



for Charities

# **COIF Charities Fixed Interest Fund**

**Annual Report and Accounts  
Year to 31 December 2008**

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### **Details of Board and Manager**

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### **Description of COIF Charity Funds**

(outside back cover)

## **Disability Discrimination Act 1995**

Extracts from the Report and Accounts are available in large print and audio formats.

# Report of the Board

## for the year ended 31 December 2008

On behalf of the Board, we have pleasure in presenting our annual report of the COIF Charities Fixed Interest Fund (the Fund).

### Structure and management of the Fund

The Fund was set up in 1990 as a common investment fund under the Charities Act 1960. The Scheme dated 29 November 2000 was adopted with effect from 1 January 2001, which replaced the previous Charity Commission Scheme dated 28 June 1995. The Scheme was made under section 24 of the Charities Act 1993.

The Financial Services Authority (FSA) rules for the operation of Unregulated Collective Investment Schemes apply to CCLA Investment Management Limited's (the Manager) management of the Fund.

The investment management, administration, registrar and secretarial functions of the Fund have been delegated to the Manager. The Fund has a Board which meets at least four times per annum to receive reports and monitor the progress of the Fund. The Board, created under the Scheme, is made up of individuals appointed under the Scheme. Together, these individuals have wide experience of finance, investments, charities and the law. No Board member is required to be authorised by the FSA because no Board member carries out regulated activities in relation to the Fund.

The Board is responsible for setting and subsequently advising on the investment policy of the Fund, monitoring performance, obtaining Charity Commission orders for the

appointment and discharge of the Manager and Corporate Trustee (the Trustee), appointing the Auditor to the Fund and agreeing the fees charged by the Trustee, the Manager and the Auditor.

The Trustee, HSBC Bank plc, appointed under the Scheme is responsible for the supervision and oversight of the Manager's compliance with the Scheme and Scheme Particulars, and also for the custody and safekeeping of the property of the Fund. It is also responsible for the appointment and supervision of the Registrar of the Fund. The division between management and trustee functions provides an additional layer of protection for unitholders.

### Objective and benchmark of the Fund

The Fund aims to provide a relatively high income yield compared to equity investment and a total return in excess of its benchmark. The Fund is intended for long-term investment and by their nature fixed interest securities offer no protection from the effects of inflation.

The total return performance benchmark for the Fund is the WM Co Charity Fund Service Universe for United Kingdom (UK) fixed interest securities, with gross income reinvested and before management expenses.

### Investment policy

The Fund's policy is to invest in sterling denominated debenture or loan stock of overseas governments, local authorities or companies or undertakings, in sterling denominated convertible debenture or loan stocks and in preference or convertible preference units provided they are quoted on a recognised stock exchange.

# Report of the Board

## for the year ended 31 December 2008

Up to 100% of the Fund may be invested in British government securities. In other respects the Manager must have regard to the need for diversification and suitability of investments.

### Review of investment activities and policies of the Fund

The Board met quarterly during the year to carry out its responsibility for the approval of investment strategy, for setting distribution policy, to monitor investment diversification, suitability and risk and to review the performance of the Fund. In addition, the Board monitored the administration, expenses and pricing of the Fund.

During the year, the Board also met quarterly with the Manager to review investments, transactions and policies of the Fund. The Manager's report, which appears later, provides further details.

### Controls and risk management

The Board receives and considers regular reports from the Manager. Ad hoc reports and information are supplied to the Board as required. The Manager has established an internal control framework to provide reasonable but not absolute assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the directors and senior management of the Manager on a continuing basis.

During the year, the Board, assisted by the Manager, reviewed the Fund's systems of internal control. Every six months the Board receives from the Manager, and reviews, a formal risk management report setting out the main risks facing the Fund, the controls in place to mitigate the risks and the assessment of each risk in terms of both gross and residual exposure after application of mitigating controls.

### Responsible investment

The Board applies an exclusion policy that is consistent with the views of its charity customers in so far as the Fund will not hold corporate bonds in any company whose main business is the manufacture or support of gambling, tobacco or armaments.

