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Annual Report & Accounts

31 March 2006



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CCLA INVESTMENT MANAGEMENT LIMITED



CCLA Investment Management Limited

20 local authority investors

13,000 churches

29,000 charities

25,000 depositors

23,000 long-term investors

97,000 accounts

103,000 customer transactions

£4.48 billion funds under management

£150 million of distributed dividends and interest

370,000 income payments

100,000 client reports

32,000 client service telephone calls

CCLA

great service for lots of people

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CCLA Investment Management Limited

Chairman's Report

CCLA's profit before tax for the year to 31 March 2006 was £3,136,334, a small reduction on the previous year's result. This reflected higher staff and marketing costs offsetting an increase in fee income. Despite this reduction in profit for the year, I am pleased that the distribution to members was able to be increased by 5% to £455,001.

This has been a year of change for CCLA, the most significant of which has been the retirement of Andrew Gibbs as Chief Executive and his replacement by Michael Quicke. Andrew had been with the Company for over 27 years, 6 years of which were as Chief Executive. He was at the helm at a time of extremely volatile markets, and his experience and commitment served CCLA well. We wish him a long and happy retirement.

Before joining CCLA Michael Quicke was for ten years the Chief Executive of Leopold Joseph Holdings, an independent banking and asset management company quoted on the London Stock Exchange. He is also a trustee of the National Trust and chairman of their Investment Panel. Michael has extensive experience of managing financial services businesses and also a good understanding of charity issues, two attributes which will be very useful for us in the future.

Your Board is keen to take the opportunity of this change in Chief Executive to review the direction and strategy of the firm, and following an initial review of resources, has agreed to recruit two new Executive Directors, a Chief Investment Officer and a Business Development Director. These two appointments, when completed, will allow CCLA to start to address the issues of underinvestment in these two important areas.

CCLA looks after a large and important client base, and your Board is determined to improve levels of service to these clients and to grow the number of clients we look after. We are confident that these changes in the senior management team will initiate a process of development of our business that is long overdue.



James Dawnay
Chairman

13 June 2006

CCLA Investment Management Limited Chief Executive's Review

I joined CCLA as Chief Executive on the 8 March 2006. I recognise that this has been a year of change for CCLA and a difficult period for the Company. The reduction in funds under management during the year has been a challenge for the staff and underlines the need for a review of our activities. My initial review has concluded unsurprisingly that, whilst CCLA has great strengths, there are certain key areas that need improvement.

With its clear customer focus, CCLA is uniquely well positioned to look after clients in the church, charity and local authority markets. The not-for-profit sector is a part of the investment market that is likely to grow faster than average for many years to come as society looks to find solutions to challenges that suit neither government nor the private sector. We look after over 40,000 clients. This gives us a rare insight into the fears, concerns and motivations of those in this market. If we harness the relationship with our clients properly, we will be able to *develop our activities with a level of knowledge and sensitivity that is not available to others in the market.* Despite the large number of clients that we look after, our cost effective structure means that our charges are much lower than most of our competitors. This focus and structure gives us some important competitive advantages. In addition we have a socially responsible investment capability that is one of the best in the industry. If developed appropriately, this will also be an increasingly important part of our business in the future.

CCLA strengths mean we are very well placed to develop our business but, in order to harness these strengths, we need to make improvements to core activities which have suffered from insufficient investment in the past. This underinvestment largely relates to two activities, investment management and business development. Whilst longer term investment performance has been strong, shorter term performance has been less impressive. As the Chairman has noted, we have decided to address this by the appointment of a Chief Investment Officer who will bring together and improve our current investment processes, and take responsibility for the delivery of good short and long-term investment performance.

We also need to improve our business development skills to ensure that our range of products is suitable for our clients, and to enable us to grow our client base over the long term. A growing client base will provide greater resources to invest in the business and improve the services we provide.

CCLA has a substantial balance sheet with capital and reserves at 31 March 2006 of nearly £17m. This is significantly greater than the Company's regulatory and day-to-day working capital requirement.

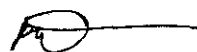
Over the past year funds under management fell from £5.3bn to £4.5bn. Fund outflows of £1.4bn were partly offset by an increase in funds under management due to higher share and property markets. This reduction in funds under management reflects the loss of the mandate to manage the Church Commissioners' UK equity and fixed interest portfolios which CCLA had been responsible for since July 2000. Despite both portfolios outperforming their respective benchmarks over the period, the Church Commissioners took the decision to change their UK equity strategy from an active to an index-tracking mandate. Although disappointed by this decision, CCLA is pleased to have been able to play its part in the transition from internal to external management of the Church Commissioners' core UK portfolios.

During 2005 CCLA's deposit and fixed interest funds added to their strong performance record while the equity based funds were somewhat impacted by their ethical restrictions. *Our property funds were affected by their cash balances during a period of strongly rising property prices, though the underlying property portfolios performed well.*

Eight of our funds have a ten year performance record and in that time all except one have exceeded their benchmark performance.

We initiated some important new software projects during the year with the aim of strengthening our platform for the future development of the business and improving our service to clients. *The first of these is a new integrated front and back office investment management and accounting system which will allow for straight through processing of portfolio transactions. Secondly, we purchased a new client relationship management system which will enable CCLA to look after its clients' needs better and to support the day-to-day service that we provide them.*

It is very early days for me at CCLA. However, I have been impressed by the quality of our staff, and their willingness to embrace change. The combination of their dedication, the *strengthening of the senior management team and a clear commitment to growth* give me great confidence in the future of the Company.



