

The **co-operative**
asset management

An introduction to our **sustainable fund range**

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



Introduction to **sustainability**



The Co-operative Asset Management is a stand-alone fund management company, which benefits from the stability and strength of its parent company, The Co-operative Group.

We manage over £18 billion in a range of investment portfolios for UK intermediaries and their clients as well as pension funds, life companies and other institutional clients.

This brochure is designed to give you an overview of our company, our investment process and sustainable fund range. If you would like further information please visit www.co-operativeassetmanagement.co.uk, contact your usual representative or call Broker Services on 0845 603 9986.

What characterises The Co-operative Asset Management?

1. We dig deeper

The Co-operative Asset Management's sustainable approach, which you can read more about on the following pages, integrates financial and environmental, social and governance (ESG) research themes throughout the investment process, providing an additional layer of analysis that ensures a more thorough research process and more exhaustive questioning.

We look for companies that are likely to benefit from key positive social and sustainable themes that will boost investment prospects and create long-term value. Research is based on detailed company analysis and the evaluation of longer-term industry themes and trends.

Our analysts and fund managers look in particular for companies with products or services that are of net benefit to society, and that will enable our portfolios to deliver superior performance.

2. We think long term

Our fund managers prefer to focus on generating long-term, sustainable returns for your clients. We believe it is vital to take a long-term view when identifying opportunities for inclusion in our portfolios. Many investment firms focus on the short-to-medium term, an area we believe is overcrowded and where there are fewer chances to uncover profitable opportunities others may have missed.

The investment industry's growing focus on the short term means that longer-term opportunities are being overlooked, particularly at individual company level where some analysts will disregard long-term drivers to investment valuations. In order to identify mispriced opportunities we focus on the longer term.

“Our fund managers and research analysts are highly talented individuals with a proven track record of identifying broad social themes that create tangible investment opportunities.”

Paul Sharman, Chief Investment Officer

We believe there is more potential for outperformance, and less risk overall for your clients, by investing for the long-term. This means that we tend to hold companies in our portfolios for three to four years.

3. Focused portfolios

Our portfolios tend to be relatively concentrated – with between 40 to 60 holdings in equity portfolios – and therefore every holding needs to pull its weight. Stock selection is driven by robust and detailed fundamental analysis. ESG analysis is intrinsic to the research process, and we believe that by widening the focus to include key questions on ESG issues, we become more attuned to industry dynamics and can therefore recognise developing themes and trends at an early stage.

4. An experienced and stable investment team

The Co-operative Asset Management has over 50 investment professionals based in Manchester. The fund management team consists of nine experienced fund managers who have managed portfolios through numerous market and economic cycles. Fund manager turnover is exceptionally low compared with the industry average, with an average fund tenure of eight years.

The Co-operative Asset Management's investment approach is best characterised by its long-term focus, its robust, pragmatic philosophy of sustainability, and its strong, yet flexible, framework. These characteristics lie at the heart of The Co-operative Asset Management's implementation, and the strength of this approach is borne out by the investment team's strong and consistent long-term performance.

“Patience is a core component of our approach.”

Mike Fox, Fund Manager & Head of UK Equities

Sustainable investing = long-term outperformance

A sustainable approach is fundamental to The Co-operative Asset Management's investment philosophy. However, for The Co-operative Asset Management, the concept of "sustainability" is not just about finding companies with sustainable products and services, but also about achieving strong and sustainable long-term investment performance. Our performance figures show that a sustainable approach, with its focus on enhancing the understanding of potential risk and reward, can increase returns for your clients.

Sustainable investment focuses on companies that are likely to benefit from key social themes that have the potential to boost a company's long-term prospects – and ultimately, its share price. Sustainable investment is not just a question of avoiding companies with problematic business practices. Progressive company managements have already realised that the provision of products and services that deal with key social issues can produce excellent long-term profit growth. Sustainability issues can have a direct - and potentially damaging - effect on a company's brand perception and risk management, but can also provide additional positive impetus for innovation and growth. Sustainable investment is moving from the periphery of the investment world and becoming mainstream.

