

The **co-operative**  
asset management

# CIS Corporate Bond Income Trust

A high quality bond portfolio generating a regular and stable income.

**Product profile as at 30/06/11**

This document is intended for investment professionals and professional clients. It is not intended for retail clients, who should not rely upon its contents when making investment decisions.

Part of The **co-operative** financial services

available through



FUNDNETWORK





## Fund Facts

<b>Manager name</b>	Danny Fox
<b>Fund type</b>	Unit Trust
<b>Launch date</b>	29th September 2003
<b>Index/benchmark</b>	Markit iBoxx Sterling Corporate Bond Index
<b>Sector</b>	UK Corporate Bond
<b>No of holdings</b>	80
<b>Fund size as at 30/06/11</b>	£400 million
<b>Distribution yield</b>	5.10%
<b>Underlying yield</b>	4.70%
<b>Distribution frequency</b>	Monthly
<b>Distribution dates</b>	Monthly on the 17th
<b>Prices</b>	co-operativeassetmanagement.co.uk or The Financial Times
<b>Sedol Code</b>	3358342
<b>Lipper ID</b>	60088476

# Corporate Bond Income Trust

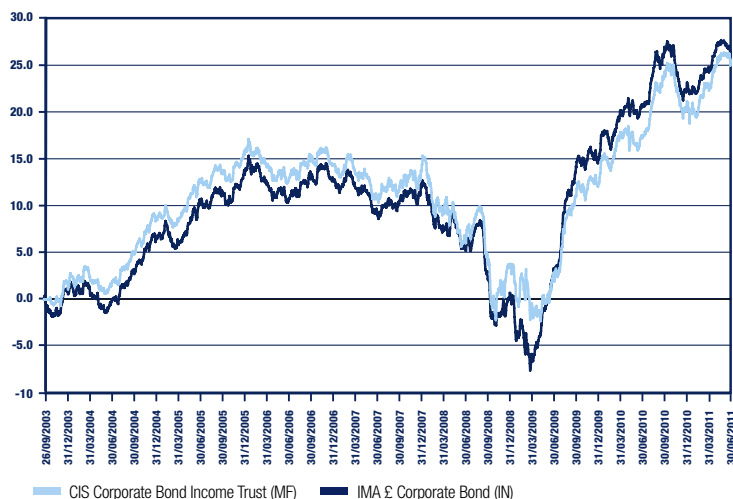
## What is the Fund's aim?

The investment aim of the fund is to produce an attractive and consistent monthly income commensurate with long-term capital stability.

## Why recommend this Fund to your clients?

- An uninterrupted history of attractive income since launch in 2003.
- A low level of capital volatility relative to many similar funds.
- A combination of an active interest rate strategy and conservative credit management.
- A relatively low-risk vehicle that can take advantage of value in the corporate bond market.

## Percentage Growth Total Return Since Launch (to 30/06/11)



Percentage growth total return of fund versus sector to latest quarter end, total return, bid to bid price, Net income reinvested. UK Net in fund currency. Source: Lipper

## Cumulative performance (% change to 30/06/11)

	1 year	3 years	5 years	Since launch (29/09/03)
Fund	7.0	17.9	11.4	25.5
Sector Median	5.2	20.2	15.3	27.9
Quartile Ranking	1st	3rd	3rd	3rd

Percentage Growth to latest quarter end, total return, bid to bid price, Net income reinvested. Source: Lipper  
Measured against UK Corporate Bond Sector.

## Discrete performance (% change to 30/06/11)

	30/06/10 - 30/06/11	30/06/09 - 30/06/10	30/06/08 - 30/06/09	30/06/07 - 30/06/08	30/06/06 - 30/06/07
Fund	7.0	14.1	-3.4	-4.2	-1.3
Sector Median	5.2	16.7	-3.2	-3.5	-0.7

Percentage Growth for discrete one-year periods, total return, bid to bid price, Net income reinvested. Source: Lipper  
Measured against UK Corporate Bond Sector.

