

The **co-operative**  
asset management

# CIS Corporate Bond Income Trust

## Manager's Report



**Annual Report**

31st August 2009

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

# 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. We specialise in UK equities and are one of the UK's leading socially responsible fund managers with a long and successful history of managing our customers' money.

The Co-operative was voted the UK's most ethical brand in 2007 and 2008 in the GFK NOP Ethics Brands Survey. As a co-operative, we are owned by

our members and we have a tradition of upholding co-operative values which include fairness, honesty and social responsibility. The Co-operative Asset Management offers a distinctive responsible investment approach which fully integrates consideration of financial and ESG (environmental, social and governance) issues throughout the investment process. We manage a range of unit trust portfolios, including the Corporate Bond Income Trust, and have long-standing experience that few others can match.

## 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 Chapter III of the Financial Services and Markets Act 2000 and is categorised as a UCITS scheme under the Financial Services Authority New 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.T. Goddard (resigned 31st July 2009)  
A. Russell (appointed 1st August 2009)  
R. Bulmer (appointed 1st August 2009)  
P Sharman

### 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 Objective

The CIS Corporate Bond Income Trust aims to produce a regular income from a portfolio of fixed interest securities.

## Investment Review and Outlook

During the year ended 31st August 2009, the total return on this fund, including income distributed, was -0.63%, compared with the peer group median of 2.89%.

The past year can be split into two distinct periods, which broadly correspond to the fund's semi-annual reporting dates. Between September 2008 and March 2009 global markets remained in the grip of fear of terminal financial meltdown, as governments, regulators and investors alike continued to reel from the impact of the failure of Lehman Brothers and the need for public money to prop up many other major institutions critical to the health of the finance industry. During this six-month period the fund outperformed the peer group by almost 4%. This outperformance was largely the result of a decision in late 2008 to dramatically reduce the risk profile of the fund in expectation of further difficulties in the banking sector. Furthermore the fund's duration was increased in anticipation of further reductions in interest rates leading to lower bond yields.

Throughout the second half of the fund's financial year, risk asset markets have staged a remarkable, and with the exception of the 1930s, an unprecedented recovery. We were at first sceptical of this rebound in sentiment, and maintained the extremely cautious stance that had served the fund so well over previous months. However, it has become apparent, at least for the short-term, that the combination of unconventional monetary policy and huge fiscal stimulus has enabled the global economy to avoid a depression and indeed begin to

emerge from recession quicker than our most optimistic forecasts had suggested. Against this backdrop we have gradually neutralised the fund's positioning by purchasing some subordinated capital bonds of some of our most favoured banks and increasing our participation in many of the new bond issues that have taken place over recent months. We have nevertheless been mindful of maintaining positions in assets that we regard as relatively liquid in nature, because we remain unconvinced of the sustainability of current market valuations over the medium-term. Over the last six months the fund's more defensive positioning versus the majority of its peers has caused it to give back the previous period's relative gains, returning 8.05% against a peer group median of 15.89%.

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 will change only infrequently. We invest solely on the basis of the long-term ability of a company to service its debt and any change to the outlook for a company's profitability may affect that prospect. 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

## Economic review

The period under review has seen a sharp and pronounced economic contraction followed by a surprising degree of stabilisation. At the start of this period, the global economy effectively seized up as banks restricted capital availability and corporates shed labour, axing all but essential capital spend in an attempt to thwart the impact of an increasingly serious credit crunch.

Many large economies including Japan and the US fell at annualised rates of between 6-8% in the first quarter. Governments and Central Banks responded immediately in the form of a globally coordinated cut in official interest rates towards zero and the adoption of more unconventional policy, such as Quantitative Easing, designed to lower market rates of interest directly. Such policies have met with increasing success. Forward looking indicators relating to business surveys and ordering expectations have recently showed an improvement and with global asset prices, such as housing, improving and some evidence of a stabilisation in adverse employment trends, economic forecasts for 2010 are now more soundly based than has been the case for some time.

In the UK, the Monetary Policy Committee aggressively loosened monetary policy, cutting interest rates from 1.5 to 0.5%. At the same time the Treasury instigated a significant fiscal expansion taking public debt projections towards 100% of GDP, a historical high for the peace time economy. Following on from an unprecedented Q1 fall in economic output of 2.4%, the second quarter has shown some improvement, but at -0.8% is still operating well below trend. Such improvement has been based principally in restocking and fiscal

spend as opposed to retail sales growth which remain relatively sluggish despite significant mortgage related savings. Recent purchasing manager data has been more encouraging for economic prospects whilst the stability recently seen in house prices should assist greatly in restoring consumer confidence.

US economic contraction was severe in the first quarter with the annualised rate of output falling 6.4%. As a result of this, the rate of unemployment rose from 8.1 to 9.4%, a level generally considered politically unacceptable. As a result, the US maintained short-term interest rates effectively at zero and introduced Quantitative Easing to hold down longer term market rates of interest.