Michael Quicke
Chief Executive

13 June 2006

CCLA Investment Management Limited

Directors' Report

The Directors submit their report and audited accounts for the year ended 31 March 2006.

Activity

The principal activity of the Company throughout the year has been the provision of investment management services to collective investment and deposit schemes associated with the Church of England, charities and local authorities. The Company also offers ethical and socially responsible investment services, corporate governance voting advice and segregated discretionary management services to a small number of clients.

Statement of Going Concern

After making enquiries, the Directors are satisfied that the Company has adequate resources to continue to operate as a going concern for the foreseeable future and have prepared the accounts on that basis.

Results

The profit for the year, after taxation, amounted to £2,145,279 (2005, £2,346,767) and is dealt with on page 11. After the distribution of £455,001 (2005, £433,334), the transfer to reserves is £1,690,278 (2005, £1,913,433).

Under the Company's Articles of Association no distribution of profit by way of a dividend is allowed except with the consent of all the members. This year the members approved a distribution of £455,001, representing 210p per share for the year, which was payable on 24 March 2006. No other distribution for the year is proposed. In respect of the previous year, the members approved a distribution of £433,334, representing 200p per share.

Fixed Assets

Details of changes to fixed assets are set out in Note 6 on page 16.

Directors

Biographical details of the Directors are shown on page 6. The Directors of the Company during the year have been:

C.J.P. Dawnay - Chairman & Non-Executive 'A' Director.
M.F. Quicke - Chief Executive (from 8 March 2006)
A.G. Gibbs - Chief Executive (up to 8 March 2006)
D.A.W. Butler
T.H. Lavis
C.J. Peters
M.C.D. Roberts - Non-Executive 'A' Director
R. Wilson - Non-Executive 'C' Director
B.H.B. Wrey - Non-Executive 'B' Director (up to 9 June 2005)
R.A. Fitzalan Howard - Non-Executive 'B' Director (from 9 June 2005).

None of the Directors has any interest in any of the Company's shares.

Directors' and Officers' Liability Insurance was in place throughout the year.

Under the Company's Articles of Association, the Directors are not subject to retirement by rotation.

Statement of Directors' Responsibilities

Corporate Governance policies and arrangements are covered in the report on page 7.

Company law requires the Directors to prepare accounts for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. The Directors are required to prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the accounts for the year ended 31 March 2006 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

As far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware. The Directors have taken all the steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The accounts are published on the Company's website. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the accounts since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in other jurisdictions.

Financial Risk Management

The Company's operations expose it to a variety of financial risks that include the effect of:

- Credit risk – the Company's transactions in sterling cash deposits expose it to the risk that the counterparty will not repay the deposit, to minimise this, the Company only deals with a list of highly rated UK counterparties. There is also a risk that a counterparty will be unable to pay amounts in full when due. CCLA manages this risk by a combination of active credit control and client diversification.
- Liquidity risk – financial instruments held by the Company consist of short-term sterling cash deposits designed to ensure the Company has sufficient available funds for operations.
- Interest rate risk – The Company invests its surplus funds in fixed and floating rate deposits. Changes in the interest rates will result in income increasing or decreasing, however, the Company is not reliant on interest receivable for its income.
- Debtors and creditors do not earn or pay interest and have been excluded from disclosure of financial instruments.

Employees

Details of the Company's employment practices (including the employment of disabled persons) can be found in corporate governance on page 9.

Donations

No monetary donations were made, political or charitable, during the year.

Policy and Practice on Payment of Creditors

It is the policy of the Company to abide by agreed terms of payment, provided that the supplier performs according to the terms of the contract and that the invoice is duly authorised. At 31 March 2006 the amount owed to trade creditors represented approximately nine days' average purchases from suppliers (2005, nine days).

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution proposing the reappointment of PricewaterhouseCoopers LLP, Chartered Accountants, as auditors of the Company will be put to the Annual General Meeting.

By order of the Board

J. Glass

Julie Glass
Company Secretary
80 Cheapside
London EC2V 6DZ

13 June 2006

CCLA Investment Management Limited

Board Profiles

Executive Directors

Michael Quicke is Chief Executive. He joined CCLA in March 2006. Before joining the Company he was the Chief Executive of Leopold Joseph Holdings PLC, the private banking and asset management group which was quoted on the London Stock Exchange. He is a Trustee of the National Trust and Chairman of its Audit Committee and Investment Panel. He is a mathematics graduate. Appointed to the Board on 8 March 2006. Aged 49.

David Butler is Chief Operating Officer and has overall responsibility for Operations at CCLA. An economics graduate and qualified chartered accountant, he joined CCLA in March 2001 from Schroder Investment Management where he worked for nineteen years in a number of senior positions within Finance and Operations. Appointed to the Board on 13 November 2001. Aged 53.

Tim Lavis is the Corporate Relationship Director with responsibility for relationships with the Church of England, COIF Charity Funds' Board and Trustees, the Local Authorities' Mutual Investment Trust and the segregated portfolio clients of CCLA. He is a geography graduate and has an M.Sc in Management Studies. He joined the organisation in 1984 and worked previously for the stockbrokers Rowe & Pitman. Appointed to the Board on 25 June 1993. Aged 51.

Colin Peters is the Investment Director with overall responsibility for the investment department. He joined CCLA in 1987 and is also the Fund Manager responsible for The CBF Church of England Fixed Interest Securities and Deposit Funds. With a mathematics and statistics degree, he has worked previously for Norwich Union and for London and Manchester Assurance. Appointed to the Board on 1 August 1999. Aged 48.

