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**CIS Unit Managers Limited is authorised and regulated by the Financial Services Authority.**

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

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The **co-operative**  
asset management

# CIS Sustainable Leaders Trust

Manager's Report



**Annual Report**

1st June 2008-31st May 2009

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 Leaders 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  
P. Sharman

## Advisory Committee

Dr Jane Collier  
Antony Hardy (Chairman)  
Rosemary Martin  
The Rt Hon. The Lord Morris of Manchester AO QSO  
David Shreeve  
Benjamin Yeoh

## 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

# The Co-operative Asset Management

The fund management activities of Co-operative Financial Services (part of The Co-operative) 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 Sustainable Leaders Trust, and have long-standing experience that few others can match.

## Investment Review and Outlook

### Investment Objective

The CIS Sustainable Leaders Trust aims to provide above-average capital growth by investing in the three core themes of the environment, human welfare and sustainability.

### Cumulative performance (% change to 31/05/09)

	6 months	1 years	3 years	5 years
<b>Fund</b>	7.1	-21.8	-7.4	34.1
<b>FTSE All-Share</b>	8.0	-23.7	-13.7	21.9
<b>Sector average</b>	11.7	-24.9	-17.3	14.7
<b>Quartile Ranking</b>	4 <sup>th</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>

Percentage change in value at bid price, to 31.05.09  
Source: Lipper. Measured against UK All Companies Sector.

During the 12-month period ending 31st May 2009, the price of the units fell by 21.8% compared to a 23.7% fall in the UK FTSE All-Share Index. In the last three years the value of the units has decreased by 7.4% compared to a fall of 13.7% in the FTSE All-Share Index. The Trust has continued its excellent performance record relative to the peer group and is ranked in the first quartile over three years.

We have a consistent, successful approach to the selection of companies suitable for the Trust. Our approach is to identify well-managed companies with strong franchises and invest in them for the long term, as we believe this is the best way to grow investors' capital. These companies are selected for the positive contribution they make to society thereby ensuring we invest your money responsibly. This

# Investment Review and Outlook

approach has been successful in the past giving us confidence that we can continue to deliver strong relative performance compared to both the UK stock market and the peer group.

At times stock markets can be difficult to explain due to their complexity and unpredictable behaviour. However, anyone who has had access to a TV or a newspaper will be acutely aware of the reasons for the performance of stocks over the last 12 months: the worst recession for more than 70 years. The reasons for this occurring have been well documented with the role of major banks being at the heart of the problem. Rather than go over this again, this report aims to explain how we see things progressing from here.

The first thing it is necessary to do is to separate the outlook for the global economy from the outlook for the UK stock market. Although strongly linked over the long term, equities have in the past performed well during the later stages of past recessions. We shall come back to the reason for this.

The near-term outlook for the global economy is undoubtedly poor. We are in the midst of a major recession whose consequences could shape the economic outlook for the foreseeable future. Banks are rapidly reducing the amount of lending they are doing in response to losses on previous, irresponsible loans. This is causing a rapid drop in house prices, consumer spending and business investment, all critical elements of the global economy. Governments are having to spend previously unthinkable amounts of money supporting the economy to avoid a downturn comparable to the depression of

the 1930's. This increase in spending, and the elevated levels of Government debt it will create, will inevitably lead to higher taxes and lower future Government expenditure, thereby muting the outlook for long-term economic growth.

The good news is that economies are inherently resilient. There have been countless recessions in the last 100 years from which the global economy bounced back stronger. Although it will take time to work through this recession and its consequences, we see no reason why this won't be the case this time.

So where does this leave the UK equity market? The obvious conclusion would be that stocks will struggle to progress due to their dependence on economic growth. This conclusion does, however, overlook one simple fact: stock markets are forward-looking discounting mechanisms which move in anticipation of economic downturns, not in response to them. In effect the stock market has already, in our view, fallen to reflect this poor economic outlook and is unlikely to fall further. More importantly, the stock market may be forgetting the inherent resilience of the global economy and were the economic outlook to improve this would result in a more positive outlook for the stocks we own in the fund.

As the stock market has fallen over the last year we have used falling stock prices to add to a number of core holdings in the fund at lower prices than would have been possible over the last few years. We have added to our utility and healthcare investments such as Scottish & Southern Energy and Smith and

# Investment Review and Outlook

Nephew. These businesses, although not immune to the recession, are very economically resilient and would still prosper in the economic climate described above.

