

The **co-operative**
asset management

Guide to responsible investing for investors



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About The Co-operative Asset Management

The fund management activities of The Co-operative Financial Services (part of The Co-operative Group) are undertaken by The Co-operative Asset Management (TCAM). The Co-operative is a household name in the UK offering a wide range of services to consumers including food, pharmacy, travel and other financial services such as insurance, banking and mortgages.

The Co-operative Group has over 12 million members, of whom over 292,000 are investors in our Unit Trust range, amounting to over £2.5 billion of assets under management. The Group's co-operative ownership structure gives it a duty to operate in a socially responsible manner across all of its businesses.

In the area of investments, The Co-operative Asset Management is unique in the UK in offering a distinctive approach to responsible investing across all of the funds it offers, without exception. No other fund management business in the UK does this.

Getting the best financial performance for our customers is key to responsible investing. That's why, when we select companies for investment, we fully integrate financial considerations with social, ethical, environmental and corporate governance issues. In this way we can get the most rounded view of companies and their ability to deliver sustainable returns to investors.

What does your money do?

More and more people are becoming concerned with what the money they invest *does*. More and more people want to know their money is making a positive contribution to the world. They want to know that their investments, as well as delivering financial returns, have a positive impact on issues like climate change, deforestation, human rights and child labour.

There's a way of investing that allows you to address what concerns you most while helping you to grow your savings. That cares about value and values.

Some people call it 'green and ethical investment,' or 'socially responsible investment,' or 'social, ethical and environmental investment'.

At The Co-operative Asset Management we simply call it responsible investing. Because that's what it is – responsible, informed, prudent.

This guide takes you step by step through understanding what responsible investing is and how it can work for you.



This distinctive way of investing money has been recognised in our 2007 award as the 'Best Ethical Investment Provider' from Moneyfacts, a leading industry publication.



The Co-operative Financial Services has signed up to the internationally recognised UN Principles for Responsible Investment. They reflect the increasing relevance of environmental, social and corporate governance issues to investment practices and in signing the Principles, the organisation publicly commits to adopting and implementing them.



What matters to you

Every day many of us do little things that we hope to make the world a better place. Maybe you recycle. Maybe you buy organic food or Fairtrade coffee. Maybe you decided to leave the car at home today.

Every pound you invest can do its bit too. Whenever you invest money, someone else decides how it's going to be used. With responsible investing you're making sure it's invested in the kind of things you'd like it to be used for.

For example, if you care about the environment, want to support human rights or don't want to invest in nuclear power, make your views clear to your financial adviser. That way your adviser can select a fund that's appropriate to both your financial circumstances and what matters to you.

When you choose investment funds, we recommend consulting a financial adviser who is qualified to research the market and make recommendations that are suited to your personal circumstances. Your financial adviser has a responsibility to find out everything they can about what matters to you before giving you advice.

When it comes to caring what your money does, you're not alone. As at 31 December 2007, personal investors had invested £9 billion in UK green and ethical funds, according to the Ethical Investment Research Service (EIRIS).

How does The Co-operative Asset Management decide what's 'responsible'?

We don't – our customers do! We ask our customers what issues they care most about and the results drive our Ethical Engagement Policy.

Our Ethical Engagement Policy means that we use our influence over companies to encourage them to improve their behaviour. We put pressure on, and offer help to, the companies we invest in to change for the better.

Investing for a greener future

One of the companies in our Sustainable Leaders Trust is Johnson Matthey, one of the largest manufacturers of catalytic converters for cars. Catalytic converters play a key role in reducing the environmental impact made by cars by filtering out toxic exhaust fumes. Over the coming years, new legislation will be introduced both in Europe and Asia requiring increased usage of catalytic converters in new cars. This is likely to result in significant growth opportunities for Johnson Matthey.

Approaches to responsible investing

There are dozens of product providers in the market and no two have exactly the same approach to responsible investing. We believe that the most important feature of responsible investing is a process called engagement – using our influence over companies to encourage them to adopt higher standards of corporate responsibility. Engagement is important because it makes things happen for the better in companies.

In addition, there are two common approaches to responsible investment funds:

- positive selection – investing in companies because the fund supports their sector (such as clean energy), policies (such as fair trade) or products and services (such as social housing)
- negative screening – avoiding investing in companies because of their sector (such as the arms trade), policies (such as sweat shop labour) or products and services (such as pornography).