Non-Executive Directors

James Dawnay trained in investment management with M&G Group and spent five years in industry before joining the board of SG Warburg in 1983. He was a founder director of Mercury Asset Management Group plc on its flotation in 1985, subsequently becoming chairman of Mercury Fund Managers Limited. He joined Martin Currie in 1992, stepping down as deputy chairman in 2000. He is currently chairman of a number of investment trust companies and trustee of several charities including the National Galleries of Scotland. He was appointed a Non-Executive 'A' Director of CCLA by The CBF Church of England Investment Fund on 18 June 2004 and Chairman of CCLA on 29 July 2004. Aged 59.

Miles Roberts qualified as a chartered accountant, completing his career as a partner in KPMG (1972-1991); where he specialised in the financial sector. He was a Non-Executive Director of Ecclesiastical Insurance Office plc until 31 December 2005, and is a Non-Executive Director of the North Hampshire Medical Education Trust. He was appointed Non-Executive 'A' Director of CCLA by The CBF Church of England Investment Fund on 1 December 1999. Aged 67.

Roy Wilson trained as a civil engineer, completing his career with West Yorkshire County Council (1974-1986). He served on North Yorkshire County Council (1981-2001) and continues to serve on Selby District Council. He has been active within the Local Government Association as a member of The Planning Executive. He has been a member of the Local Government Pension Committee for fifteen years and became Chairman in 1996. Appointed to the Council of The Local Authorities' Mutual Investment Trust in 1996 and appointed Non-Executive 'C' Director of CCLA by The Local Authorities' Mutual Investment Trust on 20 November 1998. Aged 71.

Richard Fitzalan Howard

Richard Fitzalan Howard worked for 25 years at Robert Fleming Holdings as an investment analyst and fund manager, both in London and New York. He was head of the Charities Division for five years before moving to the newly formed Fleming Family & Partners in 2000 as CEO of FF&P Asset Management Ltd. He is a Director of JPMorgan Fleming Smaller Companies Investment Trust; a Trustee of The Dulverton Trust, The College of Arms Trust and the Orders of St John Care Trust; and a member of the Investment Committee of Corpus Christi College, Oxford. He was appointed a Non-Executive 'B' Director of CCLA by the COIF Charities Investment Fund on 9th June 2005. Aged 52.

CCLA Investment Management Limited

Corporate Governance

This report describes the policies and arrangements put in place by the Company in the light of corporate governance best practice for the year ended 31 March 2006. The Company is not required to comply with the Combined Code of Corporate Governance published by the Financial Reporting Council in July 2003, but in view of its support for good corporate governance, has decided to include those aspects of the Combined Code which it believes to be relevant.

Board of Directors

At 31 March 2006, the Board comprised four Executive and four Non-Executive Directors. The Board is responsible for the direction of the Company's business, its strategy and overall financial management, and acts in accordance with the Schedule of Matters Reserved for the Board as adopted by the Board. All business arising at any meeting of the Board is determined by resolution and no such resolution is effective unless carried by a majority including at least one 'A' Director, one 'B' Director and one 'C' Director.

The Board meets at least four times per year. The Board had four meetings in the year to 31 March 2006. In addition, the Executive Directors formally meet at least eleven times per year to review matters relating to the overall management of the Company.

The Non-Executive Directors are appointed by the Shareholders under the terms of the Company's Articles of Association as set out below and are therefore not independent.

The Non-Executive Directors do not have contracts of employment but each has signed a Statement of Responsibilities covering his role.

The 'A' Ordinary shares are owned by The CBF Church of England Investment Fund – the 'A' Shareholder

The 'B' Ordinary shares are owned by the COIF Charities Investment Fund – the 'B' Shareholder

The 'C' Ordinary shares are owned by The Local Authorities' Mutual Investment Trust – the 'C' Shareholder

The 'D' Ordinary shares (Non-Voting) are owned by the COIF Charities Investment Fund – the 'D' Shareholder

The 'A', 'B' and 'C' Shareholders may from time to time appoint any person to be a Director. The maximum number of 'A' Directors is two and the maximum number of 'B' and 'C' Directors is one each. The Chairman of the Board shall always be an 'A' Director.

The Executive Directors are appointed by the Non-Executive Directors. The Executive Directors' contracts of employment, which are not rolling contracts, include notice periods of six months, Michael Quicke twelve months, on either side with termination at age 60.

The process to appoint the Chief Executive during the year was managed by the Non-Executive Directors using professional headhunters.

Directors' Remuneration Report

This report describes the Company's overall remuneration policy and the compensation arrangements for Directors for the year ended 31 March 2006.

Remuneration policy and compensation arrangements

The pay review and profit share awards to be made to all CCLA staff at the end of the financial year in March each year are considered at a formal meeting. Two of the Non-Executive Directors are in attendance at this meeting, including the Chairman, and they separately consider the awards for the Executive Directors of the Company. The recommendations from this meeting are considered and ratified at a full Board meeting held prior to the year-end.

The Company participates in the annual McLagan Investment Management Compensation Survey in respect of all staff including the Executive Directors. Through participation in the survey the Company is seeking to ensure that it offers reasonable and market-related remuneration to all its staff. The Company's policy is designed to ensure that it attracts and retains staff at all levels who have the ability, experience and motivation to operate and manage the business effectively. Survey data covering all positions within the Company is considered at the above-mentioned meeting.

The aggregate annual amount to be distributed to staff including Executive Directors by way of profit share is based on a percentage of the Company's operating profit for the financial year. The amount of profit share awarded to each individual is based partly on an underlying base percentage and partly on the individual's performance.