## Economic Review

The period under review has been characterised by a sharp and synchronised deceleration in global growth caused mainly by the weakness of the Western banking system. As a result of the massive losses incurred on a variety of asset related credit instruments towards the end of 2008, global capital availability went into freefall. As companies, particularly smaller companies, depend upon regular credit supply for their day-to-day operations, the result of banks restricting lending created a stalling of the world economy that has probably not been seen since The Great Depression.

As many businesses responded by reducing stock and slashing capital expenditure to generate short-term cash, the impact on the world economy was immediate with many large and important economies such as Germany and the US seeing annualised falls in output of between 4-8%. Governments and Central Banks responded immediately. This took the form of a globally co-ordinated cut in official interest rates to almost zero, a significant boost in fiscal spend and a decision to introduce more unconventional economic measures such as Quantitative Easing which involves the direct purchase of securities to more directly lower market rates of interest. These policies have met with some initial success. Many forward-looking indicators relating to business surveys and expectations

have recently showed much improvement whilst a number of important economic data such as US unemployment trends have shown a slowing rate of contraction. As importantly, authorities have responded rapidly to re-capitalise the banking system with the result that inter-bank borrowing rates have fallen dramatically and capital availability has shown some limited improvement. Nevertheless, 2009 is still expected to be a very poor year for the global economy with the result that output is forecast to fall for the first time in 75 years.

In the UK, the Monetary Policy Committee aggressively reduced rates over the latter part of the period from 5% to 0.5%, the lowest level in the Bank's 300 year history. Nevertheless, Q4 and Q1 GDP has now fallen at an annualised rate of close to 6.0% with the expectation that output for the current year is likely to be down 4.0%, almost unprecedented for the economy in modern times. The problem for the UK economy is that private debt levels remain unsustainably high and that, alongside a recent sharp deterioration in government debt, leaves it in need of de-leveraging over a long period of time. The housing market has historically been the anchor for consumers and has now seen 20% house price falls over the past two years with further attrition expected despite recent encouraging signs of stabilisation. Recent reflation efforts are bearing some fruit with evidence of improving consumer trends and some element of industrial re-stocking. Interest rates are likely to stay very low for some considerable time and combined with heavy public spend should enable

# Investment Review and Outlook

the economy to exit recession in the current year. Nevertheless, with longer term issues surrounding ongoing economy-wide debt, economic recovery is expected to be relatively muted with most forecasters expecting little more than 0.5% GDP growth in 2010.

The US economy fell by an annualised rate of 6.1% in the final quarter of 2008, a rate of decline not experienced since 1982, with little improvement seen at the start of the current year. As with many other Western economies, the brunt of this painful fall has been felt in sectors particularly exposed to negative trends in international trade. US consumers suffer from overly inflated debt which currently stands around 100% of GDP (compared to just 66% a decade previously). In effect, with the US consumer now spending through 70% of GDP, the upside for significant retail expansion looks limited, particularly as consumer balance sheets have been hammered by a significant longer-term fall in the value of equity holdings and the 32% fall now seen in average housing prices. US unemployment rate has now reached 9.4% and GDP is likely to fall close to 3.0% in the current calendar year. As with many other countries, the US has instigated a rapid and aggressive programme of policies designed at easing money rates, re-capitalising banks and spending heavily on fiscal reflation measures. Such policies are almost without precedent and have been relatively successful in shoring up short-term economic growth.

Elsewhere, the turndown in US economic activity has led to a serious shakeout for economies which had previously prospered when US consumer spend was the hegemony of world economic activity. This impact has been greatest on economies such as

Germany, Japan and Korea which retain a sizeable manufacturing base and which have been savaged by a slowdown in international trade. Most of these economies are characterised by high savings and retain insufficient domestic consumption strength to counter-act such trends. Of the economies with high savings, China remains the most important. Despite an inevitable slowdown, Chinese authorities have rapidly mobilised fiscal resources and have been surprised at the resilience of their economy.

Increasing evidence is becoming apparent that the general reflation measures instigated by world banks and governments are now having some impact. It appears likely that recession in many economies may be over in the current year and that, alongside improving financial markets, the global economy may now be past its maximum point of weakness. The question still remains surrounding the extent of recovery in 2010 and the likely strength of medium term economic expansion. With the maturity of Western economies and an ongoing need to trim historically high levels of debt, it appears logical that economic growth will become more important and vibrant in areas with greater financial strength and stronger demographics, particularly Asia. In the short term, it remains encouraging that most global economies are now expected to be more resilient than previously expected.