In addition, the Treasury instigated a number of legislative moves designed to assist a reconstruction of the US banking industry. Such moves involve an unprecedented rise in national debt that could reach 100% of GDP. Recent economic performance has been more encouraging and reflects the level of stimulus undertaken. More importantly has been the stabilisation in housing transactions and the basing of adverse trends in house pricing. The 0.5% month-on-month rise in July, as reported by the prominent Case-Shiller index, is a key stepping stone for US economic activity in that it forms the backbone of key collateral markets that are central to the health of the banking industry.

# Investment Review and Outlook

Most other global economies have exhibited a similar trend to this pattern with a sharp contraction of activity experienced in the first quarter to be followed by a rapid stabilisation, as loose monetary conditions stimulate growth and corporate groups restock following a capitulation of ordering as the credit crunch first took hold. This was especially evident in export economies such as Japan and Germany where annualised declines fell to previously unprecedented levels. The most vibrant economy has been China, particularly following a rapidly launched fiscal expansion package and in spite of its historical export dependency. The growth in Chinese infrastructure spend and resilience of internal consumer spend has surprised on the upside and has done much to generate forecast near term growth of 7-8% in GDP. It is this performance which is leading the world economy out of recession and creating an Intra-Asian trade capable of replacing the traditional economic trading zones such as that between US and Asia.

The evidence has increased that a range of measures instigated by world banks and governments are now having an impact. It appears likely that the recession in many economies may be over in the current year and that the global economy has already past its maximum point of weakness. Given the ongoing state of consumer de-leveraging and liquidity constraints that reside in the banking system, longer term recovery is expected to be more muted when compared to historical experience.

## Outlook for Sterling Corporate Bonds

The immediate outlook for corporate bond spreads appears positive as the recent post-summer reopening of the primary issuance market has gone well. Large order books and strong post-issue performance seem to confirm the widely held view that funds have healthy cash balances ready to be put to work, hence our decision to position the fund with a fairly neutral stance. However, we remain unconvinced that the current firmer economic footing can persist over the medium-term and expect the markets to begin to question its sustainability at some point over the coming months. We are therefore averse to any attempts to try and boost short-term performance by significantly increasing the long-term risk to investors' capital, by imitating many of our peers in venturing too far down the credit quality spectrum at a time of such economic uncertainty.

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

Financial statements for the year ended 31st August 2009, 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 ("the COLL rules"). 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 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.

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 Scheme 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 Scheme 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 Auditors' Report to the Unitholders of CIS Corporate Bond Income Trust ('the Trust')

We have audited the financial statements of the Trust for the year ended 31st August 2009 which comprise the Statement of Total Return, the Statement of Change in Unitholders' Net Assets, the Balance Sheet together with the related notes, the Portfolio Statement, the Summary of Material Portfolio Changes and the Distribution Table.

These financial statements have been prepared under the accounting policies set out therein.

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 issued by the Financial Services Authority under section 247 of the Financial Services and Markets Act 2000.

# Independent Auditors' Report to the Unitholders of CIS Corporate Bond Income Trust ('the Trust') (cont'd)

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 (CIS Unit Managers Limited) and Auditors

As described in the Statement of Manager's Responsibilities on page 6, the Manager is responsible for preparing the Annual Report and the financial statements in accordance with applicable law, UK financial services rules and regulations and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

## Basis of Audit Opinion

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Trust Deed, the Statement of Recommended Practice relating to Authorised Funds and the rules in the Collective Investment Schemes Sourcebook published by the Financial Services Authority. In addition, we report to you whether the information given in the Manager's Report is consistent with the financial statements.

We also report to you if, in our opinion, proper accounting records for the Trust have not been kept or if the financial statements are not in agreement with those records. We also state whether we have received all the information and explanations necessary for the purposes of our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

# Independent Auditors' Report to the Unitholders of CIS Corporate Bond Income Trust ('the Trust') (cont'd)

## Opinion

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 August 2009 and of the net income and the net losses on the property of the Trust for the year then ended;
- the financial statements have been properly prepared in accordance with the Trust Deed, the Statement of Recommended Practice relating to Authorised Funds and the rules in the Collective Investment Schemes Sourcebook published by the Financial Services Authority; and
- 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 the audit.

Karen T Orr (Senior Statutory Auditor)  
For and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
1 The Embankment, Neville Street, Leeds  
10th November 2009.