An increasing proportion of forward-thinking investment houses are integrating an angle of sustainability into their traditional financial research. Nevertheless, fund managers and research analysts need to ensure that they are asking the right questions and that the resulting information is being used in the right way. At its best, sustainable investment is integral to the entire research process; it is less likely to yield truly impressive results as a bolt-on or afterthought to an investment manager's everyday approach. Few fund managers can claim to have The Co-operative Asset Management's integrated approach, or its long and successful track record of sustainable investment.

Investment analysis from a perspective of sustainability can help analysts and portfolio managers to gain a greater understanding of a company, its business and its drivers. By uncovering sustainable or unsustainable business practices, managers and analysts are better equipped to assess potential risks and rewards. In this way, a sustainable approach to company research and stock selection actually enhances the investment process, adding relevant – and sometimes crucial – information to the study of each company.

“Our approach is focused, long-term and valuation-based, with a high degree of ESG research integrated into our investment ideas.”

Paul McGinnis, Head of Research

Properly undertaken, a sustainable approach does not restrict investment opportunities; instead, it helps to increase opportunities by providing additional detail and uncovering information that might have remained hidden. A sustainable approach is not about “screening out” undesirable companies, but about finding attractive companies with strong long-term prospects that could provide a significant future boost for their share prices. Rather than limiting an investment universe, a sustainable approach aims to ensure that the potential universe is as broad as possible.

Sustainable investment themes

1. Demographics

The issue of demographics continues to become increasingly relevant. The populations of many developed nations – including the UK – are ageing, and this will increase demand for healthcare services and medicines. Elsewhere in the world, UK companies with overseas operations are likely to benefit from the inexorable rise of the consumer in emerging Asian countries.

2. Infrastructure and construction

In both the developed and the developing world, infrastructure is a core long-term theme. Developing nations need new infrastructure, while developed countries need their existing infrastructure to be maintained and redeveloped. This trend should

provide considerable opportunities for companies involved in the building, maintenance and ownership of this infrastructure. Meanwhile, urban regeneration specialists, who focus on improving and building on previously used land, can take advantage of restrictive planning controls and a significant proportion of unused “brownfield” land.

3. Power and climate change

The growing global power shortage is another issue that is likely to affect many companies. Increasing demand for power, coupled with a lack of new generation capacity, creates opportunities for companies involved in the development of power generation and accentuates the value of existing generation capacity, a theme that is not yet fully appreciated by the broader investment community. Finally, climate change is a massively important theme, and increasing legislation and rising environmental standards will create opportunities for companies across a wide range.

A sustainable approach to investment is a bonus. Your clients do not have to sacrifice returns and can actually enhance long-term performance. For The Co-operative Asset Management, a truly sustainable approach is inextricably linked to the pursuit of strong, sustainable and improving returns.

CIS Sustainable Leaders Trust

“We are looking for broad social themes that create tangible investment opportunities.”

Mike Fox, Fund Manager and Head of UK Equities

Fund Facts

Fund Manager	Mike Fox
Fund launch date	29/05/90
Risk rating	Balanced
Base currency	GBX
Type of share	Distribution
Distribution dates	Jan, Jul
IMA sector	UK All Companies
Annual charge	1.50%
Initial Charge	5.00%
ISIN	GB0001615102

CIS Sustainable Leaders Trust is a UK growth fund that focuses on the core sustainable investment approach. The fund was launched in June 1990 and has achieved top-quartile performance over five years (to 30.04.10).

Mike Fox is Senior Fund manager of both the Sustainable Leaders and the Sustainable World Trusts and Head of UK Equities at The Co-operative Asset Management. Mike has managed CIS Sustainable Leaders Trust since November 2003. Prior to this, he was deputy fund manager on the Co-operative Pension Fund for two years, before which he worked as an investment analyst. Mike won Citywire's 2007 award for "UK Growth Fund Manager of the Year".