## Outlook

Although it cannot be said with certainty, it is highly likely that we have already seen the lows of this 'bear' market. Barring an unforeseen shock to the global economy recent Government actions should result in a short-term economic improvement and support moderate growth into the long-term. This

# Investment Review and Outlook

backdrop would be sufficient, in our view, for the fund to progress from here due to the attractive valuations and strong themes (such as the environment and human welfare) that sit behind the largest investments in the fund.

Although the last year has not been an easy time for stock market investors we remain confident that stocks will remain an attractive investment for those investors with a medium to long-term investment horizon.

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

Financial statements for the year ended 31st May 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 Auditor's Report to the Unitholders of CIS Sustainable Leaders Trust ('the Trust')

We have audited the financial statements of the Trust for the year ended 31st May 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. 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 7, 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).

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.

# Independent Auditor's Report to the Unitholders of CIS Sustainable Leaders Trust ('the Trust') cont'd

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.

## 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 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.

## 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 May 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  
6th August 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 Sustainable Leaders Trust,  
525 Ferry Road, Edinburgh  
6th August 2009

# Performance Record

## Unit prices

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

	Highest buying price during the year	Lowest selling price during the year	Distribution paid during the year (pence per unit)
1st Jan 2004 to 31st Dec 2004	218.1p	175.7p	2.5071
1st Jan 2005 to 31st Dec 2005	262.2p	205.4p	2.8381
1st Jan 2006 to 31st Dec 2006	341.0p	246.8p	2.7743
1st Jan 2007 to 31st Dec 2007	367.6p	301.5p	1.9450
1st Jan 2008 to 31st Dec 2008	330.3p	281.6p	2.6563
1st Jan 2009 to 31st May 2009	249.1p	190.3p	3.4170

## Price information

	Selling price (pence per unit)	Buying price (pence per unit)	Estimated net yield
31st May 2006	258.5	272.1	0.93%
31st May 2007	349.0	367.4	0.63%
30th May 2008	301.2	317.1	0.60%
29th May 2009*	232.4	244.7	1.60%

\* Last business day in period

## Trust details

	Total net asset value	Total units in issue	Net asset value per unit
31st May 2006	£112,130,187	43,747,000	256.3p
31st May 2007	£179,555,688	51,923,000	345.8p
31st May 2008	£193,551,292	65,252,000	296.6p
31st May 2009	£179,128,683	78,804,000	227.3p

It should be remembered that past performance is not a reliable indicator of future performance and that the value of units, and 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 May 2008	1.52%
31st May 2009	1.52%

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

# Statement of Total Return

for the year ended 31st May 2009

	Notes	2009		2008	
		£	£	£	£
Net (losses) on investments	2		(45,608,984)		(28,114,227)
Other gains	3		968		1,226
Income	4	5,760,685		4,995,815	
Expenses	5	<u>(2,598,292)</u>		<u>(2,820,506)</u>	
Net income before taxation		3,162,393		2,175,309	
Taxation	6	<u>(21,458)</u>		<u>(12,244)</u>	
Net income after taxation for the year			<u>3,140,935</u>		<u>2,163,065</u>
Total return for the year			<u>(42,467,081)</u>		<u>(25,949,936)</u>
Finance costs: Distributions	7		(3,141,980)		(2,164,021)
<b>Change in net assets attributable to unitholders</b>			<u><b>(45,609,061)</b></u>		<u><b>(28,113,957)</b></u>

# Statement of Change in Unitholders' Net Assets

for the year ended 31st May 2009

	2009		2008	
	£	£	£	£
Net assets at the start of the year		193,551,292		179,555,688
<i>Movement due to sales/repurchase of units</i>				
Amounts received on creation of units	<u>31,186,255</u>		<u>42,109,053</u>	
		<u>31,186,255</u>		<u>42,109,053</u>
Change in net assets attributable to unitholders (see above)		(45,609,061)		(28,113,957)
Unclaimed distributions		197		508
<b>Net assets at the end of the year</b>		<u><b>179,128,683</b></u>		<u><b>193,551,292</b></u>