## 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 Corporate Bond Income Trust,  
525 Ferry Road,  
Edinburgh EH5 2AW  
10th November 2009

## Performance Record

### Unit prices

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

	Highest buying price	Lowest selling price	Distribution (pence per unit)
1st Jan 2004 to 31st Dec 2004	104.1p	93.43p	4.8120
1st Jan 2005 to 31st Dec 2005	105.3p	96.34p	4.5998
1st Jan 2006 to 31st Dec 2006	106.1p	94.33p	4.3840
1st Jan 2007 to 31st Dec 2007	99.26p	88.17p	4.1486
1st Jan 2008 to 31st Dec 2008	95.41p	81.33p	3.9996
1st Jan 2009 to 31st Aug 2009	83.76p	71.79p	1.1292

### Price Information

	Selling price (pence per unit)	Buying price (pence per unit)	Estimated gross distribution yield	Estimated gross underlying yield
31st August 2006	95.97	101.00	5.52%	3.80%
31st August 2007	89.58	94.29	5.68%	4.47%
29th August 2008	83.98	88.40	5.90%	5.40%
28th August 2009	79.41	83.59	5.70%	4.50%

### Trust details

	Total net asset value	Total units in issue	Net asset value per unit
31st August 2006	£368,563,417	386,089,000	95.46p
31st August 2007	£381,959,761	427,307,000	89.39p
31st August 2008	£335,833,833	401,457,000	83.65p
28th August 2009	£313,711,772	400,756,000	78.28p

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. The net asset value per unit does not include the income which has been distributed at the end of the financial year and therefore will not match the unit price at the end of the year.

### Total Expense Ratio (TER)

31st August 2008	1.03%
31st August 2009	1.04%

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

# Statement of Total Return

for the year ended 31st August 2009

	Notes	2009		2008	
		£	£	£	£
Net (losses) on investments	2		(18,577,928)		(20,462,074)
Income	3	18,150,935		20,927,374	
Expenses	4	(3,123,901)		(3,705,020)	
Finance costs: Interest	6	(2,328)		—	
Net income before taxation		15,024,706		17,222,354	
Taxation	5	—		—	
Net income after taxation for the year			15,024,706		17,222,354
Total return for the year			(3,553,222)		(3,239,720)
Finance costs: Distributions	6		(17,807,695)		(20,716,321)
<b>Net (decrease) in unitholders' funds from investment activities</b>			<b>(21,360,917)</b>		<b>(23,956,041)</b>

# Statement of Change in Unitholders' Net Assets

for the year ended 31st August 2009

	2009		2008	
	£	£	£	£
Net assets at the start of the year		335,833,833		381,959,761
<i>Movement due to sales/repurchase of units</i>				
Amounts received on creation of units	13,501,578		691,630	
Amounts paid on cancellation of units	(14,262,915)		(22,861,725)	
		(761,337)		(22,170,095)
Net (decrease) in unitholders' funds from investment activities (see above)		(21,360,917)		(23,956,041)
Unclaimed distributions		193		208
<b>Net assets at the end of the year</b>		<b>313,711,772</b>		<b>335,833,833</b>

# Portfolio Statement

as at 31st August 2009

	Holding or nominal value of positions at 31st August 2009	Market Value £	Percentage of total net assets %
<b>Bonds dated up to 10 years – (62.18%, August 2008: 58.13%)</b>			
Abbey National Sterling Capital 10.125% Sub Mtd Bds 2018/2023	7,710,000	8,652,329	2.76
Abbey National Sterling Capital 11.5% Sub Gtd Bds 2017	4,180,000	5,075,811	1.62
Anglian Water Services 12.375% Bds 2014(Br)	4,150,000	5,361,767	1.71
Anglo American Capital 6.875% Gtd Mtn 2018	3,500,000	3,654,284	1.16
Anheuser-Busch Inbev 6.5% Gtd Mtn 2017	5,830,000	6,266,871	2.00
AT&T Inc 5.875% Bds 2017	5,000,000	5,415,785	1.73
Aviva 9.5% Gtd Bds 2016	5,100,000	5,969,933	1.90
Bank of America 5.25% Mtn 2016	5,250,000	4,737,731	1.51
Bank of Ireland 10.75% Sub Bds 2018	3,469,000	3,330,240	1.06
Bank of Scotland 11% Sub Bds 2014	5,000,000	5,496,620	1.75
Barclays Bank 6.375% 2017	5,200,000	4,342,000	1.38
BBVA Sub Capital Unipersonal 5.75%-Fr Mtn 2018	2,500,000	2,447,915	0.78
BG Energy 5.125% Nts 2017	5,000,000	5,200,215	1.66
Cadbury Schweppes Finance 7.25% Mtn 2018	3,000,000	3,491,550	1.11
Citigroup Inc 5.125% Emtn 2018	3,000,000	2,199,378	0.70
Credit Agricole 5% Emtn 2018	5,000,000	4,233,335	1.35
Deutsche Telekom International Finance 5.625% Mtn 2013	5,000,000	5,259,158	1.68
ENW Capital Finance 6.75% Gtd Mtn 2015	5,000,000	5,234,570	1.67
France Telecom 5% Snr Emtn 2016	3,000,000	3,100,080	0.99
G4S 7.75%-Var Emtn 2019	6,000,000	6,858,492	2.19
HSBC Capital Funding 8.208%-Fr Gtd Perp 2015	5,000,000	4,950,230	1.58
HSBC Capital Funding 9.875% Sub Bds 2018	5,650,000	6,448,215	2.06
Hydro-Quebec 12.625% Deb 2015	4,600,000	6,549,411	2.09
Hydro-Quebec 12.75% Deb 2015	1,738,000	2,568,006	0.82
Merrill Lynch & Co Inc 7.75% Snr Mtn 2018	3,150,000	3,344,368	1.07
ING Bank NV 6.875%-Fr Bds 2018/2023	5,000,000	4,660,975	1.49
Italy (Republic of) 10.5% Bds 2014	3,750,000	4,794,746	1.53

