

The **co-operative**
asset management

CIS Sustainable Diversified Trust

Manager's Report

Annual Report

31st January 2011

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



CIS Unit Managers

Trustee Status

The Trustee is State Street Trustees Limited, which holds the title to the Trust's investments on behalf of unitholders. The CIS Sustainable Diversified Trust is a "wider-range" investment under the Trustee Investments Act 1961. It is an authorised unit trust scheme under section 243 of the Financial Services and Markets Act 2000 and is categorised as a UCITS Scheme under the Financial Services Authority Collective Investment Schemes Sourcebook. Copies of the Trust Deed may be inspected at the offices of the Manager: CIS Building, Miller Street, Manchester.

Manager

CIS Unit Managers Limited
P.O. Box 105
Manchester
M4 8BB
Authorised and regulated by the Financial Services Authority, and a member of the Investment Management Association

Directors of the Manager

M. A. Summerfield (Chairman)
M. D. Fairbairn
P. Sharman (resigned 30th July 2010)
R. Bulmer
A. Russell (appointed 5th March 2010)

Trustee

State Street Trustees Limited
525 Ferry Road
Edinburgh
EH5 2AW
Authorised and regulated by the Financial Services Authority

Registrar

CIS Unit Managers Limited
P.O. Box 105
Manchester
M4 8BB

Auditors

KPMG LLP
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

Investment Manager

The Co-operative Asset Management Limited
Miller Street
Manchester
M60 0AL
Authorised and regulated by Financial Services Authority.

The Co-operative Asset Management

The CIS Sustainable Diversified Trust is an authorised unit trust scheme, the manager of which is CIS Unit Managers Limited. The Manager has appointed The Co-operative Asset Management Limited to undertake the portfolio management for the Trust.

The Co-operative Asset Management is the fund management arm of The Co-operative Financial Services and is independently authorised by the Financial Services Authority to provide discretionary asset management services.

We have a long and successful history of managing our customers' money and our specialist fund management service is unique in the UK market, offering a distinctive approach to responsible investing across all of the funds that we manage. For example, we fully integrate consideration of financial, environmental, social and governance issues throughout the investment process when selecting companies for investment and we also vote at every AGM of companies we hold.

Investment Objective and Policy

The investment objective is to provide capital growth from a diverse range of asset classes. The policy is to actively manage the Trust which invests mainly in equities and fixed income securities.

The Trust may also invest in any other asset class (including other transferable securities, derivatives and forward transactions, approved money market instruments, deposits, units in collective investment schemes, cash and near cash, and property-related

investments (for example, transferable securities in real estate investment trusts and property-related derivatives)), and in any economic area.

Asset allocation will depend upon the relative attractions of the assets in the Trust and the Trust will be managed to reduce downside risk.

The Trust is screened in accordance with the Co-operative Investments' ethical investment policy, a copy of which is available on request.

Cumulative performance (% change to 31/01/11)

	6 months	1 year	Since launch (24/07/09)
Fund	6.3	13.1	24.2
Sector Median	6.5	9.9	21.5
Quartile Ranking	3	1	1

Percentage change in value at bid price, to 31/01/11.
Net income re-invested.

Source: Lipper. Measured against IMA Cautious Managed Sector.

Investment Review and Outlook

Fund Manager's comments

During the year ending 31st January 2011, the price of the units increased by 13.1% compared with the 9.9% rise in the sector median of the IMA Cautious Managed sector, resulting in first quartile performance versus the peer group. Since the launch of the Trust on the 24th July 2009, the price of the units has risen by 24.2% compared to the median rise in the sector of 21.5% placing it in the first quartile of the performance table.

We adopt a consistent approach to the selection of companies suitable for the Trust. Most importantly we select companies for the positive contribution they make to society thereby ensuring we invest your money responsibly. We look to identify well managed, well financed companies with strong franchises and invest in them for the long-term, as we believe this is the best way to grow investors' capital. This approach gives us confidence that we can deliver strong relative performance compared to the peer group.

Both UK and overseas equities delivered strong returns over the year, driven generally by good corporate results and positive economic releases especially from the North American and Northern European regions. Emerging market equities led the way until October 2010, but then underperformed as heightened inflationary pressures and the requirement for tighter monetary policies held back investor appetite for this asset class. Similarly, the fixed income benchmarks moved higher through the first three quarters of the year, but value was lost in the final quarter on the back of upward revisions to growth and inflation expectations in the developed world.

The Trust benefited from having an overweight equities position over the twelve-month period, but its overweight exposure to emerging market equities did cost relative performance in the second half of the year. The lack of exposure to the natural resource sector, where many companies do not pass the 'sustainability' criteria of the Trust was also a factor. Healthcare was a strong area, the Trust benefited from its holding in Shire Pharmaceuticals which bucked the industry trend and delivered solid earnings growth on the back of robust sales growth. We added to the US healthcare products company Covidien following a disappointing quarterly report and the shares subsequently rebounded as better results followed with improved market share and profitability. The single largest detractor to performance came from the holding in Avon Products which suffered from disappointing sales in Brazil.

The corporate bond element of the portfolio delivered positive returns despite the headwind of rising UK sovereign debt (gilt) yields, which places downward pressure on corporate bond prices. The positive contribution was delivered by outperformance of corporate debt compared with gilts and the higher coupons earned. The Trust for the most part of the year had no exposure to long-dated gilts. Within credit the preference was for exposure to financial companies against other areas and this sector selection also contributed positively to performance.