Directors' remuneration and fees

Fees for the Non-Executive Directors are determined annually by the Board having regard to both the level of fees payable to Non-Executive Directors generally in the industry and to their responsibilities. For the year ended 31 March 2006 the Non-Executive Directors' fees were set at £21,000 p.a. for the Chairman (previously £18,000 p.a.) and at £14,000 p.a. for the other Non-Executive Directors (previously £12,000 p.a.).

Three of the Executive Directors participated in the Church of England Defined Benefits Scheme and one in the Church of England Defined Contributions Scheme, Michael Quicke is not a member of either pension scheme. The details of both Schemes are set out in Note 4 on page 15.

The benefits-in-kind provided to the Executive Directors also include private healthcare and life assurance protection, partly provided through the pension schemes and partly through separate life assurance policies.

Executive Directors' remuneration and fees in the year were as follows:

	2006 £'000	2005 £'000
Emoluments	<u>692</u>	<u>552</u>
Emoluments paid to Non-Executive Directors	<u>68</u>	<u>51</u>
Directors accruing benefits under the defined benefits scheme	<u>3</u>	<u>3</u>
Directors accruing benefit under the defined contribution scheme	<u>1</u>	<u>1</u>

The highest paid Director received remuneration, excluding pension contribution, of £234,386 (2005, £165,290), this included £46,750 compensation for loss of office. During the year an augmented pension payment of £63,600 was paid. Accumulated total accrued pension at the year end was £76,713 per annum payable from age 60.

The number of Directors who received remuneration in the following ranges was:

£	2006	2005
Nil - 5,000	1	-
5,001 - 10,000	-	-
10,001 - 15,000	3	4
15,001 - 20,000	1	-
20,001 - 25,000	1	-
120,001 - 125,000	-	2
135,001 - 140,000	1	-
140,001 - 145,000	-	1
145,001 - 150,000	1	-
150,001 - 155,000	1	-
165,001 - 170,000	-	1
230,001 - 235,000	1	-

Audit Committee

The Audit Committee meets at least twice a year and its membership is the Non-Executive Directors of CCLA excluding the Chairman of the Company. The Chairman of the Audit Committee is Miles Roberts (an 'A' nominated Director). The Audit Committee had two meetings in the year to 31 March 2006.

The duties of the Audit Committee include to:

- Review the management accounts of the Company;
- Review the annual accounts of the Company;
- Receive an annual report from the Auditors;
- Monitor and review annually the terms of appointment and remuneration of the Auditors and their independence;

- Monitor the engagement of the external Auditor to supply non-audit services;
- Receive regular reports from the Compliance Officer;
- Consider the processes for ensuring the appropriateness and effectiveness of the Company's internal controls and risk management systems;
- Report the Audit Committees' proceedings and any recommendations it may make to the Board of Directors.

The Audit Committee also receives reports from the Company's Auditors, PricewaterhouseCoopers LLP (which include details of significant internal control matters that they have identified), and has the opportunity for a discussion with the Auditors at least once a year without the Executive Directors and Chairman present, to ensure that there are no unresolved issues of concern.

The Audit Committee receives and reviews a statement from PricewaterhouseCoopers LLP regarding the independence of the audit team. The Audit Committee receives and considers details of the total fees payable to PricewaterhouseCoopers LLP for audit and non-audit services.

Internal Control

The Directors and Senior Management of CCLA are responsible for internal controls within the Company. Key aspects of the system of internal control include:

- Management and financial controls;
- Operational controls including authorisation limits and segregation of duties;
- Staff training and competence;
- Compliance reporting;
- Information systems;
- Business continuity;
- Procedure and operations manuals.

The Directors of CCLA are responsible for the identification of control objectives relating to the provision of investment management and fund administration services and the design, implementation and maintenance of control procedures to ensure with reasonable assurance on an ongoing basis that the control objectives are achieved. In carrying out these responsibilities the Directors have regard not only to the interests of clients but also to those of the owners of the business and the general effectiveness and efficiency of the relevant operations, together with compliance with laws and regulations.

In establishing and reviewing the system of internal control, the Directors have regard to the materiality of relevant risks, the likelihood of a loss being incurred and the cost of control. It follows, therefore, that the system of internal control can only provide reasonable but not absolute assurance against the risk of material loss.

A formal annual Internal Control Review (FRAG 21) covering the controls over investment management and fund administration was conducted and reported on by PricewaterhouseCoopers LLP, covering the year to 31 December 2005.

Risk Management

The Board is responsible for risk and oversight of the risk management process within the Company.

A Risk Management Committee has been established by the Executive Directors, which meets quarterly and is chaired by the Chief Operating Officer. Its purpose is to review, monitor and ensure the adequacy of CCLA's risk management arrangements. The Committee reviews the key risks facing the Company and receives regular risk management reports setting out the status of each risk. The Committee also reviews the results of the Company's Compliance Monitoring Programme.

The Company uses a computer-based risk management system, DOORS, which is embedded within the business. The system is designed to provide a methodology for the identification, assessment, mitigation and reporting of risks and to ensure a high quality of risk management and control in all areas of the Company. Departmental Managers are responsible for the identification and management of risks, largely operational and reputational, arising in their respective areas. Positive assurance as to the status of their risks and management of them is obtained from Managers on a monthly basis. Any issues giving rise to concern are discussed and resolved with the relevant Managers.