# Portfolio Statement

as at 31st May 2009

	Holding or nominal value of positions at 31st May 2009	Market Value £	Percentage of total net assets %
<b>Chemicals - (4.59%, May 2008: 4.91%)</b>			
Johnson Matthey	413,222	5,095,027	2.84
Victrex	560,000	3,136,000	1.75
		<b>8,231,027</b>	<b>4.59</b>
<b>Construction &amp; Materials - (1.45%, May 2008: 1.04%)</b>			
Galliford Try	5,425,343	2,577,038	1.45
		<b>2,577,038</b>	<b>1.45</b>
<b>General Industrials - (4.03%, May 2008: 4.17%)</b>			
Smiths Group	998,154	7,201,681	4.03
		<b>7,201,681</b>	<b>4.03</b>
<b>Industrial Engineering - (4.17%, May 2008: 5.12%)</b>			
Rotork	873,461	7,476,826	4.17
		<b>7,476,826</b>	<b>4.17</b>
<b>Support Services - (18.37%, May 2008: 22.06%)</b>			
Aggreko	1,031,101	6,037,096	3.37
Mitie Group	2,360,144	5,151,014	2.88
Rps Group	3,798,569	7,036,849	3.93
Camco International Ltd	4,645,000	882,550	0.49
Connaught	1,661,757	5,658,283	3.17
Spice	11,628,080	8,110,586	4.53
		<b>32,876,378</b>	<b>18.37</b>
<b>Beverages - (0.82%, May 2008: 0.90%)</b>			
Diageo	175,000	1,464,750	0.82
		<b>1,464,750</b>	<b>0.82</b>
<b>Food Producers - (3.60%, May 2008: 4.12%)</b>			
Cranswick	725,149	4,822,241	2.69
Unilever	110,000	1,633,500	0.91
		<b>6,455,741</b>	<b>3.60</b>

# Portfolio Statement

as at 31st May 2009

	Holding or nominal value of positions at 31st May 2009	Market Value £	Percentage of total net assets %
<b>Household Goods &amp; Home Construction - (0.18%, May 2008: 0.35%)</b>			
Telford Homes	525,000	315,000	0.18
		<b>315,000</b>	<b>0.18</b>
<b>Health Care Equipment &amp; Services - (4.40%, May 2008: 2.75%)</b>			
Smith & Nephew	1,743,821	7,877,711	4.40
		<b>7,877,711</b>	<b>4.40</b>
<b>Pharmaceuticals &amp; Biotechnology - (7.45%, May 2008: 6.15%)</b>			
AstraZeneca	195,860	5,049,271	2.82
GlaxoSmithKline	786,064	8,289,045	4.63
		<b>13,338,316</b>	<b>7.45</b>
<b>Food &amp; Drug Retailers - (3.63%, May 2008: 2.65%)</b>			
Tesco	1,766,924	6,500,513	3.63
		<b>6,500,513</b>	<b>3.63</b>
<b>Media - (1.64%, May 2008: 1.96%)</b>			
Reed Elsevier	303,656	1,536,499	0.86
WPP Group	299,000	1,391,098	0.78
		<b>2,927,597</b>	<b>1.64</b>
<b>Travel &amp; Leisure - (2.62%, May 2008: 0.96%)</b>			
Arriva	276,889	1,254,999	0.70
Goals Soccer Centre	1,469,382	2,497,949	1.39
National Express Group	299,072	953,292	0.53
		<b>4,706,240</b>	<b>2.62</b>
<b>Mobile Telecommunications - (3.83%, May 2008: 3.43%)</b>			
Vodafone Group	5,862,536	6,859,167	3.83
		<b>6,859,167</b>	<b>3.83</b>
<b>Electricity - (9.38%, May 2008: 10.48%)</b>			
International Power	2,694,107	7,516,559	4.20
Scottish & Southern Energy	785,780	9,264,346	5.18
		<b>16,780,905</b>	<b>9.38</b>