## A closer look at the Fund

### What does the Fund invest in?

The fund invests primarily in Sterling denominated, investment grade, fixed interest securities but also has the ability to invest in non-Sterling denominated bonds as appropriate.

At least 50% of the trust's assets must be invested in bonds rated Single-A or above.

Bond derivatives (representing up to 10% of the Fund's value) may be used for the purpose of efficient portfolio management.

### Who it's suited to

The Fund may be suitable for investors looking for:

- a relatively low-risk investment with the potential to outperform returns on cash over the medium term
- a regular income from a long-term investment
- portfolio diversification away from other asset classes
- a fund that will consider social responsibility as part of its overall investment process.

### Investment philosophy

Our investment philosophy and style is best described as follows:

- **Focused** – The portfolio will typically have between 60-100 holdings consisting of at least 50 different issuers.
- **Long-term** – Typical investment horizon of three to four years.
- **Top-down** – Asset allocation, duration, yield curve and sector.
- **Stock selection** – Driven by strong fundamental analysis.
- **Responsible** – Embedded environmental, social and governance (ESG) analysis provides a broader perspective and represents the views of our customers in the investment process.

The overall investment philosophy is to allocate capital between a broad range of investment grade corporate bonds and gilts to provide an attractive and stable income whilst, at the same time, seeking to preserve that capital over the medium term. The fund does not mechanically buy yield but analyses the longer term cash flow dynamics of the relevant bonds to determine the sustainability of interest payments over time.

## Top 10 holdings (as at 30/06/11)

	% of fund
Santander UK PLC (GBP 11.500, 4-Jan-2017)	3.6
Barclays Bank PLC (GBP 10.000, 21-May-2021)	3.1
Tesco PLC (GBP 5.801, 13-Oct-2040)	2.6
Imperial Tobacco Finance PLC (GBP 9.000, 17-Feb-2022)	2.3
Telereal Securitisation (GBP 7.098, 10-Dec-2033)	2.2
BNP Paribas (GBP 5.945, Perpetual)	2.1
Eastbourne Water Co (GBP 5.658, 30-Sep-2019)	2.1
Nationwide Building Soc (GBP 6.024, Perpetual)	2.0
Aviva PLC (GBP 6.625, 3-Jun-2041)	2.0
Lloyds Banking Group PLC (GBP 6.500, 17-Sep-2040)	2.0
Total	21.9

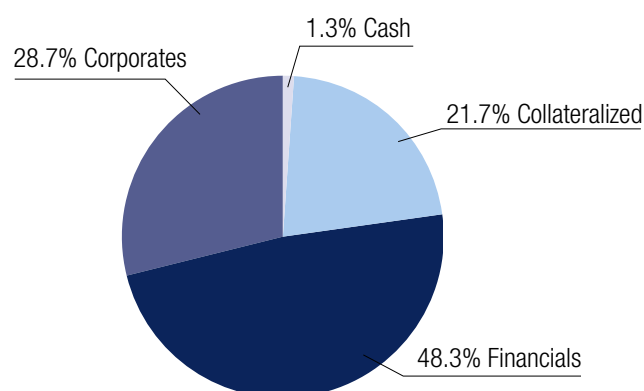
## Top 10 issuer exposure (as at 30/06/11)

	% of fund
Santander UK	6.3
Barclays Bank PLC	5.4
Lloyds Banking Group	5.2
BAA PLC	3.3
Aviva PLC	3.1
General Electric CO	3.1
Citigroup INC	2.8
Friends Provident Group	2.7
Nationwide Building Soc	2.6
Tesco PLC	2.6
Total	37.1

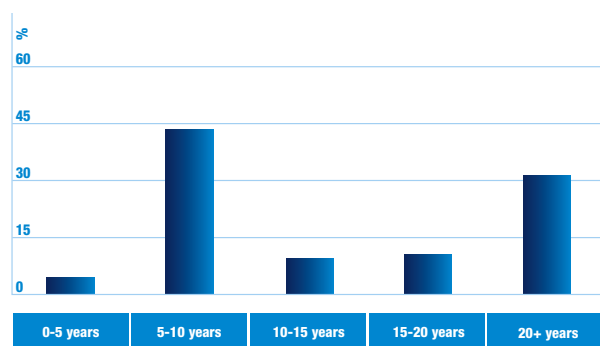
### Credit rating breakdown (as at 30/06/11)