### New Chairman

Following the Board meeting held on 25 February 2009 (at which these Annual Report and Accounts were signed), Mr B Wrey retired as a Board Member and Chairman of the Fund after eleven years of service to the COIF Funds as Board Member, including, as Chairman since April 2005.

Mr D Henderson, a current Board Member of the Fund, was appointed Chairman of the Fund with effect from conclusion of the Board meeting held on 25 February 2009. He has been a Board Member since July 2006.

B Wrey  
Chairman of the Board

25 February 2009

# Report of the Investment Manager

## for the year ended 31 December 2008

- A high income fund for long-term capital
- Invested only in Sterling fixed income stocks
- Gives no long-term protection for capital against inflation
- Good performance record

### Performance

We reduced the Fund's exposure to corporate bonds last year on the belief the asset class looked expensive relative to gilt-edged securities. During 2008 the deteriorating economic climate meant investor demands were solely for the highest rated securities and consequently the corporate bond sector experienced its worst year in living memory. In this period of severe weakness, it has been our strategy to re-establish a significant corporate bond weighting which included purchases of UK bank and insurance preference shares. The Fund weightings at 31 December 2008 were gilt-edged securities/cash 68.5%, corporate bonds 29.1% and preference shares 2.4%.

The average weighted life of the Fund was lengthened and at the end of the reporting period, was similar to that of the FTSE UK Government All Stocks index.

Over the period the value of an accumulation unit rose from 488.13p to 534.86p, or by 9.57%. The value of an income unit rose from 126.52p to 130.98p at 31 December 2008, a capital return of 3.53%.

The annual distribution rate for the year remained unchanged at 7.2p per income unit. The income yield was 5.50% at the year end. The corresponding gross redemption yield, which is an estimate of the total return of the Fund over the long-term, after management expenses, was 3.79%. Please note the Fund's income yield is an indication of the expected level of income. The corresponding gross redemption yield is an estimate of total return over the long-term.

### COIF Charities Fixed Interest Fund

#### Total capital and income return

To 31 December 2008	1 year % p.a.	5 years % p.a.	10 years % p.a.
<u>Performance against benchmark and market indices (before expenses)</u>			
<b>COIF Charities Fixed Interest Fund</b>	+ 9.85	+ 6.06	+ 5.63
WM Co CFS Universe, UK Bonds	+ 6.51	+ 5.15	+ 4.92
FTSE UK Govt All Stocks Index	+12.81	+ 6.60	+ 5.47
<u>Performance after expenses</u>			
<b>Income units*</b>	+ 9.62	+ 5.84	+ 5.43
<b>Accumulation units*</b>	+ 9.57	+ 5.81	+ 5.40

\* Net asset value to net asset value plus income reinvested

Source: The Manager and WM

# Report of the Investment Manager

## for the year ended 31 December 2008

### Comparison with the benchmark WM Co Charity Fund Service Universe

The Fund performed well relative to its benchmark, the fixed interest element of the WM Co Charity Fund Universe. Over the 2008 calendar year the COIF Charities Fixed Interest Fund achieved a total return before management expenses of 9.85% which was 3.34% higher than the Fund's benchmark.

### Market Review

During the year financial markets have faced extraordinary developments. Since the credit crisis began credit spreads (the yield difference between corporate bonds and comparable gilt-edged securities) have been the leading indicator of the state of investor confidence. In spite of all the government and central bank action, the willingness to lend to banks and other financial intermediaries diminished. This caused investment grade spreads, both in the financial and non-financial sectors to widen persistently. The Barclays investment grade corporate bond index recently recorded a record high spread of 383 basis points; a year ago it was just 124 basis points, and before the credit crisis it averaged close to 55 basis points. The current extreme levels imply that a high number of companies are expected to default. Spread widening has been a global phenomena and the flight to quality has revealed the differing expectations that individual governments have the resources or the determination to decisively deal with escalating domestic banking and fiscal issues.