A thematic approach

Our Research team identifies key themes and trends and then, working with the fund manager, drills down to company level to identify long-term investment opportunities. In particular, they look for mispriced securities within the investment universe that have the potential for future rerating. In common with his colleagues on The Co-operative Asset Management's investment team, Mike focuses on the longer term, and will typically hold an investment for an average of four to five years, significantly longer than the industry average.

“It's amazing how much diversity you can get in a portfolio of 40 or 50 stocks.”

Mike Fox, Fund Manager and Head of UK Equities



A concentrated portfolio with a focus on quality and value

The fund is relatively concentrated, and usually contains between 40 and 50 holdings. Because the portfolio is concentrated, Mike prefers to avoid high risk investments. Risk is assessed at individual company level, supported by the investment team's extensive and detailed analysis.

The top ten holdings usually make up about 40% of total assets within the fund. He looks primarily for companies that display better long-term prospects for growth than the broader stock market. Companies within the portfolio tend to be leaders in their field, with credible managements and strong business franchises. Quality is an important factor, and valuation is crucial.

A sustainable approach

In common with The Co-operative Asset Management's general investment ethos, Mike Fox follows a sustainable approach to portfolio management and stock selection. Infrastructure is a particularly exciting long-term theme. At present, billions of people in emerging economies are still without running water or electricity; however, many of these countries are now in a position to pay for this infrastructure to be developed. Another key theme is healthcare and its relationship to world demographics, an issue that Mike believes will become increasingly relevant over the next decade.

Every holding has to meet key criteria with regard to The Co-operative Asset Management's sustainable approach; nevertheless, Mike only considers themes that are likely to have a material impact on valuations, and holdings that are likely to have a material effect on performance.

“Most of a company's value is in years three to infinity.”

Mike Fox, Fund Manager and Head of UK Equities

CIS Sustainable **World Trust**



Fund Facts

Fund Manager	Mike Fox
Fund launch date	21/09/09
Risk rating	Balanced
Base currency	GBX
Distribution dates	May, November
IMA Sector	Balanced Managed
Annual Charge	1.50%
Initial Charge	5.00%
ISIN	GB00B3PXJV84

CIS Sustainable World Trust is a diversified international fund that aims to generate medium-to-long-term capital growth through worldwide investment in multiple asset classes, primarily equities with some exposure to fixed income and cash.

CIS Sustainable World Trust was launched in September 2009 and is managed by Mike Fox, Head of Equities at The Co-operative Asset Management. Mike has managed CIS Sustainable Leaders Trust since November 2003, and won Citywire's award for "UK Growth Fund Manager of the Year" in 2007. Before his appointment as fund manager of CIS Sustainable Leaders Trust, Mike was deputy fund manager on the The Co-operative Pension Fund for two years. Prior to this, he worked as an investment analyst.

Strength through diversity

CIS Sustainable World Trust offers the same sustainable approach that has delivered strong, long-term returns for The CIS Sustainable Leaders Trust, but with an increased proportion of overseas holdings. This exposure to international companies combined with fixed income, provides an extra layer of diversification to the portfolio.

The portfolio is invested across the market capitalisation spectrum, in large, medium and small companies; however, overseas holdings tend to be concentrated amongst larger, blue-chip firms that meet The Co-operative Asset Management's core investment criteria with regard to sustainability, corporate fundamentals and valuation. Overseas exposure tends to be focused on companies in Europe and North America, where disclosure tends to be more developed, making it easier for analysts to ascertain whether they fulfil The Co-operative Asset Management's key investment criteria.



“Philosophically, we allocate capital to the best ideas, not the biggest names in the market.”

Mike Fox, Fund Manager and Head of UK Equities

A thematic approach

Supported by The Co-operative Asset Management's experienced investment team, Mike Fox identifies core themes, and expands them on a global basis. This global approach means that he is advantageously positioned to pick up on themes and trends at an early stage in their development, and then to identify the individual companies that are poised to benefit from these themes in the long term.

Every holding within the fund has to satisfy The Co-operative Asset Management's core criterion of sustainability with regard to environmental, social and governance (ESG) issues. As described earlier, the positive themes focused on include demographics, infrastructure and construction and power and climate change.