Our flagship fund, the Sustainable Leaders Trust, integrates all these methods. In addition, the Fund Manager also analyses companies on the basis of long-term growth potential – so the fund not only makes a positive contribution to society, it's well-placed to deliver good returns to investors.

Engagement in practice

During 2007, The Co-operative Asset Management challenged advertising, marketing and Public Relations company WPP Plc regarding irresponsible lobbying activities of some of its subsidiaries. We argued that responsible representation should be prioritised over carbon emissions. The company was frank in its admission that previous practices had been unacceptable and

damaging, but our engagement highlighted that WPP had been striving to change. In August 2008, the company informed us of a raft of reforms that met our recommendations including embedding ethical training for employees, strengthening its Code of Conduct to address client choice and enhance the systems that ensure this Code is being observed.

Common concerns

Doesn't 'responsible' mean a lower rate of return?

It doesn't have to. Recent studies have shown a link between companies' social & environmental management and financial performance. It pays to be responsible and, increasingly, those who aren't – pay.

If responsible investing excludes sectors of the market or focuses on emerging industries, doesn't that open the fund up to greater risk?

All funds (apart from index trackers) filter out some stocks and focus on others. And there's an excellent reason for favouring companies with good social, ethical and environmental records. An estimated 70% of the value of top UK companies relates to 'intangible assets' such as 'goodwill' and 'brand reputation'ⁱ. That's value exposed to social, ethical and environmental risks. Analysis of these risks can put responsible investment funds ahead of the game.

The Co-operative Asset Management has joined more than 280 top investment houses, with assets totalling £41 trillion, in supporting the Carbon Disclosure Project – a scheme that investigates how individual companies are exposed to the risks of climate changeⁱⁱ.



Performance with responsibility

With some funds you hear a lot about 'socially responsible' but not enough about 'investing'. The Co-operative Asset Management's Sustainable Leaders Trust was the first responsible investment fund to top the UK All Companies sector, beating over 320 funds including mainstream blue chip equity funds. And that was achieved whilst excluding the Oil & Gas and Mining sectors – both strong performers over the period (i.e. the 12 months to 31/1/07).

Aren't businesses just jumping on the 'green' bandwagon?

It seems like every day another business is claiming it's gone green. How are we supposed to know that it's not just spin?

Responsible investing means looking behind the brand at what a company actually does. A good fund will have specialist analysts to research ethical issues – and challenge businesses if they come up short – like we do!

Plus there are good reasons for businesses to address social, ethical and environmental concerns:

- climate change will keep the environment top of the agenda
- growing consumer and regulatory pressure increasingly benefits responsible investing
- a reputation for behaving responsibly towards people and the environment is now seen in many sectors as crucial to the value of a brand
- companies that contribute, and adapt, to emerging social and environmental challenges may offer superior long-term performance potential.

Aren't 'ethical' funds just cashing in?

Most people, when they buy a cup of Fairtrade coffee, would like to think it came from a Fairtrade company – rather than a multinational cashing in on people's good will. You want to know you're investing in a product that's really doing some good – rather than just boosting profits.

Ask your financial adviser about the organisation behind the fund. In the next section we look at the key issues you'll want to discuss.



“Responsible investing is not something we apply to a few isolated funds, it's integral to our whole investment process. Social responsibility is what our organisation was built on. It's the tradition at the heart of what we do.”

Ian Jones, Head of The Co-operative Asset Management's Responsible Investment Team

Choosing the fund that's right for you

No two funds are the same. To find the fund that's right for your financial circumstances and puts your values into practice, there are a number of issues you'll want to discuss with your investment professional.

Performance

As with any investment, the performance of the Fund Manager is crucial. What's the Fund Manager's record like (bearing in mind the performance achieved in the past may not be repeated in the future)?

Experience

It's not easy to combine ethical issues with financial issues. Ask what experience the fund provider has in doing this.

Risk

Investment is about managing financial risks. How does the Fund Manager look after your investment and protect your capital?

“Responsible investing should never be an excuse for under performance.”

Mike Fox, CIS Sustainable Leaders Trust's Fund Manager

Investing for a greener future

At last, the world is paying attention to renewable energy. But would you believe some companies are rushing to exploit huge reserves of oil sands in Canada, which are much worse for the environment and for climate change than the oil that's helped get us into trouble in the first place?