As the banking system struggles to obtain funds, the UK government is set to use its borrowing power to boost activity. In April the UK Debt Management Office had forecast that short, medium and long dated issuance for the fiscal year 08/09 would be £25 billion, £13 billion and £24 billion respectively. Revisions to these forecasts, made during the November 2008 Pre-Budget Report, were staggering in scale. There was a very large revision to short dated issuance, which is now projected to be £63 billion, while medium and long end issuance will 'only' rise to £33 billion and £31 billion respectively. Total gilt issuance, including index-linked gilts, for this fiscal year is forecast to be £146 billion; trumping last year's record £58 billion. In the following four fiscal years the Chancellor believes the gross financing requirement will be over £500 billion, an unprecedentedly high number, and more worryingly, there appears to be no determined measures to redress this fiscal imbalance. Therefore, there is the prospect of £100 billion of borrowing per annum becoming entrenched for the foreseeable future. Fortunately, for the government, short dated government paper has provided a refuge for the risk adverse investors, including some investors who would normally use bank deposits, as even these were perceived less secure. Over the past twelve months the yield on the two-year gilt has fallen from 4.4% to just 1.0%, the yield on the 10-year gilt fell from 4.5% to 3.0%.

# Report of the Investment Manager

## for the year ended 31 December 2008

### Outlook

Media headlines have rightly been about developments on Wall Street as the failure or rescue of well known financial firms matters greatly because of the knock on impact on the wider economy. The past year has brought home once again why central banks are concerned with financial stability as well as monetary stability and inflation. The biggest risks to the financial sector are also the biggest downside risks to the economy. Once the full-blown financial panic retreats, the global economy will be left with higher unemployment, falling global demand and higher financing costs, which means that companies will face a tough time and earnings are set to slow significantly. In the financial sector, rescue packages are now in place but even after the deleveraging and de-risking processes are completed, there is still the prospect of regulatory actions.

Investors have demonstrated an understandably high degree of risk aversion but this will eventually ease and demand for government guaranteed debt will reduce. The present excessive supply of short gilts should prevent a further decline in yields at this end of the market while the high demand for government debt and a less aggressive level of long issuance means that long gilt yields are likely to be little changed from current levels. However, in the near term other factors such as changes in interest rate expectations and unconventional government policy measures may have a more powerful influence on the market than supply and demand imbalances.

S Freeman  
Fund Manager  
CCLA Investment Management Limited

25 February 2009

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### Risk Warning

The Fund's units and the income from them can fall as well as rise and an investor may not get back the amount originally invested. Past performance is no guarantee of future returns.

The Fund's units are intended only for long-term investment and are not suitable for money liable to be spent in the near future. They are realisable only on each weekly dealing day.

The Fund's income yield is an indication of the expected level of income. The corresponding gross redemption yield is an estimate of total return over the long term. The Fund's income yield and gross redemption yield are not guaranteed and will change over time. When the Fund's income yield is higher than the gross redemption yield, some income is being paid at the expense of capital.

# Report of the Corporate Trustee

## for the year ended 31 December 2008

We confirm that based upon the information available to us, we are of the opinion that the Manager of the Scheme has, in all material respects, managed the Scheme during the period covered by these accounts in accordance with the limitations imposed upon the investment and borrowing powers of the Manager and Trustee, and in accordance with the provisions of the Scheme.

This report is given on the basis that no breaches are subsequently advised to us by the Auditors before the distribution date. We therefore reserve the right to amend the report in the light of such circumstances.

HSBC Bank plc  
Trustee and Depositary Services  
8 Canada Square  
London E14 5HQ

*HSBC Bank plc is authorised and regulated by the Financial Services Authority*

25 February 2009

# Report of the Independent Auditor to the unitholders of COIF Charities Fixed Interest Fund

We have audited the financial statements of COIF Charities Fixed Interest Fund for the year ended 31 December 2008 which comprise the statement of total return, the statement of change in unitholders' net assets, the portfolio statement, the balance sheet, the summary of material portfolio changes, the related notes and the distribution table. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the unitholders of the Fund, as a body, in accordance with the Scheme of the Charity Commissioners under the Charities Act 1993. Our audit work has been undertaken so that we might state to the unitholders of the Fund 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 Fund and the unitholders of the Fund, as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Board, Manager and Auditor