Investment Review and Outlook

Outlook

We expect economic growth in developed regions to remain positive and accelerate further from the below-trend level experienced recently as increased business confidence in the US and Northern Europe spurs greater employment growth and investment spending. In the developing regions growth needs to slow from above trend levels, but we believe that the monetary policy tightening being pursued by central banks will rein back inflationary pressures and that the risk of recession here is low.

The Trust is positioned to benefit from continued economic growth with a focus on equities over fixed income. Within equities we have a preference for exposure to US-centric companies given the improving outlook in that region. The emerging market regions have been de-emphasised since the last review. We are believers in the region for the longer-term and whilst tightening monetary policy will dampen investor enthusiasm in the near-term, we will be looking to add to high quality franchises with attractive valuations.

BG Group is the largest equity position in the Trust following its addition to the portfolio in September. This company is largely involved in the extraction of natural gas, which has a significantly lower carbon content compared with oil. Other key stock positions are in Spirax Sarco, HSBC Infrastructure and WPP. Spirax Sarco is an industrial company which manufactures and services products that ensure the most efficient use of steam and industrial fluids. HSBC Infrastructure lies within the alternatives portion of the portfolio and invests in infrastructure projects such as hospitals, schools and railways in the UK. WPP is a global advertising company that

is well positioned to help younger businesses in the emerging market world develop their brands.

Within the fixed income portion of the Trust we have been negative on longer-dated gilts in the belief that the reflationary efforts being pursued by central banks will be successful. More recently we have added some long-dated gilt exposure to the portfolio as gilt-yields are now moving closer to what we consider to be normalised levels. We will look to increase our exposure further if yields move higher. The largest asset class exposure within fixed income is to corporate bonds as the dynamics of corporate cash generation remain supportive. Within the credit space, exposure is tilted towards the lower investment grades where better total return potential is available. Sector exposures are dominated by utilities and financials. We are avoiding exposure to entities domiciled in the troubled southern European regions given the uncertainties over the value of sovereign debt.

We believe the Trust is well placed to perform in future, combining top-down asset allocation with effective security selection within the equity and fixed income areas.

Linda Desforges
The Co-operative Asset Management
February 2011

Portfolio Statement

as at 31st January 2011

	Holding or nominal value of positions at 31st January 2011	Market Value £	Percentage of total net assets %
Fixed Income			
Corporate Bonds – (Jan 2011: 28.11%, Jan 2010: 39.66%)			
Affinity Sutton Capital 5.981% Bds 2038	950,000	1,025,553	0.81
American Express Credit Corp 5.375% Mtn 2014	1,000,000	1,045,461	0.83
Anglian Water Services 12.375% Bds 2014(Br)	500,000	614,925	0.49
Anheuser-Busch Inbev 6.5% Gtd Mtn 2017	1,200,000	1,354,093	1.07
AT&T Inc 5.875% Bds 2017	550,000	598,078	0.47
Australia & New Zealand Bank 6.54% Uts £ Perp Nts &1 Liq Prf 2012	1,000,000	998,279	0.79
Aviva 6.125% Bds 2022	800,000	646,612	0.51
Barclays Bank 5.75% Sub Nts 2026	850,000	775,258	0.61
British Telecommunications 8.5%-Var Bds 2016	850,000	1,020,804	0.81
Central Networks East 5.75% Mtn 2040	1,000,000	980,668	0.78
Compass Group 6.375% Nts 2012	1,000,000	1,053,927	0.83
Coventry Building Society 5.875% Emtn 2022	500,000	469,721	0.37
DNB Nordea Bank 6.0116% Frn 2017	1,000,000	945,675	0.75
Eversholt Funding 6.359% Gtd Mtn 2025	1,000,000	998,642	0.79
Experian Finance 4.75% Nts 2018	400,000	400,860	0.32
Firstgroup 6.875% Bds 2024	600,000	637,646	0.50
GEC UK Funding 5.875 Gtd Snr 2020	1,300,000	1,357,134	1.07
General Electric Capital Corp 6.25% Mtn 2020	500,000	534,372	0.42
Great Rolling Stock Company Ltd 6.875% Mtn 2035	600,000	622,336	0.49
HSBC Capital Funding 5.844%-Var Gtd Nts Perp	958,000	812,540	0.64
HSBC Capital Funding 6.375%-Fr Mtn 2017/22	1,200,000	1,235,886	0.98
Legal & General Group 6.385%-Fr Sub Perp	500,000	424,565	0.34
Lloyds TSB Bank 6.5% Mtn 2040	500,000	454,681	0.36
Lloyds TSB Bank 9.625% Sub Bds 2023	400,000	435,433	0.34
Motability Operations Group 5.375% Gtd Snr 2022	1,000,000	1,014,047	0.80
Motability Operations Group 5.625% Mtn 2030	500,000	497,849	0.39
National Express Group 6.25% Gtd Snr 2017	800,000	838,702	0.66
Nationwide Building Society 5.625% Nts 2026	1,650,000	1,653,410	1.31
Nats (En) Route 5.25% Gtd 2026	600,000	612,942	0.49
Phoenix Natural Gas Finance 5.5% Gtd Snr 2017	500,000	509,735	0.40
Porterbrook Rail Finance 7.125% Mtn 2026	500,000	532,914	0.42
Rabobank Capital Funding Trust IV 5.556%-Frn Gtd Perp	1,000,000	867,083	0.69
Reed Elsevier 7% Gtd 2017	1,000,000	1,129,536	0.89
Roche Holdings 5.5% Gtd Bds 2015	650,000	707,621	0.56
Scottish & Southern Energy 5.75% Mtn Bds 2014	700,000	752,479	0.60