# Portfolio Statement

as at 31st August 2009

	Holding or nominal value of positions at 31st August 2009	Market Value £	Percentage of total net assets %
Roche Holdings 5.5% Gtd Bds 2015	5,000,000	5,403,040	1.72
Royal Bank of Scotland Group 10.5% Sub Gtd Bds 2013	3,400,000	3,736,920	1.19
Royal Bank of Scotland Group 9.625% Bds 2015	4,600,000	5,060,524	1.61
Santander Issuances S.A. Unipe 11.3% 2014	5,000,000	5,416,834	1.73
Scottish & Southern Energy 5.75% Mtn Bds 2014	5,000,000	5,321,250	1.70
Scottish Power 8.375% Bds 2017	5,500,000	6,770,775	2.16
Severn Trent 6% Gtd Mtn 2018	2,320,000	2,504,930	0.80
Societe Generale 5.75% Perp Emtn 2012	5,000,000	4,000,000	1.28
Southern Water Services 7.869%-FR Mtn 2009/2038	5,817,000	6,202,527	1.98
Standard Chartered 8.103% Step-up Perp Bds 2016	3,703,000	3,616,591	1.15
Standard Chartered 7.75% Sub Nts 2018	3,000,000	3,337,584	1.06
Svenska Handelsbanken 5.5% Mtn 2016	5,000,000	5,214,080	1.66
Unilever 4.75% Gtd Bnds 2017	2,500,000	2,609,288	0.83
Vodafone Group 8.125% Mtn 2018	5,000,000	6,147,850	1.96
		194,986,208	62.18
<b>Bonds dated between 10 to 20 years – (22.34%, August 2008: 19.34%)</b>			
Anglian Water Services 6.875% Gtd Bds 2023	6,000,000	6,724,581	2.13
Barclays Bank 5.75% Snr Mtn 2021	4,500,000	4,558,499	1.45
Bupa 6.125% 2020	3,361,000	2,247,040	0.72
Deutsche Telekom International Finance 6.5% Gtd Bds 2022	3,000,000	3,225,015	1.03
General Electric Capital Corp 5.5% Emtn 2021	4,000,000	3,696,040	1.18
Housing Finance Corp Ltd 8.625% Deb Stk 2023	2,910,000	3,859,388	1.23
Imperial Tobacco Group 9% Mtn 2022	5,000,000	6,036,200	1.92
Lloyds TSB Bank 6.9625%-Fr Sub 2020	5,000,000	4,805,945	1.53
Motability Operations Group 6.625% Mtn 2019	5,000,000	5,287,930	1.69
Nova Scotia (Province of) 11.75% Ln Stk 2019	926,200	1,459,135	0.47
Petroleos Mexicanos 8.25% Gtd Mtn 2022	4,000,000	4,073,972	1.30
Punch Taverns Finance 6.82% Nts 2020	1,500,000	1,504,832	0.48

# Portfolio Statement

as at 31st August 2009

	Holding or nominal value of positions at 31st August 2009	Market Value £	Percentage of total net assets %
Punch Taverns Finance 7.274% Nts 2022	2,350,000	2,353,532	0.75
Quebec (Province of) 12.25% Ln Stk 2020	1,660,000	2,754,421	0.87
Rolls Royce Group 6.75% Gtd Nts 2019	3,000,000	3,291,255	1.04
Tesco 5% Mtn 2023	5,000,000	4,827,730	1.54
Treasury 4.75% Stk 2020	1,500,000	1,641,474	0.52
United Utilities Water 5.75% Snr Emtn 2022	5,000,000	5,220,665	1.66
Wales & West Utilities Finance 6.25% Gtd Bds 2021	2,500,000	2,609,008	0.83
		<u>70,176,662</u>	<u>22.34</u>
<b>Bonds dated more than 20 years and undated – (7.59%, August 2008: 4.85%)</b>			
Bishopsgate Asset Finance Ltd 5.1075% Nts 2037	3,818,000	3,322,156	1.06
BNP Paribas 7.436% Frn Sub Nts Perp 2049	2,000,000	1,599,990	0.51
Citigroup 7.375% Bds 2039	5,000,000	4,982,000	1.59
Legal & General Group 10% 23/07/2041	5,000,000	5,619,430	1.79
Prudential 11.375%-Fr Mtn 2039	2,000,000	2,495,571	0.80
RSA Insurance Group 9.375% Gtd Bds 2039	5,000,000	5,782,825	1.84
		<u>23,801,972</u>	<u>7.59</u>
<b>Government Securities – (3.01%, August 2008: 14.65%)</b>			
Treasury 4.25% Stk 2032	4,000,000	4,135,360	1.32
Treasury 4.75% Stk 2038	4,800,000	5,289,682	1.69
		<u>9,425,042</u>	<u>3.01</u>
<b>Portfolio of investments</b>		<u>298,389,884</u>	<u>95.12</u>
<b>Net current assets</b>		<u>15,321,888</u>	<u>4.88</u>
<b>Net assets</b>		<u><b>313,711,772</b></u>	<u><b>100.00</b></u>
Credit rating disclosure has been omitted pending negotiations to acquire the relevant licence to print such information.			