The Manager is responsible for the preparation of the annual report and financial statements in accordance with Accounting Standards (United Kingdom generally accepted accounting practice) as set out in the Statement of the Board, Trustee and Manager responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements in accordance with United Kingdom legal and regulatory requirements and International Standards on Auditing (United Kingdom 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 United Kingdom generally accepted accounting practice, the Charities (Accounts and Reports) Regulations 1995 and the Scheme of the Charity Commissioners under the Charities Act 1993. We also report to you if, in our opinion, the Report of the Investment Manager is not consistent with the financial statements, if the Manager has not kept proper accounting records for the Fund, if the financial statements are not in agreement with those accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Investment Manager and the other items set out on the contents page. 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.

# Report of the Independent Auditor to the unitholders of COIF Charities Fixed Interest Fund

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (United Kingdom 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 Trustee in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Fund'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 United Kingdom generally accepted accounting practice of the financial position of the Fund as at 31 December 2008 and of the net income and the net gains on the scheme property of the Fund for the year then ended; and
- have been properly prepared in accordance with United Kingdom generally accepted accounting principles, Regulation 4 of the Charities (Accounts and Reports) Regulations 1995 and the Scheme of the Charity Commissioners under the Charities Act 1993, dated 29 November 2000.

Ernst & Young LLP  
Registered Auditor  
London

25 February 2009

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The maintenance and integrity of the CCLA Investment Management Limited website is the responsibility of the directors of CCLA Investment Management Limited; the work carried out by the auditor of the COIF Fixed Interest Fund does not involve consideration of these matters and, accordingly, the auditor

accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in other jurisdictions.

# Net asset value, unit price range, net distribution, unit prices and total expense ratio

## Net asset value

<i>At 31 December</i>	<i>Net asset value £'000</i>	<i>Income units</i>		<i>Accumulation units</i>	
		<i>Net asset value pence per unit</i>	<i>Number of units in issue</i>	<i>Net asset value pence per unit</i>	<i>Number of units in issue</i>
2006	163,545	127.75	111,342,883	465.51	4,646,292
2007	167,856	126.52	110,593,719	488.13	5,722,965
2008	165,538	130.98	111,109,783	534.86	3,742,036

The net asset value is calculated on the mid-market value basis compared to the balance sheet where the assets are valued on a bid-market value basis in accordance with the Statement of Recommended Practice for Authorised Funds which was issued by the Investment Management Association (IMA) in December 2005.

## Unit price range

<i>Year to 31 December</i>	<i>Income units</i>		<i>Accumulation units</i>	
	<i>Highest offer pence per unit</i>	<i>Lowest bid pence per unit</i>	<i>Highest offer pence per unit</i>	<i>Lowest bid pence per unit</i>
2004	134.68	127.73	432.86	399.57
2005	135.84	129.50	462.97	423.60
2006	135.99	127.49	472.51	450.86
2007	128.72	120.03	489.11	449.09
2008	132.26	119.94	535.93	473.52

## Net distribution

<i>Year to 31 December</i>	<i>Income units pence per unit</i>	<i>Accumulation units pence per unit</i>
2004	8.80	25.85
2005	7.20	25.87
2006	7.20	25.63
2007	7.20	27.40
2008	7.20	28.65

# Net asset value, unit price range, net distribution, unit prices and total expense ratio

## Unit prices at 31 December 2008

	<i>Bid price pence per unit</i>	<i>Offer price pence per unit</i>
Income units	130.72	131.24
Accumulation units	533.79	535.93

The unit prices are published in the *Financial Times* and on the Manager's website at [www.ccla.co.uk](http://www.ccla.co.uk).

The bid and offer prices are calculated on the net asset value minus or plus a 0.20% deduction or surcharge.

## Total expense ratio

	<i>31.12.2008</i>	<i>31.12.2007</i>
Total expense ratio	0.30%	0.28%

The total expense ratio is the ratio of the Fund's total operating costs to its average net assets calculated over the year.