Portfolio Statement

as at 31st January 2011

	Holding or nominal value of positions at 31st January 2011	Market Value £	Percentage of total net assets %
Scottish Amicable Finance 8.5%-Var Perp	600,000	599,641	0.47
Severn Trent Utilities Finance 6% Gtd Snr Mtn 2018	600,000	652,277	0.52
Skandinaviska Enskilda Banken 5.5%-Fr Mtn Perp	500,000	493,750	0.39
Smiths Industries 7.25% Bds 2016	500,000	551,818	0.44
Southern Gas 6.375% Mtn 2040	500,000	540,933	0.43
Standard Life 6.14% Gtd Perp Sub Nts 2015	500,000	458,301	0.36
Tesco Property Finance 1 7.6227% Gtd M/Bkd 2039	741,218	907,396	0.72
Thames Water Utilities Finance 4.9% Gtd Nts 2015	700,000	735,449	0.58
United Utilities Water 5.625% Emtn 2027	600,000	613,541	0.49
Wales & West Utilities Finance 5.75% Bds 2030	700,000	717,574	0.57
Wells Fargo & Co 4.625% Bds 2035	850,000	710,581	0.56
		35,540,728	28.11
Government Securities – (Jan 2011: 12.01%, Jan 2010: 1.47%)			
Treasury 4.25% 2055	1,900,000	1,845,185	1.46
Treasury 4.5% 2013	770,000	820,728	0.65
Treasury 4.75% 2020	7,015,000	7,594,355	6.01
Treasury 5% 2012	4,700,000	4,911,368	3.89
		15,171,636	12.01
Equities			
Oil & Gas Producers – (Jan 2011: 2.82%, Jan 2010: not held)			
BG Group	260,000	3,559,400	2.82
		3,559,400	2.82
Chemicals – (Jan 2011: 5.38%, Jan 2010: 4.22%)			
Croda International	62,000	920,700	0.73
Ecolab Inc	25,000	774,725	0.61
Johnson Matthey	100,000	1,920,000	1.52
Linde AG	19,000	1,744,364	1.38
Victrex	100,000	1,440,000	1.14
		6,799,789	5.38
General Industrials – (Jan 2011: 1.38%, Jan 2010: 2.46%)			
Smiths Group	128,000	1,745,920	1.38
		1,745,920	1.38
Industrial Engineering – (Jan 2011: 2.34%, Jan 2010: 0.82%)			
Rotork	49,663	810,004	0.64
Spirax-Sarco Engineering	119,000	2,152,710	1.70
		2,962,714	2.34

Portfolio Statement

as at 31st January 2011

	Holding or nominal value of positions at 31st January 2011	Market Value £	Percentage of total net assets %
Support Services – (Jan 2011: 2.63%, Jan 2010: 5.68%)			
Aggreko	65,000	937,300	0.74
Michael Page International	290,800	1,549,964	1.23
Mitie Group	74,201	161,832	0.13
RPS Group	320,000	675,840	0.53
		3,324,936	2.63
Automobiles & Parts – (Jan 2011: 1.35%, Jan 2010: 0.91%)			
Johnson Controls Inc	72,000	1,707,392	1.35
		1,707,392	1.35
Beverages – (Jan 2011: 1.51%, Jan 2010: 1.59%)			
SABMiller	94,000	1,913,370	1.51
		1,913,370	1.51
Food Producers – (Jan 2011: 0.94%, Jan 2010: 1.12%)			
Unilever	65,000	1,184,950	0.94
		1,184,950	0.94
Personal Goods – (Jan 2011: 0.86%, Jan 2010: 1.15%)			
Avon Products Inc	61,200	1,080,759	0.86
		1,080,759	0.86
Health Care Equipment & Services – (Jan 2011: 2.52%, Jan 2010: 2.04%)			
Covidien	68,000	2,014,387	1.59
Fresenius Medical Care	32,000	1,178,042	0.93
		3,192,429	2.52
Pharmaceuticals & Biotechnology – (Jan 2011: 4.20%, Jan 2010: 3.86%)			
Novartis	63,000	2,211,559	1.75
Roche Holdings	15,000	1,440,537	1.14
Shire	100,000	1,656,000	1.31
		5,308,096	4.20
General Retailers – (Jan 2011: 0.91%, Jan 2010: 2.26%)			
eBay Inc	60,000	1,144,152	0.91
		1,144,152	0.91
Media – (Jan 2011: 1.61%, Jan 2010: 0.91%)			
WPP	264,445	2,038,871	1.61
		2,038,871	1.61
Mobile Telecommunications – (Jan 2011: 1.41%, Jan 2010: 1.75%)			
Vodafone Group	1,000,000	1,778,500	1.41
		1,778,500	1.41

