

The **co-operative**
asset management

CIS Corporate Bond Income Trust

Manager's Report



Interim Report

28th February 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 Corporate Bond Income 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
R. Bulmer
A. Russell

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 the Financial Services Authority.

The Co-operative Asset Management

The CIS Corporate Bond Income 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 Trust management arm of The Co-operative Financial Services and is independently authorised by the Financial Services Authority to provide discretionary asset management services.

Investment Objective

The CIS Corporate Bond Income Trust aims to produce a regular income from a portfolio of fixed interest securities. The Trust may also invest in other

We have a long and successful history of managing our customers' money and our specialist Trust management service is unique in the UK market, offering a distinctive approach to responsible investing across all of the Trusts 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.

investments to the extent permitted by the COLL Sourcebook as applicable from time to time and explained in the Prospectus.

Risk Profile

Bonds, cash and liquid resources, and short-term debtors and creditors that are a direct result of the Trust's operations, all produce risks. The main risks that the Trust faces from its investments are:

- market price risk
- liquidity risk

- credit risk
- interest rate risk.

To manage these risks, the Fund manager will monitor how the assets are allocated within the Trust portfolio while maintaining the investment aim.

Cumulative performance (% change to 28/02/11)

	6 months	1 year	3 years	5 years
Trust	-1.04	6.08	10.61	5.23
iBoxx Corporate Bond	-1.84	7.15	17.50	14.30
Sector Median	-1.81	6.17	16.15	9.25
Quartile Ranking	2	3	4	3

Percentage change in value at bid price, to 28/02/11. Net income reinvested.

Source: Lipper. Measured against IMA £ Corporate Bond.

Investment Review and Outlook

Fund Manager's Comments

During the six months ended 28th February 2011, the total return on this Trust, including income distributed, was -1.04% compared with the peer group median of -1.81%.

The modest negative total returns resulted from an increase in government bond yields over the period as investor concerns shifted to the spectre of rising inflationary pressures and the prospect of higher interest rates. At the end of August 2010, the yield on the benchmark 10-year Gilt had reached a low for the year of around 2.85%, by the end of February 2011 this yield had risen to 3.60%. An investment in this bond at the start of the period would have produced a total return of -3.64%.

With a return of -1.84%, the iBoxx Sterling Corporate Bond index therefore outperformed the underlying government bond market by some 1.8 percentage points. The combination of the additional yield received on corporate bonds and a further modest narrowing of credit spreads over the period, offset some of the capital losses from the rise in Gilt yields to more normalised levels.

Aside from the rise in the overall yield level, the key investment themes during the period were the ongoing sovereign debt crisis in Europe and the changing landscape for banking regulation. The Trust avoided any direct holdings in the European periphery during the period but many areas of the market, particularly the Banks, were buffeted by the ongoing machinations most dramatically in Ireland, but also in Greece, Portugal and Spain.

The Corporate Bond Income Trust's relative returns were further enhanced by a shorter-than-average duration positioning throughout most of the period and by some successful sector level exposures to take advantage of the market's mispricing of certain assets within the Financial sector.

We take a long-term view in the investment of your savings. As you would expect with this style of investment, the individual holdings will change to conform to the income and maturity requirements of the Trust but the broad investment criteria is applied consistently. We invest solely on the basis of the long-term ability of a company to service its debt and look for any change to the outlook for a company's profitability that may affect this ability. Prices of corporate bonds are influenced by a number of factors. At the macro level, they change with movements in interest rates and the absolute level of yields in the Government Bond (gilt) market. At the micro level, they can be affected by changes in profitability, takeovers or mergers and acquisitions, and breaches of covenants in the relevant Trust Deeds.

Investment Review and Outlook

Outlook

In recent weeks the market's gaze has shifted firmly to the increasing geopolitical upheaval taking place around the globe, but most notably in the Middle East and North Africa. Corporate bonds have remained relatively well supported despite the increased uncertainty that this has engendered. The financial sector has performed especially well of late and some of the undervaluation versus non-financials has been unwound. We expect this trend to continue over the medium-term but are conscious that such a move is unlikely to be straightforward. For this reason, the Trust has reduced its overweight financials exposure and increased the average credit quality of its holdings. The arrival of some attractively priced, AAA-rated covered bond issuance in the sterling market has facilitated such a move.