# Statement of total return

## for the year ended 31 December 2008

	Notes	31.12.2008		31.12.2007	
		£'000	£'000	£'000	£'000
Net gains/(losses) on investments during the year	2		5,395		(319)
Income	3	9,893		8,494	
Expenses	4	(475)		(454)	
Net income for the year			9,418		8,040
<b>Total return before distributions</b>			14,813		7,721
Finance costs: distributions	6		(9,511)		(9,596)
<b>Change in net assets attributable to unitholders</b>			5,302		(1,875)

# Statement of change in unitholders' net assets

for the year ended 31 December 2008

	31.12.2008		31.12.2007	
	£'000	£'000	£'000	£'000
<b>Net assets at start of the year</b>		<b>167,835</b>		163,890
<b>Movement due to creation and cancellation of units</b>				
Amounts receivable on creation of units		<b>10,492</b>	26,015	
Less: amounts payable on cancellation of units		<b>(19,613)</b>	<u>(21,902)</u>	
		<b>(9,121)</b>		4,113
Change in net assets attributable to unitholders		<b>5,302</b>		(1,875)
Retained distribution on accumulation units		<u><b>1,526</b></u>		<u>1,707</u>
<b>Net assets at end of the year</b>		<b><u>165,542</u></b>		<b><u>167,835</u></b>

The notes on pages 18 to 24 form part of these accounts.

# Portfolio statement

## at 31 December 2008

	<i> Holding</i>	<i> Bid value £'000</i>	<i> % Fund</i>
<b>Government Stocks 66.34% (31.12.07, 84.63%)</b>			
Treasury 5.75% Stock 2009	1,040,000	1,090	0.66
Treasury 6.25% Stock 2010	2,300,000	2,527	1.53
Conversion 9% Stock 2011	19,600,000	23,053	13.93
Treasury 8% Stock 2013	7,400,000	9,203	5.56
Treasury 8% Stock 2015	4,160,000	5,399	3.26
Treasury 8.75% Stock 2017	4,435,000	6,269	3.79
Treasury 8% Stock 2021	2,570,000	3,755	2.27
Treasury 6% Stock 2028	12,000,000	15,428	9.32
Treasury 4.25% Stock 2032	3,500,000	3,683	2.22
Treasury 4.25% Stock 2036	7,740,000	8,348	5.04
Treasury 4.75% Stock 2038	14,635,000	17,401	10.51
Treasury 4.5% Stock 2042	12,000,000	13,656	8.25
<b>Debenture Stocks 1.44% (31.12.07, 1.37%)</b>			
Monks Investment Trust 11% Debenture Stock 2012	550,000	668	0.40
British Sugar 10.75% Bond 2013	800,000	1,022	0.62
BAA Lynton 10.25% Debenture Stock 2017	500,000	697	0.42
<b>Credit 27.63% (31.12.07, 11.56%)</b>			
EIB 9.5% Bond 2009	1,250,000	1,339	0.81
Barclays Bank 12% Bond 2010	520,260	594	0.36
BMW 6.375% Bond 2010	2,650,000	2,627	1.59
World Bank 9.5% Bond 2010	750,000	843	0.51
Marks & Spencer 6.375% Bond 2011	2,065,000	1,991	1.20
ICO 4.625% Bond 2012	2,650,000	2,776	1.68
Network Rail 4.875% Bond 2012	2,000,000	2,109	1.27
BOC 12.25% 2012/2017	682,000	869	0.52
Blue Circle 10.75% Bond 2013	1,500,000	1,459	0.88
Royal Bank of Scotland 10.5% Bond 2013	1,000,000	1,092	0.66
Wal-Mart 4.75% Bond 2013	1,650,000	1,702	1.03
Abbey National 7.5% Bond 2015	2,000,000	1,712	1.03
BOS 10.25% 2015	900,000	843	0.51
LloydsTSB 6.625% Bond 2015	2,000,000	2,037	1.23
NatWest 7.875% Bond 2015	1,470,000	1,525	0.92
Aviva 9.5% Bond 2016	2,600,000	2,984	1.80
Centrica 5.5% Bond 2016	2,150,000	2,071	1.25
EIB 8.75% Bond 2017	2,000,000	2,734	1.65