Portfolio Statement

as at 31st January 2011

	Holding or nominal value of positions at 31st January 2011	Market Value £	Percentage of total net assets %
Electricity – (Jan 2011: 1.90%, Jan 2010: 3.06%)			
International Power	400,000	1,704,400	1.35
Scottish & Southern Energy	60,000	697,200	0.55
		2,401,600	1.90
Gas, Water & Multiutilities – (Jan 2011: 0.87%, Jan 2010: 1.20%)			
National Grid	203,000	1,101,275	0.87
		1,101,275	0.87
Banks – (Jan 2011: 6.62%, Jan 2010: 6.19%)			
Barclays Bank	565,000	1,651,495	1.31
HSBC Holdings	275,000	1,869,725	1.48
Lloyds Banking Group	2,500,000	1,559,000	1.23
Standard Chartered Bank	95,625	1,537,172	1.22
Wells Fargo & Co	87,000	1,742,792	1.38
		8,360,184	6.62
Life Insurance – (Jan 2011: 1.27%, Jan 2010: 0.46%)			
Prudential	235,000	1,599,175	1.27
		1,599,175	1.27
Real Estate Investment Trusts – (Jan 2011: 0.87%, Jan 2010: 1.23%)			
Shaftesbury	250,000	1,095,750	0.87
		1,095,750	0.87
Equity Investment Instruments – (Jan 2011: 5.63%, Jan 2010: 5.46%)			
Alternative Investment Strategy	930,000	1,016,025	0.80
Dexion Absolute	752,246	1,080,978	0.86
HSBC Infrastructure	1,770,000	2,085,060	1.65
Impax Environmental Markets	1,260,000	1,569,960	1.24
Thames River Multihedge	1,100,000	1,366,750	1.08
		7,118,773	5.63
Software & Computer Services – (Jan 2011: 2.32%, Jan 2010: not held)			
Google Inc	4,900	1,853,331	1.47
Invensys	321,000	1,072,140	0.85
		2,925,471	2.32
Technology Hardware & Equipment – (Jan 2011: 2.93%, Jan 2010: 2.45%)			
Apple Inc	8,000	1,691,935	1.34
Cisco Systems	50,000	658,611	0.52
Hewlett-Packard Co	47,000	1,346,153	1.07
		3,696,699	2.93

Portfolio Statement

as at 31st January 2011

	Holding or nominal value of positions at 31st January 2011	Market Value £	Percentage of total net assets %
OTHER			
Collective Investments – (Jan 2011: 3.61%, Jan 2010: 2.44%)			
First State Investments Asia Sustainability	800,000	1,907,360	1.51
First State Investments Global Emerging Markets	700,000	1,311,450	1.04
Nikko Asset Management World Bank Green Fund GBP	130,000	1,337,700	1.06
		4,556,510	3.61
Portfolio of Investments		121,309,079	96.00
Net current assets		5,060,425	4.00
Net assets attributable to unitholders		126,369,504	100.00
All holdings are ordinary shares unless otherwise stated			
Sectors held in 2010 not held in 2011:			
Travel & Leisure (0.71%)			
Nonlife Insurance (0.74%)			
Nonequity Investment Instruments (1.03%)			
Food & Drug Retailers (2.40%)			
Construction & Materials (0.76%)			

Portfolio Statement Credit Split

as at 31st January 2011

	Market Value £	Percentage of total net assets %
Investments of investment grade	50,712,364	40.12
Investments below investment grade*	–	–
UK Equities	41,756,595	33.05
Overseas Equities	24,283,610	19.22
Collective Investment Schemes	4,556,510	3.61
Portfolio of Investments	121,309,079	96.00
Net current assets	5,060,425	4.00
Net assets attributable to unitholders	126,369,504	100.00

Source: The Co-operative Asset Management

*The Trust is not permitted to purchase bonds rated below investment grade

Summary of Material Portfolio Changes

for the year ended 31st January 2011

PURCHASES	COST £000	SALES	PROCEEDS £000
Treasury 4.25% 2011	8,921	Treasury 4.25% 2011	8,866
Treasury 4.75% 2020	7,636	Treasury 6.25% 2010	6,520
Treasury 6.25% 2010	6,618	Tesco	1,823
Treasury 5% 2012	4,942	Standard Chartered	1,514
BG Group	3,129	Rabobank Nederland 4.625% Snr Emtn 2012	1,324
Spirax-Sarco Engineering	2,167	Treasury 5% 2018	1,252
HSBC Infrastructure – C Shares	2,000	Utilico Emerging Markets Ltd	1,201
Google Inc Com \$0.001 Class A	1,933	BNP Paribas 5.945%-Frn Perp 2016	1,184
Treasury 4.25% 2055	1,858	Goldman Sachs Group 6.125% Emtn 2017	1,103
Nationwide Building Society 5.625% Nts 2026	1,634	Coca-Cola Enterprises 6.5% Emtn 2016	1,027
Wells Fargo & Co	1,548	European Investment Bank 4.75% Mtn 2012	964
Novartis	1,499	Spice	905
Lloyds Banking Group	1,448	Tesco 6.125% Mtn 2022	899
Rabobank Capital Funding Trust IV 5.556%-Frn Gtd Perp	1,335	Aggreko	896
Nikko Asset Management World Bank Green Fund GBP	1,300	Royal Bank Of Scotland Group 6.625% Emtn 2018	883
Treasury 5% 2018	1,255	DB X-Trackers MSCI Brazil Trn Index ETF	843
Johnson Matthey	1,209	Wessex Water Services 5.75% Bds 2033	767
Fresenius Medical Care	1,164	Home Retail Group	739
Reed Elsevier 7% Gtd 2017	1,163	Go-Ahead Group 5.375% Bds 2017	725
Invensys	1,106	Stagecoach 5.75% Bds 2016	720
Total cost of purchases, including the above, for the year (see note 5)	<u>87,865</u>	Total proceeds from sales, including the above, for the year (see note 5)	<u>50,373</u>

Performance Record

Unit prices

The Trust units are Income Units only. They were first offered to the public at £1 each.