The Co-operative Asset Management is working with other investors and The Co-operative Group to persuade companies to consider how these activities endanger efforts to avoid dangerous climate change, and how carbon legislation and public feeling might make these oil sands a no-go area, anyway.

Straight talking

Ensuring that you can understand exactly what the fund does is crucial. You want to be able to compare products – and be sure you know what you're buying. Don't put up with jargon from fund providers. You should expect clear explanations in plain English that you can follow.

Leadership

Does the fund provider itself show leadership in social, ethical and environmental issues? It's as simple as putting your money where your mouth is. How does the fund provider care for the environment or look after their employees?

Values

You want a fund that reflects what matters to you. What types of companies does the fund invest in? What companies are excluded? If the fund does not apply exclusions, does it engage with companies to help improve their business practices?

Ask your financial adviser

Your financial adviser can help you sort through these issues to find the funds that meet your financial needs and put your values into practice.

Championing good business practices

The Co-operative Asset Management led an investor meeting with BAe to discuss how it was going to meet the challenge of protecting its good name following damaging allegations of corruption. The Woolf Report, commissioned by BAe found that BAe had not paid enough attention to behaving ethically, as opposed to legally, and recommended actions to rectify this, which the company argues it is well on the way to doing. Beyond compliance with Woolf we recommended BAe make a point of avoiding doing business with countries which did not meet minimum standards of good governance. Secondly, we said BAe should improve the transparency of its reporting on relationships that are problematic but commercially critical like that between the UK and Saudi Arabia. Thirdly, we urged the

company to work with the UK Government to ensure that BAe's new ethical business principles would not be compromised when the Government acts as a go-between. The investors will ask BAe to report on progress on these issues in 2009.

An eye to the future

Sometimes the simplest things can make a big difference – like insulation. Insulating buildings cuts energy use, and so cuts the amount of greenhouse gases we emit. The Government is continuing to increase the amount of insulation required in new buildings.

That's great news for one of the Sustainable Leaders Trust's investments, SIG (formerly Sheffield Insulation Group) – the largest distributor of insulation to the UK building trade.

How The Co-operative Asset Management can help you

The Co-operative Asset Management offers you three of our most popular funds to invest in through your financial adviser:

- Sustainable Leaders Trust
- UK Growth Trust
- UK Income with Growth Trust.

Our funds are suited to long-term personal investors who want to make sure that their money also helps to make a positive contribution to society.

All of these funds benefit from our distinctive investment approach, which fully integrates financial analysis of companies with social, ethical and environmental considerations.

The Sustainable Leaders Trust and UK Growth Trust invest in high quality UK companies that show good long-term growth potential. The Sustainable Leaders Trust in addition focuses on companies that actively support human welfare, environmental sustainability and make a positive contribution to society.

The UK Income with Growth Trust combines UK equities and fixed interest investments to produce a growing income stream for long-term investors.

Please remember that stock market-based investments are intended for the medium to long-term (at least five years). The value of your investment can go down as well as up; neither the capital nor level of any income is guaranteed and you may get back less than you invest.

The Co-operative Asset Management's flagship fund, the Sustainable Leaders Trust, was the first ethical screened fund to top the UK All Companies sector (beating over 320 funds) over a 12-month period in January 2007.

Its Fund Manager, Mike Fox, won the 'UK Growth Fund Manager of the Year 2007' award from Citywire, and is 'A' rated as at 30/06/2008.

Please remember that past performance is not a reliable indicator of future results.



**Contact your independent
financial adviser for
more information**

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i 'Bringing "Accountability for Brands" to the Boardroom: Is that my job too?' Paper No. 20040101 - By Michele Levine, Chief Executive, Roy Morgan Research. January/ February 2004 edition of The New Investor: February 12, 2004
<http://www.roymorgan.com/news/papers/2004/20040101/> see also: 'Brand Valuation: The financial value of brands' By Interbrand
http://www.brandchannel.com/papers_review.asp?sp_id=357

ii <http://www.cdproject.net/aboutus.asp>

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This leaflet is issued by CIS Policyholder Services Limited.

Co-operative Financial Services Limited. Registered Office: New Century House, Manchester M60 4ES. Registered Number IP29379R.

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