# Portfolio statement

## at 31 December 2008

	<i>Holding</i>	<i>Bid value £'000</i>	<i>% Fund</i>
Bank of Scotland 10.50% Bond 2018	500,000	570	0.34
Telefonica 5.375% Bond 2018	2,150,000	1,962	1.19
British Telecom 8.625% Bond 2020	2,150,000	2,144	1.30
McDonald's 6.375% Bond 2020	2,300,000	2,449	1.48
Atlantia 6.25% Bond 2022	2,365,000	2,266	1.37
Network Rail 4.75% Bond 2024	2,130,000	2,196	1.33
GlaxoSmithKline 5.25% Bond 2033	2,400,000	2,232	1.35
NatWest 11.5% Convertible Bond Undated	525,000	617	0.37
<b>Preference Shares 2.37% (31.12.07, 0.00%)</b>			
Abbey 8.625% Preference Shares	1,600,000	1,540	0.93
General Accident 7.875% Preference Shares	1,065,000	1,049	0.63
Natwest 9% Preference Shares	1,600,000	1,336	0.81
<b>PORTFOLIO OF INVESTMENTS</b>		<u>161,867</u>	<u>97.78</u>
<b>NET OTHER ASSETS</b>		3,675	2.22
<b>NET ASSETS</b>		<u>165,542</u>	<u>100.00</u>

# Balance sheet

## at 31 December 2008

	Notes	31.12.2008		31.12.2007	
		£'000	£'000	£'000	£'000
<b>ASSETS</b>					
Portfolio of investments			161,867		163,748
Debtors	7	2,970		2,662	
Cash and bank balances	8	2,725		3,428	
Total other assets			5,695		6,090
<b>Total assets</b>			<b>167,562</b>		<b>169,838</b>
<b>LIABILITIES</b>					
Creditors	9	20		10	
Distribution payable on income units		2,000		1,993	
<b>Total liabilities</b>			<b>2,020</b>		<b>2,003</b>
<b>Net assets attributable to unitholders</b>			<b>165,542</b>		<b>167,835</b>
Approved on behalf of the Board 25 February 2009				B Wrey, <i>Chairman</i>	

The notes on pages 18 to 24 form part of these accounts.

# Summary of material portfolio changes

## for the year ended 31 December 2008

	<i>Cost</i> <i>£'000</i>
<b>Total purchases for the year (note 15)</b>	<b>56,670</b>
<b>Purchases:</b>	
Treasury 4.5% Stock 2042	16,813
Conversion 9% Stock 2011	3,611
BMW 6.375% Bond 2010	2,695
ICO 4.625% Bond 2012	2,629
British Telecom 8.625% Bond 2020	2,398
McDonald's 6.375% Bond 2020	2,363
Atlantia 6.25% Bond 2022	2,329
GlaxoSmithKline 5.25% Bond 2033	2,190
Lloyds TSB 6.625% Bond 2015	2,050
Marks & Spencer 6.375% Bond 2011	2,038
Centrica 5.5% Bond 2016	2,030
Abbey National 7.5% Bond 2015	2,021
Network Rail 4.875% Bond 2012	1,992
Telefonica 5.375% Bond 2018	1,988
Abbey 8.625% Preference Shares	1,646
Wal-Mart 4.75% Bond 2013	1,613
NatWest 7.875% Bond 2015	1,601
NatWest 9% Preference Shares	1,540
General Accident 7.875% Preference Shares	1,091
Treasury 6.25% Stock 2010	739

The above represents the 20 largest purchases aggregated per investment during the year.