# Balance Sheet

as at 31st August 2009

	Notes	2009		2008	
		£	£	£	£
<b>Assets</b>					
Portfolio of investments			298,389,884		325,657,258
Debtors	7	14,951,543		17,798,661	
Cash and bank balances	8	<u>8,125,675</u>		<u>3,601,444</u>	
Total current assets			<u>23,077,218</u>		<u>21,400,105</u>
Total assets			321,467,102		347,057,363
<b>Liabilities</b>					
Creditors	9	(7,317,703)		(10,181,348)	
Distribution payable	6	<u>(437,627)</u>		<u>(1,042,182)</u>	
Total current liabilities			(7,755,330)		(11,223,530)
<b>Net assets attributable to unitholders</b>			<u><b>313,711,772</b></u>		<u><b>335,833,833</b></u>
<b>M.A. Summerfield</b> (Chairman)			<b>P. Sharman</b> (Director)		
10th November 2009					

# Summary of Material Portfolio Changes

for the year ended 31st August 2009

Purchases	Cost £000	Sales	Proceeds £000
Treasury 6% Stk 2028	66,213	Treasury 6% Stk 2028	67,662
Treasury 5.75% Stk 2009	39,716	Treasury 4% Stk 2009	53,422
Treasury 4.25% Stk 2032	38,516	Treasury 5.75% Stk 2009	39,682
Treasury 4% 7/3/2009	28,440	Treasury 4.25% Stk 2032	36,671
Treasury 5% Stk 2018	26,804	Treasury 5% Stk 2018	27,288
Treasury 4.75% Stk 2020	21,957	Treasury 4.75% Stk 2015	24,577
Treasury 4.5% Stk 2019	18,013	Treasury 4.75% Stk 2020	22,786
Anheuser-Busch Inbev 6.5% Gtd Mtn 2017	15,021	Treasury 4.5% Stk 2019	17,937
Treasury 4% Stk 2016	13,990	Treasury 4% Stk 2016	14,745
Treasury 4.75% Stk 2015	12,811	EDF 6.125% Bds 2034	10,550
Legal and General 10% 23/07/2041	12,393	Anheuser-Busch Inbev 6.5% Gtd Mtn 2017	9,385
Treasury 4.75% Stk 2038	10,287	European Investment Bank 5.375%	9,275
Motability Operations Group 6.625% Mtn 2019	9,987	AT&T Inc 5.5% Bds 2027	9,049
EDF 6.125% bds 2034	9,676	European Investment Bank 8.75%	8,847
European Investment Bank 5.375%	8,953	Pfizer Inc 6.5% 2038	8,371
European Investment Bank 8.75%	8,869	Legal and General 10% 23/07/2041	7,650
Pfizer Inc 6.5% 2038	7,423	Treasury 5% Stk 2014	7,601
Allied Irish Bank 12.5% Sub 2019	6,900	Allied Irish Bank 12.5% Sub 2019	7,290
Tesco 5% Mtn 2023	6,739	Daily Mail & General Trust 6.375%	6,582
Anheuser-Busch Inbev 9.75% Gtd Mtn 2024	6,377	Anheuser-Busch 9.75% Gtd Mtn 2024	6,464
<b>Total cost of purchases, including the above, for the year</b>	<b>618,268</b>	<b>Total proceeds from sales, including the above, for the year</b>	<b>624,175</b>

# Notes to the Financial Statements

as at 31st August 2009

## 1 Accounting Policies

- (a) 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 Unit Trust Funds issued by the Investment Managers Association in December 2005.
- (b) Dividends on equities are recognised when the security is quoted ex-dividend. Interest on debt securities is recognised on an effective interest rate basis. Other income is accounted for on a receipt basis.
- (c) In addition to the initial charge of 5% contained in the spread, CIS Unit Managers Limited makes an annual management charge of 1% of the value of the Trust, which is deducted before income is distributed.
- (d) The Trust is more than 60% invested in qualifying investments (as defined by Section 468L I.C.T.A 1988) and where applicable will pay an interest distribution to unitholders monthly.
- (e) The investments of the Trust have been valued at bid price at noon on 28th August 2009, the last valuation point in the accounting period. Where a stock is unquoted or illiquid, a valuation for this stock has been calculated using market conventions.
- (f) In accordance with FRS 16 "Current Tax", dividend income and taxation are stated net of any associated tax credits.
- (g) In accordance with FRS 19 "Deferred Tax", deferred tax is fully provided for on all timing differences. Deferred tax assets are recognised to the extent that they are regarded as recoverable.