Formal quarterly risk management reports are considered at Audit Committee and Board Meetings. The Executive Directors also receive regular reports for their review.

Disaster Recovery & Business Continuity

A Disaster Recovery & Business Continuity Committee has been established by the Executive Directors to ensure that appropriate arrangements are in place for business continuity. This includes dual sites, documented business recovery plans and periodic testing. The Disaster Recovery and Business Continuity Committee consists of a number of senior employees from departments throughout the Company and meets regularly to review and update procedures and review resources available.

Employee Policies

Equal opportunities

CCLA is an equal opportunities employer and opposes all forms of unlawful discrimination on the grounds of sex, marital status, age, sexual orientation, gender reassignment, colour, race, nationality, religion and belief, ethnic or national origin, or disability. It is in the Company's best interests to ensure that all the talents and skills available are considered when employment opportunities arise. We take every practicable step to ensure that individuals are treated equally and fairly and that decisions on recruitment, selection, training, conditions of work, promotion, career, management and every other aspect of employment are based solely on objective and job-related criteria.

Learning and development

CCLA operates in a competitive and changing environment. Our people are highly competent, skilled and knowledgeable assets and we support them in meeting our business objectives. Learning and development at CCLA is a continuous and important process which enables

individuals to perform their current jobs more effectively, understand regulatory changes and take on new responsibilities to achieve their own aspirations and contribute to CCLA's continuing success.

Communication and consultation

Employees are kept fully informed about decisions and developments and the reasons for them through communication, consultation and involvement by appropriate methods. This may be achieved through information meetings, seminars, structured meetings or by formal or informal discussions between Managers and their departments, written communication and notice boards.

Community involvement

CCLA is a corporate patron of Heart of the City and works with The Brokerage City Link hosting a 'Working in the City' workshop for 30 pupils, from Years 10 to 12, from several London schools. Two weeks' work experience is offered to relatives of employees. Unwanted furniture and equipment is donated to schools or charities.

Health, safety and security

The health, safety and security of employees is of material importance to the Company.

The Company has a continuous programme of reviewing its health and safety policies, in light of current legislation and best practice, as well as to ensure that they meet the operational needs of the business.

Environmental Policy

CCLA's direct environmental impacts are modest, focused on a single office location in the City of London. Nevertheless, the Company recognises it has a responsibility to manage and reduce its impact on the environment as an investor, consumer and employer. CCLA has adopted a policy of recycling the materials it uses wherever possible, including paper, glass, plastic and toner cartridges. Data that measures our direct environmental impacts is monitored regularly to assess where key improvements can be made. CCLA aims to reduce its impact on the environment through the use of energy-saving devices wherever possible. CCLA remains committed in its aim of continuous improvement by minimising the negative environmental impacts of its business activities, as well as promoting positive environmental practices within the business. CCLA aims to conduct an annual review of its impacts and reports accordingly to stakeholders. The Head of Personnel has overall responsibility for the environmental programmes within CCLA, reporting to the Chief Executive and the Board. A copy of the Company's environmental policy is available on request.

Awards

During the year the Company has again received the Gold award under the 2005 Clean City Award Scheme.

By order of the Board

J. Glass

Julie Glass
Company Secretary

13 June 2006

Report of the Independent Auditors

to the Shareholders of CCLA Investment Management Limited

We have audited the accounts of CCLA Investment Management Limited for the year ended 31 March 2006 which comprise the profit and loss account, the balance sheet, the cash flow statement, and the related notes. These accounts have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited accounts. This other information comprises only the Chairman's Report, the Chief Executive's Review, the Directors' Report, the Board Profiles, and the Corporate Governance section. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

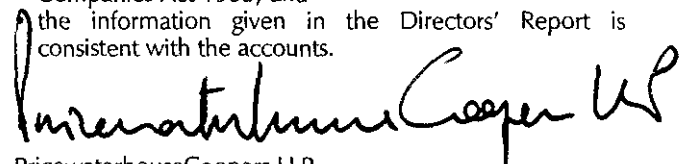
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2006 and of its profit and cash flows for the year then ended;
 - have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the accounts.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
32 London Bridge Street
London SE1 9SY

13 June 2006


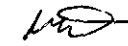
CCLA Investment Management Limited
Profit and Loss Account
for the year ended 31 March 2006

	Notes	2006		2005	
		£'000	£'000	£'000	£'000
Turnover	2		12,367		11,632
Administrative expenses	3		9,962		8,874
Operating profit			2,405		2,758
Interest receivable			731		626
Profit on ordinary activities before taxation			3,136		3,384
Tax on profit on ordinary activities	5		991		1,038
Profit on ordinary activities after taxation			2,145		2,346
Dividend paid			455		433
			1,690		1,913
Profit and loss reserve brought forward		1,913		947	
Transferred to other reserves in year	11	1,913		947	
Profit carried forward			1,690		1,913

All the Company's operations are continuing operations. The Company has no recognised gains or losses other than the profit included in the profit and loss account.

The notes on pages 14 to 19 form part of these accounts.