	Highest buying price (p)	Lowest selling price (p)	Distribution (pence per unit)
24th July 2009 to 31st Dec 2009	113.5	96.52	0.0000
1st Jan 2010 to 31st Dec 2010	125.1	104.4	2.4710
1st Jan 2011 to 31st Jan 2011	125.4	117.2	0.3361

Trust details

	Total Net Asset Value (£)	Total units in issue	Net Asset Value per unit (p)
31st January 2010	76,567,391	73,315,000	104.4
31st January 2011	126,369,504	108,497,000	116.5

It should be remembered that past performance is not a reliable indicator of future performance and that the value of units, and the income derived from them, can vary.

Total Expense Ratio (TER)

31st January 2010	1.52%
31st January 2011	1.55%

The TER is the ratio of the Trust's operating costs to its average net assets during the year.

Statement of Manager's Responsibilities in Relation to the Report and Financial Statements of the Trust

Financial statements for the period ended 31st January 2011, and this Manager's Report, have been prepared in accordance with the rules of the Collective Investment Schemes Sourcebook, published by the Financial Services Authority ("FSA"). These require the Manager to prepare financial statements for each accounting period which give a true and fair view of the financial affairs of the Trust and of its income/expenditure and the net capital gains or losses on the property of the Trust for the period. In preparing the financial statements the Manager is required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent

- comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds
- follow generally-accepted accounting principles and applicable accounting standards
- keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements
- prepare accounts on a going concern basis unless inappropriate to do so.

The Manager is responsible for the management of the Trust in accordance with its Trust Deed, Prospectus and the FSA's rules. The Manager has general responsibility for taking such steps as are reasonably open to him to prevent and detect fraud and other irregularities.

Statement of The Trustee's Responsibilities in Relation to the Financial Statements of the Trust

The Trustee is under a duty to take into its custody or under its control all of the property of the Trust and to hold it in trust for the holders of units. Under the rules in the Financial Services Authority's Collective Investment Schemes Sourcebook relating to Reports, it is also the duty of the Trustee to

enquire into the conduct of the Manager in the management of the Trust in each accounting period and to report thereon to unitholders in a report which shall contain the matters prescribed by the rules. A copy of the Trustee's report is included in this Report.

Independent Auditor's Report to the Unitholders of the Trust

We have audited the financial statements of the Trust for the year ended 31st January 2011 which comprise the Statement of Total Return, the Statement of Change in Net Assets Attributable to Unitholders, the Balance Sheet together with the related notes and the Distribution Table.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Independent Auditor's Report to the Unitholders of the Trust

This report is made solely to the Trust's unitholders, as a body, in accordance with Rule 4.5.12 of the Collective Investment Schemes sourcebook ('the COLL Rules') issued by the Financial Services Authority under section 247 of the Financial Services and Markets Act 2000. Our audit work has been undertaken so that we might state to the Trust's unitholders those

matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust and the Trust's unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Manager and the Auditor

As explained more fully in the Statement of Manager's Responsibilities set out on page 13, the Manager is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial

statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's website at

www.frc.org.uk/apb/scope/private.cfm.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial position of the Trust as at 31st January 2011 and of the net revenue and the net capital gains on the property of the Trust for the year then ended

- have been properly prepared in accordance with the Trust Deed, the Statement of Recommended Practice relating to Authorised Funds and the COLL Rules.

Independent Auditor's Report to the Unitholders of the Trust (continued)

Opinion on other matters prescribed by the COLL Rules

In our opinion the information given in the Manager's Report is consistent with the financial statements.

We have received all the information and

explanations which we consider necessary for the purposes of our audit.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where under the COLL Rules we are required to report to you if, in our opinion:

- proper accounting records for the Trust have not been kept, or
- the financial statements are not in agreement with the accounting records.

Katherine Clinton
for and on behalf of KPMG LLP
Chartered Accountants
1 The Embankment
Neville Street
Leeds LS1 4DW
19th May 2011

Trustee's Report

Having carried out such procedures as we considered necessary to discharge our responsibilities as Trustee of the Scheme, it is our opinion, based on the information available to us and the explanations provided, that the Manager has, in all material respects, managed the Scheme during the period in accordance with the investment and borrowing powers and restrictions applicable to the Scheme, and otherwise in accordance with

the provisions of the Trust Deed and the rules in the Financial Services Authority's Collective Investment Schemes Sourcebook

State Street Trustees Limited
Trustee of CIS Sustainable Diversified Trust
525 Ferry Road
Edinburgh EH5 2AW
19th May 2011

Statement of Total Return

for the year ended 31st January 2011

	Notes	2011		2010	
		£	£	£	£
Income					
Net capital gains	4		8,970,747		6,742,172
Revenue	6	2,965,715		1,356,221	
Expenses	7	(1,415,359)		(618,432)	
Finance costs: Interest	9	(196)		(18)	
Net revenue before taxation		1,550,160		737,771	
Taxation	8	(125,839)		(59,935)	
Net revenue after taxation			1,424,321		677,836
Total return before distributions			10,395,068		7,420,008
Finance costs: Distributions	9		(1,425,191)		(677,797)
Change in net assets attributable to unitholders from investment activities			8,969,877		6,742,211

Statement of Change in Net Assets Attributable to Unitholders

for the year ended 31st January 2011

	2011	2010
	£	£
Opening net assets attributable to unitholders	76,567,391	–
Amounts receivable on issue of units	40,832,236	69,825,180
Change in net assets attributable to unitholders from investment activities	8,969,877	6,742,211
Closing net assets attributable to unitholders	126,369,504	76,567,391