## 2 Net (losses) on investments

The net (losses) on investments during the year comprise:

	<b>2009</b>	<b>2008</b>
	<b>£</b>	<b>£</b>
Non-derivative securities	(18,577,928)	(20,462,074)
<b>Net (losses) on investments</b>	<b><u>(18,577,928)</u></b>	<b><u>(20,462,074)</u></b>

## 3 Income

	<b>2009</b>	<b>2008</b>
	<b>£</b>	<b>£</b>
Dividends from UK companies	–	97,489
Bond income	18,061,057	20,568,515
Bank interest	89,878	261,370
	<b><u>18,150,935</u></b>	<b><u>20,927,374</u></b>

# Notes to the Financial Statements

for the year ended 31st August 2009

## 4 Expenses

	<b>2009</b>	<b>2008</b>
	<b>£</b>	<b>£</b>
<b>Payable to the Manager, associates of the Manager and their agents:</b>		
Manager's annual charge	2,980,249	3,583,520
<b>Payable to the Trustee, associates of the Trustee and their agents:</b>		
Trustee's fee	68,979	78,497
Safe custody charges	62,899	35,412
Activity charges	4,200	1,175
	<u>136,078</u>	<u>115,084</u>
<b>Other expenses</b>		
Audit fee	7,574	6,416
<b>Total expenses</b>	<u><b>3,123,901</b></u>	<u><b>3,705,020</b></u>

## 5 Taxation

### a) Analysis of charge for the year

No tax charge recognised in the year (2008: Nil).

Corporation tax has been provided at a rate of 20% (2008: 20%).

### b) Factors affecting the current tax charge for the year

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

# Notes to the Financial Statements

## for the year ended 31st August 2009

The differences are explained below:

	<b>2009</b>	<b>2008</b>
	<b>£</b>	<b>£</b>
Net income before tax	15,024,706	17,222,354
Corporation tax @ 20%	3,004,941	3,444,471
Tax deductible interest payments	(3,536,077)	(4,113,335)
Non-taxable franked investment income	–	(19,498)
Unrelieved management expenses	531,136	688,362
Current tax charge for the period (note 5a)	–	–

At the year end, there is a potential deferred tax asset of £1,150,733 (2008: £715,354) in relation to excess interest distributions. It is unlikely the fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised in the year or the prior year.

## 6 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:

	<b>2009</b>	<b>2008</b>
	<b>£</b>	<b>£</b>
Monthly distributions	13,767,300	15,503,153
Final distribution	437,627	1,042,182
Income tax withheld at source	3,535,761	4,112,849
	17,740,688	20,658,184
Add: Income paid on liquidation of units	52,249	58,812
Add/Deduct: Income paid/received on creations of units	14,758	(675)
	17,807,695	20,716,321
Interest	2,328	–
<b>Total finance costs</b>	<b>17,810,023</b>	<b>20,716,321</b>

# Notes to the Financial Statements

for the year ended 31st August 2009

## 6 Finance costs (cont'd)

Reconciliation of Net revenue after taxation to Net distribution for the year	2009	2008
	£	£
Net revenue after taxation for the year, per the statement of total return	15,024,076	17,222,354
Add back revenue/expenses transferred to capital:		
Coupon distribution adjustment*	2,783,391	3,494,154
Net movement in income brought forward and carried forward	228	(187)
	<u>17,807,695</u>	<u>20,716,321</u>

\*Revenue on debt securities is accounted for on an effective yield basis. For the purpose of calculating the distribution, revenue on debt securities is computed on a coupon basis where this exceeds the amount determined on an effective yield basis.

Details of the distribution per unit are set out in the table on pages 23 to 26

# Notes to the Financial Statements

as at 31st August 2009

## 7 Debtors

	2009	2008
	£	£
Outstanding sales	7,467,226	9,318,484
Accrued bond income	7,481,756	8,463,257
Bank interest	2,561	16,920
	<u>14,951,543</u>	<u>17,798,661</u>

## 8 Cash and bank balances

	2009	2008
	£	£
Cash and bank balances	<u>8,125,675</u>	<u>3,601,444</u>

## 9 Creditors

	2009	2008
	£	£
Outstanding purchases	6,517,091	8,955,430
Manager's annual charge	239,246	267,349
Other accrued expenses	12,013	12,776
Tax payments on Distributions	549,353	945,793
	<u>7,317,703</u>	<u>10,181,348</u>

## 10 Capital Commitments

At 31st August 2009 there were no outstanding capital commitments in respect of nil or partly paid securities held by the Trust.

## 11 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 4 of the accounts. By virtue of

the regulations governing authorised unit trusts, the Manager is party to all the transactions 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 period are disclosed in notes 7 (Debtors) and 9 (Creditors).

# Notes to the Financial Statements

as at 31st August 2009

## 12 Financial Instruments

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

- Investment-grade corporate bonds held in accordance with the Fund'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 Fund's financial instruments are market price and credit liquidity risks. The 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 Fund 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 fund manager has responsibility for monitoring the existing portfolio selected in accordance with an overall asset allocation parameter and seeks to ensure that the Fund 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 Fund's objective to invest in securities which share certain characteristics.