# Portfolio Statement

as at 31st May 2009

	Holding or nominal value of positions at 31st May 2009	Market Value £	Percentage of total net assets %
<b>Gas, Water &amp; Multiutilities - (8.75%, May 2008: 6.32%)</b>			
National Grid	1,251,286	7,589,050	4.24
Severn Trent	723,000	8,075,910	4.51
		<b>15,664,960</b>	<b>8.75</b>
<b>Banks - (8.34%, May 2008: 8.03%)</b>			
Standard Chartered	335,000	4,244,450	2.37
HSBC Holdings	1,904,274	10,697,259	5.97
		<b>14,941,709</b>	<b>8.34</b>
<b>Life Insurance - (0.70%, May 2008: 1.03%)</b>			
Prudential	295,000	1,257,438	0.70
		<b>1,257,438</b>	<b>0.70</b>
<b>Real Estate Investments &amp; Services - (2.13%, May 2008: 1.36%)</b>			
St. Modwen Properties	2,175,000	3,817,126	2.13
		<b>3,817,126</b>	<b>2.13</b>
<b>Real Estate Investment Trusts - (2.02%, May 2008: 2.17%)</b>			
Shaftesbury	930,000	3,627,000	2.02
		<b>3,627,000</b>	<b>2.02</b>
<b>Software &amp; Computer Services - (0.66%, May 2008: 0.72%)</b>			
Sage Group	607,404	1,168,038	0.66
		<b>1,168,038</b>	<b>0.66</b>
<b>France - (0.40%, May 2008: 0.31%)</b>			
Boiron	40,000	715,084	0.40
		<b>715,084</b>	<b>0.40</b>
<b>Switzerland - (0.65%, May 2008: 0.64%)</b>			
Novartis	47,000	1,165,240	0.65
		<b>1,165,240</b>	<b>0.65</b>
<b>General Retailers - (1.02%, May 2008: Not Held)</b>			
Next	125,000	1,820,000	1.02
		<b>1,820,000</b>	<b>1.02</b>

# Portfolio Statement

as at 31st May 2009

	Holding or nominal value of positions at 31st May 2009	Market Value £	Percentage of total net assets %
<b>United States - (3.60%, May 2008: 3.65%)</b>			
Amazon.com Inc	52,500	2,521,235	1.42
Republic Services	90,000	1,239,189	0.69
eBay Inc	112,000	1,202,340	0.67
CVS Caremark Corp	80,000	1,466,027	0.82
		<b>6,428,791</b>	<b>3.60</b>
<b>Portfolio of investments</b>		176,194,276	98.43
<b>Net current assets</b>		2,934,407	1.57
<b>Net assets</b>		<b>179,128,683</b>	<b>100.00</b>

All holdings are ordinary shares unless otherwise stated

# Balance Sheet

as at 31st May 2009

		2009		2008	
	Notes	£	£	£	£
<b>Assets</b>					
Portfolio of investments			176,194,276		184,420,867
Debtors	8	634,453		648,590	
Cash and bank balances	9	<u>5,218,789</u>		<u>10,465,442</u>	
Total other assets			<u>5,853,242</u>		<u>11,114,032</u>
Total assets			182,047,518		195,534,899
<b>Liabilities</b>					
Creditors	10	(223,634)		(250,579)	
Distribution payable	7	<u>(2,695,201)</u>		<u>(1,733,028)</u>	
Total other liabilities			(2,918,835)		(1,983,607)
<b>Net assets attributable to unitholders</b>					
			<u>179,128,683</u>		<u>193,551,292</u>
<b>M. A. Summerfield (Chairman)</b>			<b>P. Sharman (Director)</b>		
6th August 2009					

# Summary of Material Portfolio Changes

for the year ended 31st May 2009

Significant Purchases	Cost £000	Significant Sales	Proceeds £000
National Grid	5,118	Aggreko	5,592
Royal Bank Of Scotland Group	4,438	Standard Chartered	3,184
HSBC Holdings	4,094	National Express Group	1,588
Smith & Nephew	4,077	HSBC Holdings	1,560
Vodafone Group	3,806	AstraZeneca	1,484
National Express Group	3,771	Vodafone Group	1,461
Standard Chartered	3,179	Barclays	1,109
Aggreko	2,792	Royal Bank Of Scotland Group	987
Tesco	2,728	Tesco	917
Goals Soccer Centre	2,328	Wolseley	914
Rps Group	1,987	Cranswick	755
Arriva Ord 5p	1,893	Sig	212
Smiths Group	1,760	Spice	208
GlaxoSmithKline	1,686		
Next	1,595		
Johnson Matthey	1,383		
Barclays	1,295		
Mitie Group	1,293		
Severn Trent	1,284		
International Power	1,120		
<b>Total cost of purchases, including the above, for the year (see Note 14)</b>	<b><u>57,325</u></b>	<b>Total proceeds from sales, including the above, for the year (see Note 14)</b>	<b><u>19,970</u></b>