CCLA Investment Management Limited
Balance Sheet
at 31 March 2006

		2006		2005	
	Notes	£'000	£'000	£'000	£'000
Fixed assets	6		1,084		853
Current assets					
Debtors	7	668		688	
Short-term deposits		15,500		14,000	
Cash at bank and in hand		2,060		2,269	
		<u>18,228</u>		<u>16,957</u>	
Creditors: Amounts falling due within one year	8	<u>2,214</u>		<u>2,449</u>	
Net current assets			<u>16,014</u>		<u>14,508</u>
Total assets less current liabilities			<u>17,098</u>		<u>15,361</u>
Creditors: Amounts falling due in more than one year					
Provisions for liabilities	9		<u>131</u>		<u>84</u>
Net assets			<u><u>16,967</u></u>		<u><u>15,277</u></u>
Capital and reserves					
Called up share capital	10		217		217
Profit and loss account	11		1,690		1,913
Reserves	11				
'A' Shares		5,810		5,086	
'B' Shares		4,370		3,930	
'C' Shares		959		870	
'D' Shares		1,894		1,488	
General		<u>2,027</u>		<u>1,773</u>	
			<u>15,060</u>		<u>13,147</u>
Total shareholders' funds			<u><u>16,967</u></u>		<u><u>15,277</u></u>
The notes on pages 14 to 19 form part of these accounts.					
Approved by the Board on 13 June 2006					
		 On behalf of the Board James Dawney, Chairman  Michael Quicke, Chief Executive			

CCLA Investment Management Limited
Cash Flow Statement
for the year ended 31 March 2006

	Notes	2006		2005	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	13		2,783		3,870
Returns on investments and servicing of finance					
Interest received		746		592	
Net cash inflow from returns on investments and servicing of finance			746		592
Taxation					
Corporation tax paid			(1,086)		(694)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets			(697)		(268)
Equity dividends paid					
Dividends paid			(455)		(433)
Net cash inflow before financing			1,291		3,067
Increase in net funds	14		1,291		3,067

The notes on pages 14 to 19 form part of these accounts.

CCLA Investment Management Limited

Notes to the Accounts

forming part of the accounts for the year ended 31 March 2006

1. Accounting policies

(a) Basis of accounting

The accounts have been prepared under the historical cost convention in accordance with applicable Accounting Standards.

(b) Turnover

Turnover represents amounts invoiced by the Company in respect of services rendered during the year, excluding value added tax, and are credited to turnover on an accruals basis.

(c) Interest income

Interest income comprises interest on cash and bank balances and short-term money market deposits and is accounted for on an accruals basis.

(d) Fixed assets

Fixed assets are initially recognised at cost and then depreciated in the following ways:

- (i) Depreciation is provided on IT equipment at rates calculated to write off the full cost over an expected useful life of three years.
- (ii) Computer software purchased externally is capitalised and depreciation is provided at rates calculated to write off the full cost over an expected useful life of three years. External costs incurred in major software development projects to be implemented in future years are not capitalised until the success of such developments can be demonstrated.
- (iii) Depreciation is provided on leasehold improvements and office equipment at rates calculated to write off the full cost of each asset over an expected useful life of five years.

(e) Contribution to pension schemes

The Company operates a non-contributory final salary pension scheme covering employees over the age of 18 who joined the Company prior to 1 April 1997. Contributions are paid to the Scheme in accordance with the recommendation of independent actuaries made triennially. A contributory defined contributions scheme covering employees over the age of 18 who joined the Company on or after 1 April 1997 is also in operation. Both Schemes' funds are administered by The Church of England Pensions Board and are independent of the Company's finances.

Pension contributions payable by the Company are charged to the profit and loss account for all schemes. As explained in Note 4, CCLA is unable to identify its share of the underlying assets and liabilities in relation to its participation in the Church of England Defined Benefits Scheme. In accordance with FRS 17 the Company accounts for the scheme as a defined contribution scheme and recognises only the contributions payable each year.

(f) Deferred taxation

Deferred taxation is provided to take account of differences in the tax and accounting treatment of certain items. In accordance with FRS 19, the amount provided represents the full amount in respect of these differences to the extent that it is probable that a tax liability or asset will crystallise.

(g) Operating leases

Rentals payable under operating leases are charged against profit in equal amounts over the periods of the leases. Incentives received to enter into leases of premises are amortised over the initial period of the lease to the first rent review date at which time rentals will revert to market rate.

2. Turnover

The turnover of the Company was made entirely in the United Kingdom and derives from the class of business as noted in the Directors' Report. The turnover for the year was £12,366,897 (2005, £11,632,354) of which £11,147,198 (2005, £10,086,896) of the turnover is derived from services provided to shareholders of the Company, The CBF Church of England Investment Fund, the COIF Charities Investment Fund and The Local Authorities' Mutual Investment Trust and their associated Funds. Other income was £1,219,699 (2005, £1,545,458).

3. Administrative expenses

	2006 £'000	2005 £'000
Administrative expenses included:		
Auditors' remuneration:		
Audit services	20	17
Non-audit services – FRAG 21 Report	61	58
Non-audit services – other	6	5
Depreciation of fixed assets	439	415
Operating lease costs:		
Premises	461	468
Other	9	10
	<u> </u>	<u> </u>

4. Employees and Directors

The average number of number of staff employed by the Company, including Executive Directors by function was:

	2006 Number	2005 Number
Investment Management and Research	17	17
Business Development and Client Service	15	15
Company Secretarial and Compliance	5	4
Administration and Finance	53	54
	<u>90</u>	<u>90</u>

The costs incurred in respect of these employees were:	£'000	£'000
Salaries	4,414	3,906
Social security costs	501	431
Other pension costs	678	492
	<u>5,593</u>	<u>4,829</u>

Pension costs

The Company operates a defined contribution pension scheme (DCS) for all employees who joined after 1 April 1997. The assets of the Scheme are held separately from those of the Company within the Church Workers Pension Fund DCS and are administered by The Church of England Pensions Board. The pension cost in respect of this Scheme represents contributions payable by the Company to the Scheme and amounted to £315,821 (2005, £254,946). No contributions were outstanding at the year end. Life assurance costs for this Scheme amounted to £2,838 (2005, £2,267).