Credit rating	% of fund
AAA	4.5
AA	8.3
A	44.5
BBB	41.4
Cash	1.3

### Sector breakdown (as at 30/06/11)



### Maturity breakdown (as at 30/06/11)



### Asset Allocation

The team adopts a top-down approach to asset allocation, duration, yield curve and sector positioning whilst utilising a team of in-house investment analysts to adopt a bottom-up approach to industry and issuer selection within the preferred sectors.

In attempting to consistently produce an attractive income whilst protecting capital values over time, the fund will seek to exploit valuation anomalies in both the interest rate and credit markets.

In times of economic prosperity, credit market gains will likely offset weakness in government bond markets and vice versa. Our aim is to anticipate these conditions and position the fund accordingly and pre-emptively.

### Fund Manager strategy

The downward trend in global government bond yields continued into June, until the passing of the Greek confidence vote led to a sharp turnaround in sentiment into the quarter-end. The yield on the 10-year US Treasury note rose from a low of 2.86% around the time of the vote to close the month at 3.17%, as signs emerged of a pick-up in economic activity. Tellingly perhaps, the response in the core European bond markets was somewhat more muted, suggesting that investors on this side of the Atlantic were somewhat less reassured by unfolding developments.

In the UK, Gilt yields followed a similar pattern to those elsewhere, with the 10-year benchmark rising from a low of 3.13% to close the quarter at around 3.40%. The rate of inflation remained stubbornly above the Bank of England's target and, whilst we expect this to continue to be the case for the rest of this year, we expect short-term interest rates to be kept on hold until into next year as the MPC factor into their outlook the dampening effect of the Government's ongoing programme of fiscal austerity.

Corporate bonds remained under pressure throughout most of the period as the uncertainty surrounding Greece and the other peripheral European sovereigns weighed on sentiment. Market liquidity has become comparatively thin and therefore the rally in risk assets in the closing days of June was probably exacerbated somewhat. We remain sceptical of the market's ability to sustain any further sharp recovery in the near-term and hence feel comfortable with a relatively neutral stance at present.

Despite the recent gyrations, corporate bonds have enjoyed a sustained period of positive capital appreciation during the recovery from the global financial crisis. At current market valuations, further significant gains remain unlikely. However, through careful credit selection and timely sector rotation it will remain possible, in our opinion, to produce a relatively attractive income from investing in good quality corporate bonds.

## Investment process summary

### Initial screening:

- the key investment universe, from which the majority of new investments are selected, is the iBoxx Sterling Bond Index
- the fund also has the ability to invest in non-sterling denominated bonds.

### Duration:

- the fund's duration decisions are driven by the team's top-down market forecasts and consistency is maintained with other, in-house portfolios whenever practicable.

### Asset allocation:

- broad sector allocation is guided by the team's macro view, combining analysis of economic variables with key thematic trends and changes in the regulatory environment
- at the industry level the fund manager incorporates the bottom-up views of the research teams into the preferred top-down sector split.

### Stock selection:

- once our industry views have been derived, our investment and ESG research analysts undertake ongoing, detailed analysis of the relevant corporate issuers
- from within the resultant, acceptable universe of issuers, the fund manager identifies the most attractive instrument-level opportunities available on a risk-reward basis.

### Portfolio construction:

- by taking advantage of the mispricing of bonds in both the primary and secondary markets the fund manager attempts to maintain a balanced and diversified portfolio with the aim of consistently outperforming both the benchmark and peer group over a rolling 12-month period
- given the skewed nature of returns in the cash credit market, the overriding aim of the portfolio construction process is to avoid losers rather than pick winners.