### Liquidity Risk

The Fund's assets comprise mainly readily available realisable securities, which can be sold to meet funding requirements if and when necessary.

The main liability of the Fund is the redemption of any units that investors wish to sell.

### Interest Rate Risk

The Fund 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 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 potential of the Fund also rises but the value of fixed-rate securities will decline. A fall in interest rates will in general have the opposite effect.

# Notes to the Financial Statements

as at 31st August 2009

## 12 Financial Instruments (cont'd)

### Interest Rate Risk Profile of Financial Assets and Financial Liabilities

The interest rate risk profile of the Fund's financial assets and liabilities at 31st August 2009 compared to the previous year end was:

Currency	Floating Rate financial assets £	Fixed Rate financial assets £	Financial assets not carrying interest £	Total £
<b>2009</b>				
Sterling	8,125,675	298,389,884	14,951,543	321,467,102
<b>Total</b>	<b>8,125,675</b>	<b>298,389,884</b>	<b>14,951,543</b>	<b>321,467,102</b>
<b>2008</b>				
Sterling	3,601,444	325,657,258	17,798,661	347,057,363
<b>Total</b>	<b>3,601,444</b>	<b>325,657,258</b>	<b>17,798,661</b>	<b>347,057,363</b>

Currency	Floating Rate financial liabilities £	Financial liabilities not carrying interest £	Total £
<b>2009</b>			
Sterling	–	(7,755,330)	(7,755,330)
<b>Total</b>		<b>(7,755,330)</b>	<b>(7,755,330)</b>
<b>2008</b>			
Sterling	–	11,223,530	11,223,530
<b>Total</b>	<b>–</b>	<b>11,223,530</b>	<b>11,223,530</b>

Currency	Fixed rate financial assets			
	Weighted average interest rate		Weighted average period for which rate is fixed	
	2009	2008	2009	2008
Sterling	7.77%	7.65%	9.5 years	13.1 years

## Distribution Table

For the month ended 30th September 2008

Group 1 – Units purchased prior to 1st September 2008

Group 2 – Units purchased on or after 1st September 2008

	<b>Gross Income pence per unit</b>	<b>Income tax pence per unit</b>	<b>Net Income pence per unit</b>	<b>Equalisation pence per unit</b>	<b>Distribution payable 2008 pence per unit</b>	<b>Distribution payable 2007 pence per unit</b>
<b>Income units</b>						
Group 1	0.3245	0.0649	0.2596	–	0.2596	0.3400
Group 2	0.2824	0.0565	0.2259	0.0337	0.2596	0.3400

For the month ended 31st October 2008

Group 1 – Units purchased prior to 1st October 2008

Group 2 – Units purchased on or after 1st October 2008

	<b>Gross Income pence per unit</b>	<b>Income tax pence per unit</b>	<b>Net Income pence per unit</b>	<b>Equalisation pence per unit</b>	<b>Distribution payable 2008 pence per unit</b>	<b>Distribution payable 2007 pence per unit</b>
<b>Income units</b>						
Group 1	0.4250	0.0850	0.3400	–	0.3400	0.3400
Group 2	0.2423	0.0485	0.1938	0.1462	0.3400	0.3400

For the month ended 30th November 2008

Group 1 – Units purchased prior to 1st November 2008

Group 2 – Units purchased on or after 1st November 2008

	<b>Gross Income pence per unit</b>	<b>Income tax pence per unit</b>	<b>Net Income pence per unit</b>	<b>Equalisation pence per unit</b>	<b>Distribution payable 2008 pence per unit</b>	<b>Distribution payable 2007 pence per unit</b>
<b>Income units</b>						
Group 1	0.4250	0.0850	0.3400	–	0.3400	0.3400
Group 2	0.2925	0.0585	0.2340	0.1060	0.3400	0.3400

## Distribution Table

For the month ended 31st December 2008

Group 1 – Units purchased prior to 1st December 2008

Group 2 – Units purchased on or after 1st December 2008

	<b>Gross Income pence per unit</b>	<b>Income tax pence per unit</b>	<b>Net Income pence per unit</b>	<b>Equalisation pence per unit</b>	<b>Distribution payable 2008 pence per unit</b>	<b>Distribution payable 2007 pence per unit</b>
<b>Income units</b>						
Group 1	0.4250	0.0850	0.3400	–	0.3400	0.3400
Group 2	0.1654	0.0331	0.1323	0.2077	0.3400	0.3400

For the month ended 31st January 2009

Group 1 – Units purchased prior to 1st January 2009

Group 2 – Units purchased on or after 1st January 2009

	<b>Gross Income pence per unit</b>	<b>Income tax pence per unit</b>	<b>Net Income pence per unit</b>	<b>Equalisation pence per unit</b>	<b>Distribution payable 2009 pence per unit</b>	<b>Distribution payable 2008 pence per unit</b>
<b>Income units</b>						
Group 1	0.4250	0.0850	0.3400	–	0.3400	0.3400
Group 2	0.2690	0.0538	0.2152	0.1248	0.3400	0.3400