# Summary of material portfolio changes for the year ended 31 December 2008

	<i>Proceeds</i> <i>£'000</i>
<b>Total sales for the year (note 15)</b>	<b>59,849</b>
<b>Sales/maturities:</b>	
Conversion 9% Stock 2011	11,840
Treasury 4.75% Stock 2038	7,824
Treasury 6.25% Stock 2010	7,444
Treasury 8% Stock 2021	7,109
Treasury 6% Stock 2028	6,579
Treasury 5% Stock 2008	4,998
Treasury 8% Stock 2015	4,955
Treasury 4.5% Stock 2042	4,418
Treasury 5.75% Stock 2009	2,022
Treasury 8% Stock 2013	1,917
Treasury 8.75% Stock 2017	743

The above represents the total sales aggregated per investment during the year.

# Notes to the accounts

## 1. Accounting policies

### (a) Basis of accounting

The accounts have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with policies set out below, the Statement of Recommended Practice (Accounting and Reporting by Charities) issued by the Charity Commission in March 2005 and the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in December 2005.

### (b) Income recognition

Interest on Government stocks, debentures, Euro sterling bonds, other fixed interest stocks and bank and COIF Charities Deposit Fund balances is accrued on a daily basis.

Dividends on preference shares are accrued to income on the dates when the shares are first quoted ex-dividend.

### (c) Expenses

During the year, the Manager's periodic charge, paid to the Manager, was charged to the income of the Fund before distribution. The fee is based on a fixed percentage of the value of the Fund, which is currently 0.22% p.a. plus VAT less a management fee rebate for the Fund's deposits in COIF Charities Deposit Fund. Each month, the value at the end of the previous month is taken to calculate the fee due. This fee covers the provision of investment services and other expenses incurred by the Manager. The Trustee fee, audit, legal, safe custody fees and transaction charges and insurance fees are charged separately to the income of the Fund before distribution.

### (d) Distributions

Distributions are paid quarterly. The Fund utilises an income reserve to even out the fluctuations in income which arise over the years (see note 10).

It is the Fund's policy to distribute net income to unit holders where income exceeds expenses at the end of the accounting period. For the purpose of calculating the distribution, income on debt securities is computed as the higher of the amount determined on an accrual of coupon basis and an effective yield basis. The Fund has therefore adopted a distribution policy that follows the coupon basis for recognising income. A reconciliation of the net distribution to the net income of the Fund as reported in the Statement of Total Return is shown in note 6.

### (e) Basis of valuation

Listed investments are valued at bid-market values at the close of business on the last business day of the accounting period. Any unquoted, unlisted, delisted or suspended investments are stated at cost or valuation by the Manager and reviewed by the Board.

# Notes to the accounts

Suspended securities are valued by the Manager having regard to the last dealing price on the date of suspension and subsequent available information. Suspended securities are written off after they have been carried at nil value for two years.

<b>2. Net gains/(losses) on investments</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
	<b>£'000</b>	<b>£'000</b>
The net gains/(losses) on investments during the year comprise:		
Non-derivative securities	<b>5,395</b>	<u>(319)</u>
<b>3. Income</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
	<b>£'000</b>	<b>£'000</b>
Interest on debt securities	<b>9,685</b>	8,305
Interest on COIF Charities Deposit Fund	<b>176</b>	135
Bank interest	<b>32</b>	54
	<b>9,893</b>	<u>8,494</u>
<b>4. Expenses</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
	<b>£'000</b>	<b>£'000</b>
Payable to the Manager, associates of the Manager and agents of either of them:		
Manager's periodic charge – see note 1(c)	<b>423</b>	416
Manager's periodic charge rebate – see note 1(c)*	<b>(8)</b>	(9)
	<b>415</b>	<u>407</u>
Payable to the Trustee, associates of the Trustee and agents of either of them:		
Trustee fee	<b>19</b>	19
Safe custody fees and transaction charges	<b>22</b>	18
	<b>41</b>	<u>37</u>
Other expenses:		
Insurance fee	<b>3</b>	3
Audit fee	<b>9</b>	7
Professional fees	<b>2</b>	-
Sundry fees	<b>5</b>	-
	<b>19</b>	<u>10</u>
	<b>475</b>	<u>454</u>

\*This amount represents the rebate of management fees credited to the Fund's income for its deposits in the COIF Charities Deposit Fund where the management fees are charged to income.