However, valuation is a critical factor, and Mike Fox will never include a holding unless it is well placed to contribute to the portfolio's long-term performance.

Communication is key

The Co-operative Asset Management's fund managers are supported by a wealth of research and analysis, generated internally by The Co-operative Asset Management's team of financial and ESG analysts, and externally from a variety of sources. Members of the investment team meet regularly to discuss company and sector research and portfolio construction. However, the team members' close proximity facilitates a continuous, ad-hoc exchange of ideas and views, ensuring that communication is instant and continuous, ensuring that decisions can be made rapidly in a fast-changing and fluid environment.

“We are looking for broad social themes that create tangible investment opportunities.”

Mike Fox, Fund Manager and Head of UK Equities

CIS Sustainable **Diversified Trust**

Fund Facts

Fund Manager	Linda Desforges
Fund launch date	24/07/09
Risk rating	Cautious
Base currency	GBX
Distribution dates	March, June, September, December
IMA Sector	Cautious Managed
Annual Charge	1.50%
Initial Charge	5.00%
ISIN	GB00B3PXJV84

CIS Sustainable Diversified Trust aims to provide capital growth from a diverse range of asset classes, for example, equities, fixed income, property-related investments and cash, primarily in the UK.

The fund was launched in July 2009 and is managed by Linda Desforges. Having joined The Co-operative in 1989 as a research analyst, Linda has managed portfolios since 1993. She now heads up The Co-operative Asset Management's External Funds and is a key member of the asset allocation team. Linda assumed responsibility for The Co-operative Asset Management's multi-manager funds at the time of their launch in April 2006. Linda's broad range of experience makes her particularly well equipped to manage a fund that is diversified across a wide range of asset classes and geographies.

A bottom-up approach to security selection

The portfolio is constructed on the basis of bottom-up stock selection, which is guided by the long-term investment themes and economic trends that drive the intrinsic value of the underlying investments. Analysis from the in-house research team helps to uncover key themes; for example, the global power shortage and secular growth in emerging markets.

A balance between risk and return

When determining the asset allocation of the fund, Linda will evaluate the prospects for both risk and return. When risk takes centre stage, she focuses on a relatively defensive strategy with an emphasis on government bonds, alternative investments and cash. In a period of more stable economic growth, the portfolio is likely to be weighted towards corporate bonds, equities and property. At all times, she aims to maximise returns whilst minimising volatility. Particular attention is paid to corporate performance levels; signs that a company's profitability is embarking on a return to the mean following a period of under or over earning will prompt fund manager action.

Linda believes that the balance between asset allocation and stock selection maximises the potential for superior returns in the long term.

“The core theme of sustainability runs throughout the investment process.”

Linda Desforges, Fund Manager and Head of External Funds

“A sustainable approach ensures that we ask different questions that don’t tend to be asked by other fund managers or analysts.”

Linda Desforges, Fund Manager and Head of External Funds

An experienced lead manager supported by a strong team

Linda is responsible for asset allocation and the ongoing monitoring of the portfolio and mix of assets and her strong understanding of the dynamics of the different asset classes is key. She also takes ultimate ownership of the securities that are held in the portfolio, working with Mike Fox, Head of UK Equities, on equity selection and Richard Nelson, a senior fund manager in our Fixed Income team to select securities from the corporate and sovereign bond space. The fund also benefits from input from over 50 investment professionals at The Co-operative Asset Management, including fund managers, equity, fixed-income and ESG research analysts and risk analysts. Linda is closely involved in the stock selection process and she generates ideas from her own research that she passes to the Research Team for further analysis. The portfolio will typically contain around 80 to 90 securities, and holdings are likely to be retained for a relatively long period of at least three years.

A sustainable approach enhances the whole investment process

The core theme of sustainability runs throughout the investment process. Linda believes that The Co-operative Asset Management’s integrated analysis on environmental, social and governance (ESG) issues provides a valuable additional perspective that enhances the overall process of research and stock selection.

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

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