Balance Sheet

as at 31st January 2011

	Notes	2011		2010	
		£	£	£	£
Assets					
Investment assets			121,309,079		75,055,296
Debtors	10	3,236,467		1,897,836	
Cash and bank balances	11	<u>2,461,554</u>		<u>1,074,237</u>	
Total other assets			<u>5,698,021</u>		<u>2,972,073</u>
Total assets			127,007,100		78,027,369
Liabilities					
Creditors	12	(272,938)		(782,181)	
Distribution payable on income units	9	<u>(364,658)</u>		<u>(677,797)</u>	
Total other liabilities			(637,596)		(1,459,978)
Net assets attributable to unitholders			<u>126,369,504</u>		<u>76,567,391</u>
The financial statements were approved on 19th May 2011 and signed on behalf of the Board of the Manager by:					
M. A. Summerfield (Chairman)			A. Russell (Director)		

Notes to the Financial Statements

as at 31st January 2011

Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010 ('the 2010 SORP'). Previously the requirements of the Statement of Recommended Practice for Authorised Funds issued by the IMA in November 2008 were applied. Adopting the 2010 SORP did not change either the total return or the Statement of Change in Net Assets Attributable to Unitholders in either the current or preceding year.

Basis of valuation of investments

Listed investments are valued at closing bid prices and collective investment schemes are valued at quoted bid prices for dual priced funds and at quoted prices for single priced funds, on the last business day of the accounting period, which was 31st January 2011.

Exchange rates

Assets and liabilities in currencies other than sterling are translated into sterling at the rates of exchange ruling at Balance Sheet date. Revenue and expenditure transactions are translated at the rates of exchange ruling at the date of transaction.

Recognition of revenue

Dividends on equities are recognised when the security is quoted ex-dividend.

Revenue on debt securities is accounted for on an effective yield basis. Distributions from collective investment schemes are recognised when the schemes are quoted ex-distribution.

Equalisation returned with the distribution is deducted from the cost of the investment and does not form part of the distributable revenue.

Underwriting commission is wholly recognised as revenue when the issue takes place, except where the Trust is required to take up all or some of the shares underwritten, in which case an appropriate proportion of the commission received is deducted from the cost of those shares.

Other revenue is accounted for on an accruals basis. All revenue is recognised as a gross amount that includes any withholding taxes but excludes any other taxes such as attributable tax credits.

Treatment of expenses

The Manager makes an annual management charge of 1.5% of the value of the Trust. All expenses are charged against revenue, except those relating to the purchase and sale of investments and stamp duty reserve tax, which are charged against capital.

Treatment of stock and special dividends

The ordinary element of stocks received in lieu of cash dividends is recognised as revenue of the Trust. It forms part of the distribution in accordance with the Statement of Recommended Practice.

Special dividends are reviewed on a case by case basis in determining whether the dividend is to be treated as revenue or capital. Amounts recognised as revenue will form part of the distributable revenue. The tax accounting treatment follows the treatment of the principal amount.

Taxation

Corporation tax is provided at 20% on taxable revenue, after deduction of allowable expenses.

Notes to the Financial Statements

as at 31st January 2011

Where overseas tax has been deducted from overseas revenue, then that tax can, in some instances, be set off against the corporation tax payable, by way of double tax relief.

Deferred tax is provided using the liability method on all timing differences arising on the treatment of certain items for taxation and accounting purposes, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only to the extent they are regarded as recoverable.

It should be noted that legislation governing taxation is liable to change. The information contained in this report is based upon CIS Unit Managers' understanding of the current position. The excess of revenue over expenses, as disclosed in the financial statements, is distributable to unitholders. Any revenue deficit is deducted from capital. Interim distributions are paid to unitholders semi-annually.

2 Distribution policy

The excess of revenue over expenses, as disclosed in the financial statements, is distributable to unitholders. Any revenue deficit is deducted from capital. Distributions are paid to unitholders quarterly.

3 Risk Management policies

In pursuing the Trust's objectives set out on page 3, the Trust holds a number of financial instruments which include:

- Equity shares, Corporate Bonds and Government Securities held in accordance with the Trust's investment objectives and policies.
- Cash, liquid resources and short-term debtors and creditors that arise directly from its operations.

The main risks arising from the Trust's financial instruments are market price risk, foreign currency risk and liquidity risk. The Investment Manager reviews each of these risks and they are summarised below. These policies have remained unchanged since the beginning of the year to which these financial statements relate.

Market price risk

Market risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Trust might suffer through holding market positions in the face of price movements. The asset allocation of the portfolio is reviewed in order to manage the risk associated with particular industry sectors whilst continuing to follow the investment objective. An individual Trust manager has responsibility for monitoring the existing portfolio selected in accordance with an overall asset allocation parameter and seeks to ensure that the Trust invests in a diversified fashion, to reduce the risk of exposure to a significant event affecting a single security, or industry, subject to the obligation under the Trust's objective to invest in securities which share certain characteristics.

Interest Rate Risk

The Trust invests in fixed and variable rate securities, any change to the interest rates relevant for particular securities may result in either income increasing or decreasing, or the Investment Manager being unable to secure similar returns on the expiry of contracts or the sale of securities.

In addition, changes to prevailing rates or changes in expectations of future rates may result in an increase or decrease in the value of the securities held. In general if interest rates rise the income

Notes to the Financial Statements

as at 31st January 2011

potential of the Trust also rises but the value of fixed rate securities will decline. A fall in interest rates will in general have the opposite effect. Please see note 15 for more details.