CCLA also participates in the Church of England Defined Benefits Scheme (DBS), part of the Church Workers Pension Fund for those employees in employment as at 31 March 1997. The pension cost in respect of this Scheme for the year was £354,830 (2005, £227,417). At 31 March 2006 CCLA had 20 active members and 46 deferred pensioner members in the Fund. CCLA is unable to identify its share of the underlying assets and liabilities as each employer is exposed to actuarial risks associated with the current and former employees of other entities participating in the DBS.

Contributions to the DBS are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent completed valuation was at 31 December 2004. The assumptions which have the most significant effect on the results of the valuation are those relating to the return on investments and the rates of increase in salaries and pensions. The 31 December 2004 valuation assumed that the investment returns would be 7% per annum, that salary increases would average 4.75% per annum and that present and future pensions would increase at the rate of 2% per annum.

At the date of the 31 December 2004 valuation, the market value of the assets of the total DBS covering all participating employers was £125.5m. The market value of the assets was sufficient to cover 86% of the value of the benefits that had accrued to members, after allowing for the valuation assumptions mentioned above.

The contribution rate for the Company was revised from 1 January 2006 to 40.06% of pensionable salaries.

The Company also incurred other pension costs of £4,575 (2005, £7,544) during the year.

Details of Directors' remuneration can be seen on pages 7 and 8 within the Directors' remuneration report.

5. Tax on profit on ordinary activities

(a) The charge for tax on the profit on ordinary activities is made up as follows:

	2006 £'000	2005 £'000
Current taxation:		
UK corporation tax on profits of the year	975	1,063
Adjustment in respect of previous years	13	10
Total current tax (note 5(b))	988	1,073
Deferred tax (note 5(c))	3	(35)
Taxation on profit on ordinary activities	991	1,038

(b) The tax assessed for the year is less than (2005, more than) the standard rate of corporation tax in the UK and the difference is made up as follows:

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	3,136	3,384
UK corporation taxation on profits at 30% (2005, 30%)	941	1,015
Effects of:		
Expenses not deductible for tax purposes	44	15
Capital allowances for the year in excess of (2005, less than) depreciation	(10)	33
Prior year adjustment	13	10
Current tax charge (note 5(a))	988	1,073

(c) Provision for deferred tax

	2006 £'000	2005 £'000
Provision at start of year	(27)	(62)
Movement for the year	(3)	35
Provision at end of year	(30)	(27)
Deferred tax comprises:		
Accelerated capital allowances	(30)	(28)
Other timing differences	-	1
	(30)	(27)

6. Fixed assets

	IT equipment £'000	Leasehold improvements & general equipment £'000	Total £'000
Cost			
At 1 April 2005	1,326	548	1,874
Additions	684	13	697
Disposals	(35)	(27)	(62)
At 31 March 2006	1,975	534	2,509
Accumulated depreciation			
At 1 April 2005	775	246	1,021
Charge for year	364	75	439
Disposals	(35)	-	(35)
At 31 March 2006	1,104	321	1,425
Net book value			
At 31 March 2006	871	213	1,084
At 31 March 2005	551	302	853

7. Debtors

	2006 £'000	2005 £'000
Other debtors	115	234
Prepayments and accrued income	553	454
	<u>668</u>	<u>688</u>

8. Creditors: Amounts falling due within one year

	2006 £'000	2005 £'000
Trade creditors	130	118
Corporation tax	465	563
Other taxation and social security costs	868	911
Accruals	751	857
	<u>2,214</u>	<u>2,449</u>

An adjustment to the prior year creditors relates to a re-classification of dilapidation and deferred tax provisions to provisions for liabilities

9. Provision for liabilities

	Dilapidation provision £'000	Deferred tax provision note 5(c) £'000	Total £'000
1 April 2005	57	27	84
Charged to the profit and loss account	44	3	47
31 March 2006	<u>101</u>	<u>30</u>	<u>131</u>

The lease agreement relating to 80 Cheapside requires the re-instatement of the premises to the same condition in which they were prior to CCLA Investment Management Limited taking up tenancy. An estimated amount is being provided to the end of the agreement at 29 September 2011.

10. Called up share capital

	2006 £'000	2005 £'000
Authorised:		
300,000 'A' Ordinary shares of £1 each	300	300
65,000 'B' Ordinary shares of £1 each	65	65
75,000 'C' Ordinary shares of £1 each	75	75
60,000 'D' Ordinary non-voting shares of £1 each	60	60
	<u>500</u>	<u>500</u>
Allotted and fully paid:		
130,000 'A' Ordinary shares of £1 each	130	130
28,167 'B' Ordinary shares of £1 each	28	28
32,500 'C' Ordinary shares of £1 each	33	33
26,000 'D' Ordinary non-voting shares of £1 each	26	26
	<u>217</u>	<u>217</u>

'A' Ordinary shares are owned by The CBF Church of England Investment Fund.

'B' Ordinary shares are owned by the COIF Charities Investment Fund.

'C' Ordinary shares are owned by The Local Authorities' Mutual Investment Trust.

'D' Ordinary non-voting shares are owned by the COIF Charities Investment Fund.

The 'D' shares are non-voting shares otherwise all other rights attached to the 'A', 'B' and 'C' shares also apply to 'D' shares.

