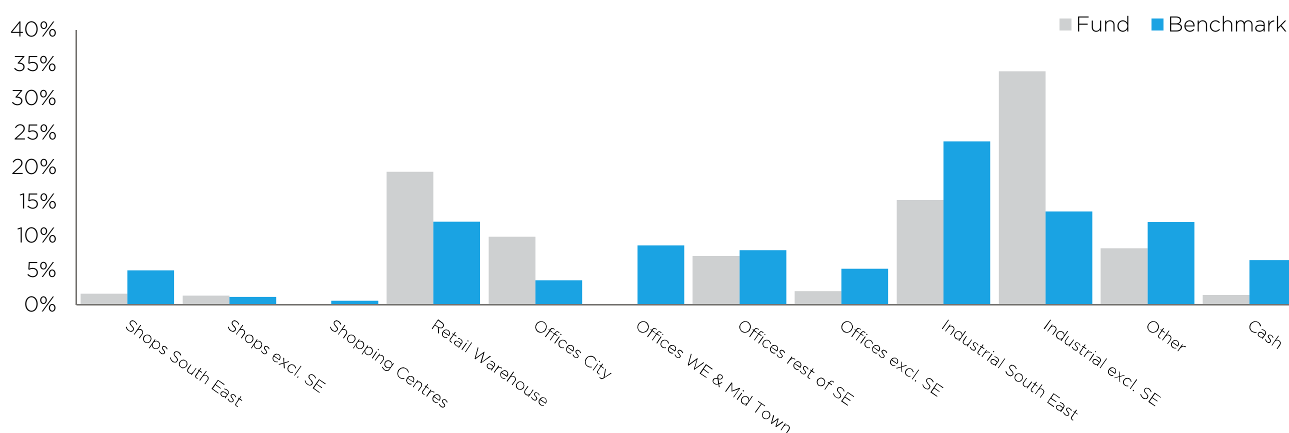


Benchmark – MSCI/AREF UK Other Balanced Quarterly Property Fund Index. Property performance is shown after management fees and other expenses (net). Source: CCLA

Top 10 underlying property holdings - total 46.80%

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

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.

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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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