Credit Risk

The investment return produced by the Trust's bond holdings is dependent on the issuers of these bonds maintaining due payment of interest and capital. The Trust aims to reduce this credit risk by holding a well diversified range of securities. In addition, the portfolio is invested in securities classed as investment grade by independent credit rating agencies.

Foreign currency risk

The assets of the Trust can be significantly affected by currency translation movements, as a portion of the Trust's assets are denominated in currencies other than sterling, which is the Trust's base currency.

Liquidity risk

The Trust's assets comprise mainly readily available realisable securities, which can be sold to meet Trusting requirements if and when necessary. The main liability of the Trust is the redemption of any units that investors wish to sell.

Notes to the Financial Statements

for the year ended 31st January 2011

4 Net capital gains on investments

The net capital gains on investments during the year comprise:	2011	2010
	£	£
Non derivative securities	8,943,427	6,707,321
Currency gains	27,320	34,851
Net capital gains	8,970,747	6,742,172

5 Purchases, sales and transaction costs

	2011	2010
	£	£
Purchases excluding transaction costs	87,759,545	88,696,320
Commissions	33,744	20,620
PTM	42	30,948
Stamp duty	72,088	19
Total purchases transaction costs	105,874	51,587
Total purchases including transaction costs	87,865,419	88,747,907
Sales excluding transaction costs	50,392,674	20,363,911
Commissions	(19,836)	(13,264)
PTM	(47)	(27)
Security & Exchange Commission Fee	(7)	(62)
Total sales transaction costs	(19,890)	(13,353)
Total sales including transaction costs	50,372,784	20,350,558

Notes to the Financial Statements

for the year ended 31st January 2011

6 Revenue

	2011	2010
	£	£
UK dividends	818,762	421,205
Property Dividends	25,625	11,875
Collective Investment Scheme	39,819	15,105
Overseas dividends	181,034	36,468
Bond interest	1,887,295	865,165
Bank interest	11,143	1,415
Underwriting Commission	2,037	4,988
Total revenue	<u>2,965,715</u>	<u>1,356,221</u>

7 Expenses

	2011	2010
	£	£
Payable to the Manager, associates of the Manager and their agents:		
Manager's yearly charge	<u>1,374,413</u>	<u>595,634</u>
Payable to the Trustee, associates of the Trustee and their agents:		
Trustee's fee	19,191	8,424
Safe custody charges	11,276	5,965
Activity charges	<u>3,770</u>	<u>2,055</u>
	34,237	16,444
Other expenses		
Audit fee	6,709	6,354
Total expenses	<u>1,415,359</u>	<u>618,432</u>

Notes to the Financial Statements

for the year ended 31st January 2011

8 Taxation

a) Analysis of charge for the year

	2011	2010
	£	£
Corporation tax	102,136	56,020
Overseas tax	23,703	3,915
Total taxation	125,839	59,935

Corporation tax has been provided at a rate of 20% (2010: 20%).

b) Factors affecting the current tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK for a unit trust company (20%).

The differences are explained below:

	2011	2010
	£	£
Net income before tax	1,550,160	737,771
Corporation tax @ 20%	310,032	147,554
Effects of:		
Non-taxable dividend income	(207,896)	(91,534)
Irrecoverable overseas tax	23,703	3,915
Current tax charge for the year (note 8a)	125,839	59,935

Notes to the Financial Statements

for the year ended 31st January 2011

9 Finance costs

Distributions

The distributions take account of income received on the creation of units and income deducted on the cancellation of units and comprise:

	2011	2010
	£	£
Quarter 1	–	–
Interim	845,029	–
Quarter 3	336,733	–
Final	364,658	677,797
Net distribution for the year	<u>1,546,420</u>	<u>677,797</u>
Deduct: Income received on creation of units	<u>(121,229)</u>	–
	1,425,191	677,797
Interest	196	18
Total finance costs	<u>1,425,387</u>	<u>677,815</u>

Notes to the Financial Statements

as at 31st January 2011

10 Debtors

	2011	2010
	£	£
Sales awaiting settlement	10,309	971,749
UK dividends	60,940	48,385
Property dividends	13,125	11,875
Accrued bond income	891,535	860,662
Overseas dividends	8,559	3,569
Bank interest	1,015	248
Amount receivable on creation of units	2,233,523	–
Overseas tax reclaimable	17,461	1,348
Total Debtors	3,236,467	1,897,836

11 Cash and bank balances

	2011	2010
	£	£
Cash and bank balances	2,461,554	1,074,237

12 Creditors

	2011	2010
	£	£
Purchases awaiting settlement	–	622,182
Manager's periodic charge	157,120	93,968
Trustee fee	2,206	1,459
Audit fee	6,600	6,353
Activity fee	1,430	495
Custody fee	3,473	1,704
Current tax liability	102,109	56,020
Total Creditors	272,938	782,181

13 Capital commitments

At 31st January 2011 there were no outstanding capital commitments (January 2010: Nil) in respect of nil and partly paid securities held by the Trust.

Notes to the Financial Statements

as at 31st January 2011

14 Related Parties

The Manager and Trustee are related to the Fund as defined by Financial Reporting Standard 8 'Related Party Disclosures' and are named on page 2.

Fees received by the Manager and the Trustee are disclosed in Note 7 of the financial statements.

By virtue of the Regulations governing authorised unit trusts, the Manager is party to every transaction in respect of units of the Fund, which are summarised in the Statement of Movement in Unitholders' Funds.

Any amounts due to or from the Manager and Trustee at the end of the accounting year are disclosed in notes 10 (Debtors) and 12 (Creditors).