### Risk management:

- instrument default risk is assessed prior to any initial investment
- event risk and fluctuations in market conditions are monitored on an ongoing basis to assess their likely impact on the default probabilities of all issuers held in the portfolio
- risk is assessed across the fund in aggregate by considering the rating, sector and maturity profile of the portfolio

- weekly risk and performance monitoring occurs with an independent review by the Head of Fixed Income
- fund manager sign-offs are carried out on a daily basis with regard to pricing accuracy and maintenance of exposure limits.

## Fund Manager and investment team

### Danny Fox, Fund Manager

Years in industry	18
Years at The Co-operative Asset Management	2



Danny joined The Co-operative Asset Management in March 2009.

Danny began his career in fund management in 1993 after graduating with a BSc. Honours in Business, Finance & Economics from the University of East Anglia. After eight years at Sun Alliance (later to become RSA) Investment Management, where he managed a selection of government and corporate bond funds, he moved on to Rothschild Asset Management in early 2002 to specialise in managing corporate bond portfolios. Following the acquisition of Rothschild Asset Management by Insight Investment, in early 2003, Danny took on responsibilities for the company's range of retail and income bond funds, which he managed until late 2008. He is an associate of CFA (UK).

Danny is part of an experienced team of fixed income fund managers. The team draws on the expertise of over 50 investment professionals at The Co-operative Asset Management, all based in Manchester, including:

- investment and ESG (environmental, social and governance) research analysts dedicated to researching companies
- fund managers focused on stock selection and constructing diversified portfolios which balance performance with risk and volatility
- operations and other experts supporting the analysis and investment process
- risk analysts, responsible for ensuring appropriate risk is taken within the portfolio.

## Why choose 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. The Co-operative is a household name in the UK offering a wide range of services to consumers including financial services such as insurance, banking and mortgages plus food, pharmacy and travel.

The Co-operative Group has over 12 million customers, of who over 290,000 are investors in our unit trust range, amounting to over £2 billion of assets under management.

Our distinctive approach is reflected in a number of unique investment credentials. We are the only fund manager to:

- apply a common core approach to responsible investment across all the funds we manage
- apply analysis and active engagement across all the funds we manage
- feed valuable business insights gained from our engagement process back in to company analysis performed for investment purposes.

The Co-operative Asset Management was also the first UK investor to publish its Company AGM voting record on its website in 2002, a practice now increasingly adopted by fund management groups offering SRI.

In advocating The Co-operative Asset Management to clients, advisers should remember that they are recommending:

- Britain's most ethical brand, The Co-operative Group\*
- a responsible investment approach which fully integrates financial and ESG criteria in stock selection
- an investment process characterised by clear and informed views on why companies are undervalued and offer good long-term prospects
- an investment resource comprising experienced and committed individuals working to deliver out-performance while effecting positive change in the companies they invest in.

In advocating the fund to clients, advisers should remember that:

- adding bond investments to an all-stock portfolio generally lowers the risk of your client's overall portfolio.
- fixed income investments are a necessary component of a well diversified portfolio
- historically, bonds have returned more than cash investments, and exhibited less volatility than stocks
- the return on bonds has often offset the negative return on stocks during periods of market downturn.



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.

\*An independent consumer survey carried out in 2007 and 2008 found that The Co-operative was the most ethical brand in Britain for both years. The Co-operative Group was ranked number one for 2007 and 2008 with Body Shop and Marks and Spencers ranking second and third respectively. The GfK NOP Ethics Brand Survey was conducted in the US, UK, France, Germany and Spain amongst 5000 individuals in total. The study found that consumers are increasingly choosing to buy brands which they believe to be ethical, with many willing to pay a premium for an "ethical guarantee" (GfK NOP Press Releases 2007 & 2008).

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**Please call 08457 46 46 46 if you would like to receive this information in an alternative format such as large print, audio or Braille.**

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Past performance is not a reliable indicator of future results. As a result of market fluctuations, investments and income from them may fall as well as rise and investors may not get back the original amount they invested.

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**The Co-operative Asset Management Limited provides asset management services to CIS Unit Managers Limited which is the authorised Manager of the CIS Corporate Bond Income Trust.**

If you require any further information about our unit trusts (including a Simplified Prospectus or the full Prospectus), or information about any other products and services we offer, please contact us.

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