At the time of writing the world has just been knocked by a further barrage of unwelcome events in the form of the huge earthquake and subsequent tsunami hitting the North-Eastern coastal areas of Japan. Many lasting impacts are already visible but there are sure to be many more that become apparent only with the passing of time. The full implications of the crisis, currently centred on the Fukushima No.1 Nuclear Power Station will likely have long-lasting implications for the global energy industry, and hence the performance of the not insignificant utility sector.

Following a sustained period of positive capital appreciation for corporate bonds, as they recovered in the aftermath of the financial crisis, current market valuations make further significant gains unlikely. However, despite the increased level of uncertainty present in today's investment environment, we believe that through careful credit selection and timely sector rotation it will remain possible to produce a relatively attractive income from investing within the corporate bond asset class.

Daniel Fox
The Co-operative Asset Management
March 2011

Portfolio Statement

as at 28th February 2011

	Holding or nominal value of positions at 28th February 2011	Market Value £	Percentage of total net assets %
Bonds dated up to 10 years – (Feb 2011: 52.92%, Aug 2010: 61.75%)			
Abbey National Sterling Capital 11.5% Sub Gtd Bds 2017	10,390,000	12,523,940	3.37
Aviva 5.9021% Frn Sub Perp 2020	4,000,000	3,174,628	0.86
BAA Funding Ltd 12.45% Frn Abs 2018	4,245,000	5,679,203	1.53
BAE Systems 10.75% 2014	8,680,000	10,625,119	2.86
Bank of Scotland 10.5% Bds 2018(BR)	3,700,000	4,235,601	1.14
Bank of Scotland 11% Sub Bds 2014	4,540,000	5,090,343	1.37
British Telecommunications 6.625% Emtn 2017	5,500,000	6,022,758	1.62
Citigroup Inc 5.125% Emtn 2018	6,265,000	5,880,241	1.58
Close Brothers Group 6.5% Bds 2017	4,250,000	4,320,117	1.16
Co-operative Bank 5.625%-Frn Sub 2021	14,478,000	12,583,467	3.39
Co-operative Bank 5.875%-Var Sub 2019	1,690,000	1,585,920	0.43
Coventry Building Society 6% Snr Emtn 2019	10,000,000	9,979,330	2.69
Experian Finance 4.75% Nts 2018	2,000,000	2,003,720	0.54
France Telecom 8% Emtn 2017	5,426,000	6,597,321	1.78
Friends Provident 6.875% Var Sub Perp 2019	2,853,000	2,351,157	0.63
Goldman Sachs Group 6.125% Emtn 2017	3,472,000	3,535,194	0.95
Intercontinental Hotels Group 6% Nts 2016	5,000,000	5,180,395	1.40
JP Morgan Chase & Co 4.25% Mtn 2017	7,000,000	6,977,936	1.88
JP Morgan Chase & Co 6.125%-Fr Emtn 2012	3,600,000	3,679,229	0.99
National Grid 5.5% Emtn 2013	4,396,000	4,677,568	1.26
Nationwide Building Society 6.024%-Frn Sub Perp	9,515,000	7,603,123	2.05
Nordea Bank Finland 6.25% Fr Sub Emtn Perp 2014	2,000,000	2,004,736	0.54
Phoenix Natural Gas Finance 5.5% Gtd Snr 2017	6,000,000	6,098,202	1.64
Prudential 11.375%-Fr Mtn 2039	3,840,000	5,018,811	1.35
Punch Taverns Finance 6.82% Nts 2020	5,760,000	5,684,043	1.53
Reed Elsevier 7% Gtd 2017	3,000,000	3,378,006	0.91
Rolls Royce Group 6.75% Gtd Nts 2019	7,000,000	7,954,331	2.14