For the month ended 28th February 2009

Group 1 – Units purchased prior to 1st February 2009

Group 2 – Units purchased on or after 1st February 2009

	<b>Gross Income pence per unit</b>	<b>Income tax pence per unit</b>	<b>Net Income pence per unit</b>	<b>Equalisation pence per unit</b>	<b>Distribution payable 2009 pence per unit</b>	<b>Distribution payable 2008 pence per unit</b>
<b>Income units</b>						
Group 1	0.4250	0.0850	0.3400	–	0.3400	0.3400
Group 2	0.3518	0.0704	0.2814	0.0586	0.3400	0.3400

## Distribution Table

For the month ended 31st March 2009

Group 1 – Units purchased prior to 1st March 2009

Group 2 – Units purchased on or after 1st March 2009

	<b>Gross Income pence per unit</b>	<b>Income tax pence per unit</b>	<b>Net Income pence per unit</b>	<b>Equalisation pence per unit</b>	<b>Distribution payable 2009 pence per unit</b>	<b>Distribution payable 2008 pence per unit</b>
<b>Income units</b>						
Group 1	0.4250	0.0850	0.3400	–	0.3400	0.3400
Group 2	0.3518	0.0704	0.2814	0.0586	0.3400	0.3400

For the month ended 30th April 2009

Group 1 – Units purchased prior to 1st April 2009

Group 2 – Units purchased on or after 1st April 2009

	<b>Gross Income pence per unit</b>	<b>Income tax pence per unit</b>	<b>Net Income pence per unit</b>	<b>Equalisation pence per unit</b>	<b>Distribution payable 2009 pence per unit</b>	<b>Distribution payable 2008 pence per unit</b>
<b>Income units</b>						
Group 1	0.4250	0.0850	0.3400	–	0.3400	0.3400
Group 2	0.3883	0.0777	0.3106	0.0294	0.3400	0.3400

For the month ended 31st May 2009

Group 1 – Units purchased prior to 1st May 2009

Group 2 – Units purchased on or after 1st May 2009

	<b>Gross Income pence per unit</b>	<b>Income tax pence per unit</b>	<b>Net Income pence per unit</b>	<b>Equalisation pence per unit</b>	<b>Distribution payable 2009 pence per unit</b>	<b>Distribution payable 2008 pence per unit</b>
<b>Income units</b>						
Group 1	0.4250	0.0850	0.3400	–	0.3400	0.3400
Group 2	0.4146	0.0829	0.3317	0.0083	0.3400	0.3400

## Distribution Table

For the month ended 30th June 2009

Group 1 – Units purchased prior to 1st June 2009

Group 2 – Units purchased on or after 1st June 2009

	<b>Gross Income pence per unit</b>	<b>Income tax pence per unit</b>	<b>Net Income pence per unit</b>	<b>Equalisation pence per unit</b>	<b>Distribution payable 2009 pence per unit</b>	<b>Distribution payable 2008 pence per unit</b>
<b>Income units</b>						
Group 1	0.4250	0.0850	0.3400	–	0.3400	0.3400
Group 2	0.4020	0.0804	0.3216	0.0184	0.3400	0.3400

For the month ended 31st July 2009

Group 1 – Units purchased prior to 1st July 2009

Group 2 – Units purchased on or after 1st July 2009

	<b>Gross Income pence per unit</b>	<b>Income tax pence per unit</b>	<b>Net Income pence per unit</b>	<b>Equalisation pence per unit</b>	<b>Distribution payable 2009 pence per unit</b>	<b>Distribution payable 2008 pence per unit</b>
<b>Income units</b>						
Group 1	0.4250	0.0850	0.3400	–	0.3400	0.3400
Group 2	0.4250	0.0850	0.3400	–	0.3400	0.3400

For the month ended 31st August 2009

Group 1 – Units purchased prior to 1st August 2009

Group 2 – Units purchased on or after 1st August 2009

	<b>Gross Income pence per unit</b>	<b>Income tax pence per unit</b>	<b>Net Income pence per unit</b>	<b>Equalisation pence per unit</b>	<b>Distribution payable 2009 pence per unit</b>	<b>Distribution payable 2008 pence per unit</b>
<b>Income units</b>						
Group 1	0.1250	0.0250	0.1000	–	0.1000	0.2596
Group 2	0.1250	0.0250	0.1000	–	0.1000	0.2596

## Prices

The price of the CIS Corporate Bond Income 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.

The difference between the buying and selling prices, currently 5%, is known as the spread. This includes the initial management charge to cover the expense of selling units and administration.

Full details of how the Trust is priced are contained in the Prospectus.

## Prospectus

Copies of the most recent Prospectus may be obtained, free of charge, from:

CIS Unit Managers Limited,  
PO Box 105,  
Manchester M4 8BB.

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.

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 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 03858994.**

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

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