# Notes to the Financial Statements

as at 31st May 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 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 1.5% of the value of the Trust which is deducted from the Trust's capital. All other charges also deducted from the Trust's capital.
- (d) The ordinary element of stocks received in lieu of cash dividends is recognised as income of the fund. It forms part of the distribution in accordance with the Statement of Recommended Practice.
- (e) Special dividends will ordinarily be treated as capital unless there is sufficient evidence that they are income in nature.
- (f) The Trust is not more than 60% invested in qualifying investments (as defined by The Authorised Investment Funds (Tax) Regulations 2006, Reg. 19.) and where applicable will pay a dividend distribution to unit holders half yearly.
- (g) The investments of the Trust have been valued at bid price at noon on 29th May 2009, the last valuation point in the accounting period.
- (h) Assets and liabilities in currencies other than sterling are translated into sterling at the rates of exchange ruling at 31st May 2009. Income and expenditure transactions are translated at the rates of exchange ruling at the date of transaction.
- (i) In accordance with FRS 16 "Current Tax", dividend income and taxation are stated net of any associated tax credits.
- (j) 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	(45,608,984)	(28,114,227)
<b>Net (losses) on investments</b>	<b><u>(45,608,984)</u></b>	<b><u>(28,114,227)</u></b>

# Notes to the Financial Statements

for the year ended 31st May 2009

## 3 Other gains

	2009	2008
	£	£
Currency gains	968	1,226
	<u>968</u>	<u>1,226</u>

## 4 Income

	2009	2008
	£	£
UK dividends	5,274,683	4,489,990
Property income dividends	172,050	46,750
Overseas dividends	128,640	81,585
Bank interest	185,312	377,490
	<u>5,760,685</u>	<u>4,995,815</u>

## 5 Expenses

	2009	2008
	£	£
<b>Payable to the Manager, associates of the Manager and their agents:</b>		
Manager's periodic charge	<u>2,539,426</u>	<u>2,766,914</u>
<b>Payable to the Trustee, associates of the Trustee and their agents:</b>		
Trustee's fee	38,830	39,490
Safe custody charges	12,317	6,763
Activity charges	<u>1,640</u>	<u>1,170</u>
	<b>52,787</b>	<b>47,423</b>
<b>Other expenses</b>		
Audit fee	6,079	6,169
	<u>6,079</u>	<u>6,169</u>
<b>Total expenses</b>	<u>2,598,292</u>	<u>2,820,506</u>

# Notes to the Financial Statements

for the year ended 31st May 2009

## 6 Taxation

### a) Analysis of charge for year

	2009	2008
	£	£
Overseas tax	19,296	12,244
Adjustments in respect of prior periods	2,162	–
Total Taxation	<u>21,458</u>	<u>12,244</u>

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 year is lower (2008: lower) than the standard rate of corporation tax in the UK for a unit trust company (20%). The differences are explained below:

	2009	2008
	£	£
Net income before tax	3,162,393	2,175,309
Corporation tax @ 20%	632,479	435,062
<i>Effects of:</i>		
Non taxable UK franked income	(1,054,937)	(897,998)
Irrecoverable overseas tax	19,296	12,244
Unrelieved management expenses	422,458	462,936
Adjustments in respect of prior periods	2,162	–
Current tax charge for the period (note 6a)	<u>21,458</u>	<u>12,244</u>

At the year end, there is a potential deferred tax asset of £3,010,971 (2008: £2,588,513) in relation to surplus management expenses and £329,598 (2008: £307,140) in relation to excess unutilised foreign tax available for double taxation relief. 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 years.

# Notes to the Financial Statements

for the year ended 31st May 2009

## 7 Finance costs

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>
Interim	755,017	597,820
Final	2,695,201	1,733,028
Net distribution for the year	3,450,218	2,330,848
Deduct: Income received on creation of units	(308,238)	(166,827)
Total finance costs	<u><b>3,141,980</b></u>	<u><b>2,164,021</b></u>

Details of the distribution per unit are set out in the tables on page 27.

# Notes to the Financial Statements

as at 31st May 2009

## 8 Debtors

	2009	2008
	£	£
Accrued income	528,003	476,069
Amount receivable for creation of units	85,290	129,849
Overseas tax recoverable	19,520	9,430
Bank interest	1,640	33,242
	<u>634,453</u>	<u>648,590</u>

## 9 Cash and bank balances

	2009	2008
	£	£
Cash and bank balances	<u>5,218,789</u>	<u>10,465,442</u>

## 10 Creditors

	2009	2008
	£	£
Manager's periodic charge	214,016	240,863
Trustee's fee	3,408	3,547
Audit fee	6,210	6,169
	<u>223,634</u>	<u>250,579</u>

## 11 Capital Commitments

At 29th May 2009 there were no outstanding capital commitments (2008: Nil) in respect of nil and partly paid securities held by the Trust.