Portfolio Statement

as at 28th February 2011

	Holding or nominal value of positions at 28th February 2011	Market Value £	Percentage of total net assets %
Royal Bank of Scotland 9.625% Bds 2015	4,600,000	5,058,487	1.36
Segro 6% Bds 2019	2,015,000	2,024,358	0.55
Severn Trent Utilities Finance 6% Gtd Snr Mtn 2018	3,000,000	3,259,857	0.88
Smiths Industries 7.25% Bds 2016	6,483,000	7,162,989	1.93
South East Water (Finance) Ltd 5.6577% Gtd 2019 A1	7,500,000	7,726,335	2.08
Suncorp-Metway 5.125% Snr Mtn 2014	8,710,000	8,851,337	2.39
Wales & West Utilities Finance 5.125% Gtd Bds 2016	3,000,000	3,133,851	0.84
Yorkshire Water Services Finance 6%-Frn Gtd Bds 2025	4,625,000	4,808,557	1.30
		196,470,210	52.92
Bonds dated between 10 to 20 years – (Feb 2011: 30.53%, Aug 2010: 18.90%)			
Abbey National Treasury Services 5.75% Mtn 2026	6,750,000	6,845,782	1.84
BAA Funding Ltd 9.2% Frn Abs 2023	1,000,000	1,274,714	0.34
Barclays Bank 10% Sub Mtn 2021	6,000,000	7,328,094	1.97
Centrica 6.4% Emtn 2026	6,000,000	6,598,800	1.78
Citigroup 5.875% Sub NTS 2024	5,099,000	4,673,509	1.26
FirstGroup 8.75% Bds 2021	2,309,000	2,807,855	0.76
Friends Provident 12% Gtd Sub 2021	7,154,000	9,020,042	2.43
Gatwick Funding Ltd 6.125% Nts 2026	10,000,000	9,986,600	2.69
Imperial Tobacco 9% Mtn 2022	4,794,000	6,129,124	1.65
John Lewis 6.125% Bds 2025	2,200,000	2,231,378	0.60
Legal & General 10%-Idx Lkd 2041	8,000,000	9,717,840	2.62
Lloyds TSB Bank 6% Mtn 2029	5,850,000	5,894,014	1.59
Motability Operations 5.375% Gtd Snr 2022	4,390,000	4,469,463	1.20
Nationwide Building Society 5.625% Nts 2026	4,300,000	4,444,813	1.20
Santander UK 7.037% Var Perp	8,689,000	7,388,126	1.99
Southern Water Services Finance 5% Bds 2021	5,000,000	4,955,405	1.34
Tele Danmark AS 5.625% Bds 2023	10,000,000	10,127,357	2.73
Thames Water Utilities Cayman Finance 5.75%-Frn 2030	3,000,000	2,889,696	0.78

Portfolio Statement

as at 28th February 2011

	Holding or nominal value of positions at 28th February 2011	Market Value £	Percentage of total net assets %
UBS AG Jersey 8.75% Emtn 2025 (Br)	5,335,000	6,525,057	1.76
		113,307,669	30.53
Bonds dated more than 20 years and undated – (Feb 2011: 10.77%, Aug 2010: 16.14%)			
EDF 5.125% Emtn 2050	6,000,000	5,652,648	1.52
Eversholt Funding 6.697% Bds 2035	4,000,000	4,096,563	1.10
Freshwater Finance 4.556% Gtd ABS 2036	2,670,000	2,240,645	0.60
Gatwick Funding Ltd 6.5% Nts 2041	5,500,000	5,508,433	1.49
Goldman Sachs 6.875% 2038	5,000,000	4,901,455	1.32
Lloyds TSB Bank 6.5% Mtn 2040	8,000,000	7,501,800	2.02
Tesco Property Finance 4 5.8006% Bds 2040	10,000,000	10,076,275	2.72
		39,977,819	10.77
Portfolio of investments		349,755,698	94.22
Net current assets		21,472,038	5.78
Net assets attributable to unitholders		371,227,736	100.00

Portfolio Statement Credit Split

as at 28th February 2011

	Market Value £	Percentage of total net assets %
Investments of investment grade	347,524,320	93.62
Investments below investment grade*	–	–
Unrated	2,231,378	0.60
Portfolio of Investments	349,755,698	94.22
Net current assets	21,472,038	5.78
Net assets attributable to unitholders	371,227,736	100.00

Source: The Co-operative Asset Management.

*The CIS Corporate Bond Income Trust is not permitted to purchase bonds rated below investment grade.