11. Profit and loss account

By its Articles of Association the Company is not allowed to distribute its profits except with the consent of all its members. This year the members approved a distribution of £455,001, representing 210p per share for the year, which was payable on 24 March 2006. No other distribution for the year is proposed. In respect of the previous year, the members approved a distribution of £433,334, representing 200p per share.

Within four weeks of the adoption of these accounts the Directors will allocate the balance of profit for the year in accordance with the provisions of clause 29 of the Articles of Association and transfer the amounts allocated to the appropriate reserves, as follows:

	2006 £'000	2005 £'000
For holders of 'A' Ordinary shares	658	724
For holders of 'B' Ordinary shares	403	440
For holders of 'C' Ordinary shares	89	89
For holders of 'D' Ordinary non-voting shares	373	406
General reserve	167	254
	<u>1,690</u>	<u>1,913</u>

Reserve movements in the year have been as follows:

	Profit and loss account £'000	'A' Shares £'000	'B' Shares £'000	Reserves 'C' Shares £'000	'D' Shares £'000	General £'000	Total £'000
At 1 April 2005	1,913	5,086	3,930	870	1,488	1,773	15,060
Transfer to reserves	(1,913)	724	440	89	406	254	-
Profit for year	1,690	-	-	-	-	-	1,690
At 31 March 2006	<u>1,690</u>	<u>5,810</u>	<u>4,370</u>	<u>959</u>	<u>1,894</u>	<u>2,027</u>	<u>16,750</u>

12. Reconciliation of movements in shareholders' funds

	2006 £'000	2005 £'000
Profit for the financial year	2,145	2,346
Dividends	(455)	(433)
Net additions to shareholders' funds	1,690	1,913
Opening shareholders' funds	15,277	13,364
Closing shareholders' funds	<u>16,967</u>	<u>15,277</u>

13. Reconciliation of operating profit to net cash inflow from operating activities

	2006 £'000	2005 £'000
Operating profit	2,405	2,758
Depreciation charge	439	415
Disposal of fixed assets	27	-
Decrease/(increase) in debtors	4	(5)
(Decrease)/increase in creditors	(92)	702
Net cash inflow from operating activities	<u>2,783</u>	<u>3,870</u>

14. Analysis of changes in net funds during the year

	2006 £'000	2005 £'000
Net funds at start of year	16,269	13,202
Net cash inflow	1,291	3,067
Net funds at end of year	<u>17,560</u>	<u>16,269</u>
Net funds at end of year comprise:		
Short-term deposits	15,500	14,000
Cash at bank and in hand	2,060	2,269
	<u>17,560</u>	<u>16,269</u>

15. Commitments

The Company has annual commitments under operating leases as set out below:

	Premises £'000	Other £'000	Total £'000
At 31 March 2005			
Within one year	560	7	567
Within two to five years	690	1	691
After five years	690	-	690
	<u>1,940</u>	<u>8</u>	<u>1,948</u>
At 31 March 2006			
Within one year	690	4	694
Within two to five years	690	-	690
After five years	345	-	345
	<u>1,725</u>	<u>4</u>	<u>1,729</u>

The figure for premises relates to the lease for the two floors at 80 Cheapside which commenced on 24 June 2003 and terminates on 29 September 2011.

16. Related party transactions

During the year CCLA, as Manager of the Funds listed below, carried out transactions which related solely to management fees charged to the Funds by CCLA in the normal course of its business. The names of the related parties and the value of the transactions are as follows:

	Value of transactions 2006 £'000	Value of transactions 2005 £'000
The CBF Church of England Funds	4,816	4,398
COIF Charity Funds	5,679	5,145
The Local Authorities' Property Fund	652	544
The UST Funds	178	169

At 31 March 2006, there were no amounts receivable (2005, £nil) by CCLA from related parties. During the year a voluntary, without prejudice, payment of £77,450 (2005, £nil) was made to the COIF Charities Investment Fund with a provision at the year end for a further voluntary, without prejudice, amount of £39,900 (2005, £nil). These amounts related to professional fees and penalties for the COIF Charities Investment Fund US tax issues.

17. Subsidiary undertaking

The Company owns the whole of the issued share capital of Range Nominees Limited. This Company, which has an issued share capital of £9, was acquired at no cost. It does not trade and acts solely as a nominee company for the purpose of holding investments belonging to investment clients. At present, there are no such holdings. The subsidiary undertaking has not been consolidated as it is not material to the accounts. During the year an application has been made to the Registrar of Companies to remove Range Nominees Limited from the register.



CCLA Investment Management Limited

CCLA Investment Management Limited provides investment management and administrative services to the following funds:

The CBF Church of England Funds The CBF Church of England Investment Fund
The CBF Church of England UK Equity Fund
The CBF Church of England Property Fund
The CBF Church of England Fixed Interest Securities Fund
The CBF Church of England Deposit Fund

COIF Charity Funds COIF Charities Investment Fund
COIF Charities Property Fund
COIF Charities Fixed Interest Fund
COIF Charities Deposit Fund

**The Local Authorities' Mutual
Investment Trust** The Local Authorities' Property Fund

CCLA also offers ethical, and socially responsible investment services, corporate governance voting advice and segregated discretionary investment management services to a small number of clients.

For more information of these Funds and services please visit our website or contact CCLA's client service team.

Website	www.ccla.co.uk
Client Service	T: 020 7489 6010
Registered Office	80 Cheapside, London EC2V 6DZ T: 020 7489 6000 F: 020 7489 6126
Auditors	PricewaterhouseCoopers LLP
Solicitors	Eversheds LLP
Bankers	The Royal Bank of Scotland plc