## 12 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 5 to 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 changes in unitholders' net assets.

Any amounts due to or from the Manager and Trustee at the end of the accounting period are disclosed in notes 8 (Debtors) and 10 (Creditors).

# Notes to the Financial Statements

as at 31st May 2009

## 13 Derivatives and other financial instruments

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

- Equity shares 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.

### Foreign Currency Risk

The income of the Fund's investments can be significantly affected by currency translation movements, as a portion of the Fund's income is denominated in currencies other than Sterling, which is the Fund's base currency. The Fund does not hedge on foreign exchange rates.

The Fund's currency exposure is analysed below:

	2009	2008
	£	£
Sterling	170,705,734	184,542,437
Euro	715,084	607,122
Swiss Franc	1,184,760	1,251,940
US Dollars	6,523,105	7,149,793
	<u>179,128,683</u>	<u>193,551,292</u>

# Notes to the Financial Statements

as at 31st May 2009

The Fund's currency exposure is analysed below:

<b>Currency</b>	<b>Investments 2009 (£)</b>	<b>Other Net Assets 2009 (£)</b>	<b>Total 2009 (£)</b>
Sterling	167,885,162	2,820,572	170,705,734
Euro	715,084	–	715,084
Swiss Franc	1,165,240	19,520	1,184,760
US Dollars	6,428,790	94,315	6,523,105
Total	<u>176,194,276</u>	<u>2,934,407</u>	<u>179,128,683</u>

The Fund's currency exposure is analysed below:

<b>Currency</b>	<b>Investments 2008 (£)</b>	<b>Other Net Assets 2008 (£)</b>	<b>Total 2008 (£)</b>
Sterling	175,502,754	9,039,683	184,542,437
Euro	604,960	2,162	607,122
Swiss Franc	1,244,672	7,268	1,251,940
US Dollars	7,068,481	81,312	7,149,793
Total	<u>184,420,867</u>	<u>9,130,425</u>	<u>193,551,292</u>

## 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.

# Notes to the Financial Statements

as at 31st May 2009

## 14 Portfolio Transaction Costs

The cost of transactions during the year were:

	2009		2008	
<b>Analysis of total purchase costs</b>	£	£	£	£
Purchases in year before transaction costs		56,967,223		98,849,353
Stamp Duty	277,470		480,681	
Commissions	80,390		144,739	
PTM Levy	<u>102</u>		<u>98</u>	
Total purchase costs		357,962		625,518
Gross purchases total		<u>57,325,185</u>		<u>99,474,871</u>

	2009		2008	
<b>Analysis of total sales costs</b>	£	£	£	£
Gross sales before transaction costs		20,000,781		64,903,835
Commissions	(30,001)		(97,081)	
PTM Levy	<u>(31)</u>		<u>(52)</u>	
Total sale costs		(30,032)		(97,133)
Total sales net of transaction costs		<u>19,970,749</u>		<u>64,806,702</u>

Stamp Duty is paid at 0.5% on all UK share purchases, PTM levy is paid at £1 for each UK share purchase or sale where the cost or proceeds is over £10,000. SEC Fee (Securities Exchange Commission) is a fee paid on all US share sales.

# Distribution Table

for the year ended 31st May 2009

## Interim Distribution

Group 1 – Units purchased prior to 1st June 2008

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

	<b>Net Income 2008</b> pence per unit	<b>Equalisation 2008</b> pence per unit	<b>Distribution payable 2008</b> pence per unit	<b>Distribution payable 2007</b> pence per unit
<b>Income units</b>				
Group 1	1.0800	–	1.0800	1.0000
Group 2	–	1.0800	1.0800	1.0000

## Final Distribution

Group 1 – Units purchased prior to 1st December 2008

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

	<b>Net Income 2009</b> pence per unit	<b>Equalisation 2009</b> pence per unit	<b>Distribution payable 2009</b> pence per unit	<b>Distribution payable 2008</b> pence per unit
<b>Income units</b>				
Group 1	3.4201	–	3.4201	1.0800
Group 2	0.8936	2.5265	3.4201	1.0800

## Prices

The price of the CIS Sustainable Leaders 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.

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