Summary of Material Portfolio Changes

for the six month period ended 28th February 2011

Purchases	Cost £000	Sales	Proceeds £000
Treasury 5% 2012	21,225	Treasury 5% 2012	21,136
Lloyds TSB Bank 6.5% Mtn 2040	19,703	Scottish & Southern Energy 5.453% BDS 2015	15,133
Scottish & Southern Energy 5.453% BDS 2015	15,013	Rabobank Capital Funding Trust IV 5.556% - Frn Gtd Perp	14,112
Comcast Corp 5.5% Bds 2029	14,000	Comcast Corp 5.5% Bds 2029	14,022
Coventry Building Society 6% Snr Emtn 2019	13,831	Lloyds TSB Bank 6.5% Mtn 2040	12,185
Abbey National Treasury Services 5.75% Mtn 2026	13,706	Total Capital SA 3.875% Mtn 2018	10,901
Co-operative Bank 5.625%-Frn Sub 2021	13,183	Barclays 14% Var Sub Perp 2019	9,968
Lloyds TSB Bank 6% Mtn 2029	12,833	Standard Life 6.14% Gtd Perp Sub Nts 2015	9,466
EDF 5.125% Emtn 2050	12,748	ASIF II 5.125% Emtn 2013	9,333
Total Capital SA 3.875% Mtn 2018	10,993	Great Rolling Stock 6.25% Mtn 2020	8,324
Legal & General Group 10%-Idx Lkd 2041	10,245	Australia & New Zealand Bank 6.54% Uts £ Perp Nts & 1 Liq Prf 2012	8,151
Tesco Property Finance 4 5.8006% Bds 2040	10,000	Co-operative Bank 5.125% Snr Mtn 2017	8,029
Gatwick Funding Ltd 6.125% Nts 2026	9,930	GDF Suez 5% Mtn 2060	7,919
Standard Life 6.14% Gtd Perp Sub Nts 2015	9,927	Marks & Spencer Group 6.875% Snr Mtn 2037	7,678
Tele Danmark AS 5.625% Bds 2023	9,885	CRH Finance 8.25% Gtd Bds 2015	7,298
Barclays 14% Var Sub Perp 2019	9,712	Lloyds TSB Bank 6% Mtn 2029	7,196
South East Water (Finance) Ltd 5.6577% Gtd 2019 A1	8,071	Abbey National Treasury Services 5.75% Mtn 2026	7,023
Co-operative Bank 5.125% Snr Mtn 2017	7,944	EDF 5.125% Emtn 2050	6,929
GDF Suez 5% Mtn 2060	7,801	Scottish Power 8.375% Bds 2017 (Var)(Br)	6,896
Santander UK 7.037% Var Perp	7,299	Carlsberg Finance 7.25% Bnds 28/11/2016	6,643
Total cost of purchases, including the above, for the period	<u>383,619</u>	Total proceeds from sales, including the above, for the period	<u>389,172</u>

Performance Record

Unit prices

Units, which are exclusively income units, were initially offered to the public at £1.00.

	Highest buying price (p)	Lowest selling price (p)	Distribution (pence per unit)
1st Jan 2006 to 31st Dec 2006	106.1	94.33	4.3840
1st Jan 2007 to 31st Dec 2007	99.26	88.17	4.1486
1st Jan 2008 to 31st Dec 2008	95.41	73.85	3.9996
1st Jan 2009 to 31st Dec 2009	85.81	71.79	3.8492
1st Jan 2010 to 31st Dec 2010	91.39	80.40	3.4914
1st Jan 2011 to 28th Feb 2011	87.70	81.54	0.5600

Trust details

	Total net asset value (£)	Total units in issue	Net asset value per unit (p)
31st August 2008	335,833,833	401,457,000	83.65
31st August 2009	313,711,772	400,756,000	78.28
31st August 2010	379,195,744	448,072,000	84.63
28th February 2011	371,227,736	450,871,000	82.34

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 August 2010	1.05%
28th February 2011	1.04%

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

Statement of Total Return

for the six month period ended 28th February 2011

	February 2011		February 2010	
	£	£	£	£
Income:				
Net capital (losses)/gains		(10,304,713)		9,222,579
Revenue	10,740,887		10,428,345	
Expenses	(1,980,066)		(1,767,923)	
Net revenue before taxation	8,760,821		8,660,422	
Taxation	—		—	
Net revenue after taxation		8,760,821		8,660,422
Total return before distributions		(1,543,892)		17,883,001
Finance costs: Distributions		(9,542,689)		(8,665,434)
Change in net assets attributable to unitholders from investment activities		(11,086,581)		9,217,567