15 Risk Disclosures

The Fund's currency exposure is analysed below:

Currency	2011 £	2010 £
Sterling	105,754,744	67,344,441
Euro	2,924,344	910,921
US Dollar	3,667,619	1,730,429
Swiss Francs	14,022,797	6,581,600
Total	<u>126,369,504</u>	<u>76,567,391</u>

The profile of the currency is as follows:

Currency	Investments 2011 (£)	Other Net Assets 2011 (£)	Total 2011 (£)
Sterling	100,720,339	5,034,405	105,754,744
Euro	2,922,406	1,938	2,924,344
Swiss Francs	3,652,096	15,523	3,667,619
US Dollar	14,014,238	8,559	14,022,797
Total	<u>121,309,079</u>	<u>5,060,425</u>	<u>126,369,504</u>

Currency	Investments 2010 (£)	Other Net Assets 2010 (£)	Total 2010 (£)
Sterling	66,007,850	1,336,591	67,344,441
Euro	746,755	164,166	910,921
Swiss Francs	1,730,429	–	1,730,429
US Dollar	6,570,262	11,338	6,581,600
Total	<u>75,055,296</u>	<u>1,512,095</u>	<u>76,567,391</u>

Notes to the Financial Statements

as at 31st January 2011

Interest rate profile of financial assets and financial liabilities

The interest rate profile of the Trust's financial assets and liabilities at 31st January 2011 compared to the previous year end was:

Currency	Floating Rate financial assets	Fixed Rate financial asset	Financial assets not carrying interest	Financial liabilities not carrying interest	Total
	£	£	£	£	£
2011					
Sterling	2,461,554	50,712,364	53,218,422	(637,596)	105,754,744
Euro	–	–	2,924,344	–	2,924,344
Swiss Francs	–	–	3,667,619	–	3,667,619
US Dollar	–	–	14,022,797	–	14,022,797
Total	2,461,554	50,712,364	73,833,182	(637,596)	126,369,504
2010					
Sterling	903,660	30,377,283	36,666,393	(1,459,978)	66,487,358
Euro	164,166	–	746,755	–	910,921
Swiss Francs	–	–	1,730,429	–	1,730,429
US Dollar	6,411	–	7,432,272	–	7,438,683
Total	1,074,237	30,377,283	46,575,849	(1,459,978)	76,567,391

Currency	Fixed rate financial assets		Fixed rate financial assets	
	Weighted average interest rate	Weighted average year for which rate is fixed	Weighted average interest rate	Weighted average year for which rate is fixed
	2011	2011	2010	2010
Sterling	5.84%	12.1 years	6.10%	9.8 years

Distribution Table

for the year ended 31st January 2011

Quarterly Distribution

Group 1 – Units purchased before 1st February 2010

Group 2 – Units purchased on or after 1st February 2010

	Net Income 2010 pence per unit	Equalisation 2010 pence per unit	Quarterly Distribution 2010 pence per unit	Quarterly Distribution 2009 pence per unit
Income units				
Group 1	nil	nil	nil	nil
Group 2	nil	nil	nil	nil

Interim Distribution

Group 1 – Units purchased before 1st May 2010

Group 2 – Units purchased on or after 1st May 2010

	Net Income 2010 pence per unit	Equalisation 2010 pence per unit	Interim Distribution 2010 pence per unit	Interim Distribution 2009 pence per unit
Income units				
Group 1	1.1526	nil	1.1526	nil
Group 2	0.0989	1.0537	1.1526	nil

Quarterly Distribution

Group 1 – Units purchased before 1st August 2010

Group 2 – Units purchased on or after 1st August 2010

	Net Income 2010 pence per unit	Equalisation 2010 pence per unit	Quarterly Distribution 2010 pence per unit	Quarterly Distribution 2009 pence per unit
Income units				
Group 1	0.3939	nil	0.3939	nil
Group 2	0.1341	0.2598	0.3939	nil

Final Distribution

Group 1 – Units purchased before 1st November 2010

Group 2 – Units purchased on or after 1st November 2010

	Net Income 2011 pence per unit	Equalisation 2011 pence per unit	Final Distribution 2011 pence per unit	Final Distribution 2010 pence per unit
Income units				
Group 1	0.3361	nil	0.3361	0.9245
Group 2	0.0000	0.3361	0.3361	0.9245

Distribution Table

for the year ended 31st January 2011

Prices

The price of the Trust is calculated using the dual pricing method, which means that two dealing prices are quoted. The buying price is the price at which you can buy units, and the selling price is the price at which you can sell the units back to the Manager.

Prospectus

Copies of the most recent Prospectus may be obtained, free of charge, from: CIS Unit Managers Limited, PO Box 105, Manchester M4 8BB.

You should bear in mind that a unit trust is a different sort of investment from a bank or building society account. Whilst the capital in such an account is secure, a unit trust is an equity investment and its value may fluctuate. Neither the value of the investment nor the income from it is guaranteed.

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.

The Co-operative Asset Management Limited is authorised and regulated by the Financial Services Authority.

Registered Office: Miller Street, Manchester M60 0AL. Registered in England and Wales, number 2369965.

The Co-operative Asset Management Limited provides asset management services to CIS Unit Managers Limited which is the authorised Manager of the CIS Sustainable Diversified Trust.

This report is issued by The Co-operative Asset Management on behalf of CIS Unit Managers Limited. Any advice from Co-operative Financial Advisers will relate only to a range of the products and services available from members of the CFS Marketing Group and a limited number of other companies.