Statement of Change in Net Assets Attributable to Unitholders

for the six month period ended 28th February 2011

	February 2011		February 2010	
	£	£	£	£
Opening net assets attributable to unitholders		379,195,744		313,711,772
Amounts receivable on creation of units	22,114,800		21,999,826	
Amounts payable on cancellation of units	(18,997,873)		—	
		3,116,927		21,999,826
Change in net assets attributable to unitholders from investment activities		(11,086,581)		9,217,567
Unclaimed distributions		1,646		41
Closing net assets attributable to unitholders		371,227,736		344,929,206

Balance Sheet

as at 28th February 2011

	February 2011		August 2010	
	£	£	£	£
Assets				
Investment assets		349,755,698		367,008,836
Debtors	21,275,898		10,134,534	
Cash and bank balances	<u>20,667,554</u>		<u>4,877,001</u>	
Total other assets		<u>41,943,452</u>		<u>15,011,535</u>
Total assets		391,699,150		382,020,371
Liabilities				
Creditors	(19,208,975)		(981,259)	
Distribution payable on income units	<u>(1,262,439)</u>		<u>(1,843,368)</u>	
Total other liabilities		(20,471,414)		(2,824,627)
Net assets attributable to unitholders		<u>371,227,736</u>		<u>379,195,744</u>
The financial statements were approved on 18th April 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 28th February 2011

1 Accounting Policies

The interim financial statements have been prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010. The accounting policies applied are consistent with those of the annual financial statements for the year ended 31st August 2010 and are described in those annual financial statements.

Distribution Tables

for the month ended 30th September 2010

Group 1 – Units purchased prior to 1st September 2010

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

	Gross income pence per unit	Income tax pence per unit	Net income pence per unit	Equalisation pence per unit	Distribution payable 2010 pence per unit	Distribution payable 2009 pence per unit
Income units						
Group 1	0.3500	0.0700	0.2800	–	0.2800	0.2800
Group 2	0.1036	0.0207	0.0829	0.1971	0.2800	0.2800

for the month ended 31st October 2010

Group 1 – Units purchased prior to 1st October 2010

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

	Gross income pence per unit	Income tax pence per unit	Net income pence per unit	Equalisation pence per unit	Distribution payable 2010 pence per unit	Distribution payable 2009 pence per unit
Income units						
Group 1	0.3500	0.0700	0.2800	–	0.2800	0.2800
Group 2	0.0744	0.0149	0.0595	0.2205	0.2800	0.2800

for the month ended 30th November 2010

Group 1 – Units purchased prior to 1st November 2010

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

	Gross income pence per unit	Income tax pence per unit	Net income pence per unit	Equalisation pence per unit	Distribution payable 2010 pence per unit	Distribution payable 2009 pence per unit
Income units						
Group 1	0.3500	0.0700	0.2800	–	0.2800	0.2800
Group 2	0.0471	0.0094	0.0377	0.2423	0.2800	0.2800

Distribution Tables

for the month ended 31st December 2010

Group 1 – Units purchased prior to 1st December 2010

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

	Gross income pence per unit	Income tax pence per unit	Net income pence per unit	Equalisation pence per unit	Distribution payable 2010 pence per unit	Distribution payable 2009 pence per unit
Income units						
Group 1	0.3500	0.0700	0.2800	–	0.2800	0.2800
Group 2	0.0605	0.0121	0.0484	0.2316	0.2800	0.2800

for the month ended 31st January 2011

Group 1 – Units purchased prior to 1st January 2011

Group 2 – Units purchased on or after 1st January 2011

	Gross income pence per unit	Income tax pence per unit	Net income pence per unit	Equalisation pence per unit	Distribution payable 2011 pence per unit	Distribution payable 2010 pence per unit
Income units						
Group 1	0.3500	0.0700	0.2800	–	0.2800	0.2800
Group 2	–	–	–	0.2800	0.2800	0.2800

for the month ended 28th February 2011

Group 1 – Units purchased prior to 1st February 2011

Group 2 – Units purchased on or after 1st February 2011

	Gross income pence per unit	Income tax pence per unit	Net income pence per unit	Equalisation pence per unit	Distribution payable 2011 pence per unit	Distribution payable 2010 pence per unit
Group 1	0.3500	0.0700	0.2800	–	0.2800	0.2800
Group 2	–	–	–	0.2800	0.2800	0.2800

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 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 Corporate Bond Income 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.