The above expenses include VAT where applicable.

# Notes to the accounts

## 5. Taxation

The Fund is exempt from UK income tax and capital gains tax due to its charitable status pursuant to Sections 505 and 506 of the Income and Corporation Taxes Act 1988.

Distributions are paid and reinvested income credited gross to unitholders on the basis that all recoverable UK taxation has been reclaimed.

## 6. Finance costs

Distributions

Distributions take account of income received on the creation of units and income deducted on the cancellation of units, and comprise:

	<b>31.12.2008</b>	<i>31.12.2007</i>
	<b>£'000</b>	<i>£'000</i>
31 March – interim distribution	<b>2,421</b>	2,428
30 June – interim distribution	<b>2,411</b>	2,472
30 September – interim distribution	<b>2,363</b>	2,382
31 December – final distribution	<b><u>2,273</u></b>	<u>2,394</u>
	<b>9,468</b>	9,676
Add: income deducted on cancellation of units	<b>141</b>	151
Deduct: income received on creation of units	<b>(98)</b>	(231)
Net distribution for the year	<b><u>9,511</u></b>	<u>9,596</u>
Net income for the year	<b>9,418</b>	8,040
Amortisation under effective yield (FRS 26)	<b>246</b>	1,823
Transfer to income reserve – see note 10	<b>(153)</b>	(267)
Net distribution for the year	<b><u>9,511</u></b>	<u>9,596</u>

Details of the distribution per unit are set out in the distribution table on page 25.

## 7. Debtors

	<b>31.12.2008</b>	<i>31.12.2007</i>
	<b>£'000</b>	<i>£'000</i>
Accrued income	<b><u>2,970</u></b>	<u>2,662</u>

## 8. Cash and bank balances

	<b>31.12.2008</b>	<i>31.12.2007</i>
	<b>£'000</b>	<i>£'000</i>
Cash in COIF Charities Deposit Fund	<b>2,771</b>	1,825
Cash at bank	<b>(46)</b>	1,603
	<b><u>2,725</u></b>	<u>3,428</u>

## 9. Creditors

	<b>31.12.2008</b>	<i>31.12.2007</i>
	<b>£'000</b>	<i>£'000</i>
Accrued expenses	<b><u>20</u></b>	<u>10</u>

# Notes to the accounts

## 10. Income reserve

The income reserve, accumulated out of income, is used to smooth fluctuations in the distributable income of the Fund. The income reserve is included in the total capital value of the Fund attributable to income unitholders.

	<b>31.12.2008</b>	<i>31.12.2007</i>
	<b>£'000</b>	<i>£'000</i>
Income reserve at the start of the year	<b>1,302</b>	1,035
Transfer to income reserve	<b>153</b>	267
Income reserve at the end of the year	<b><u>1,455</u></b>	<u>1,302</u>

## 11. Financial instruments

Fair value

Securities held by the Fund are valued at bid-market value (see note 1(e)). Bid-market value is considered to be a fair representation of the amount repayable to unitholders should they wish to sell their units. Other financial assets and liabilities of the Fund are included in the balance sheet at their fair value.

The main risks arising from the Fund's financial instruments and the Manager's policies for managing these risks are summarised below. These policies have been applied consistently throughout the period and the comparative year.

Market price risk

This is an actively-managed Fund, which invests in Sterling fixed interest securities. Investors are thus exposed to market price risk, which can be defined as the uncertainty about future price movements of the financial instruments the Fund is invested in. Market price risk arises mainly from economic factors, including investor confidence, and is not limited to interest rate and currency movements. This exposure to market price risk may result in substantial fluctuations in the unit price from time to time, although there will generally be a close correlation in the movement of the unit price to the markets the Fund is invested in. The Fund seeks to minimise the risks by holding a diversified portfolio of investments in line with the Fund's investment objectives. Risk is monitored at both the asset allocation and stock selection levels by Directors of the Manager on a regular basis and also by the Board.

Currency risk

There is no exposure to foreign currency fluctuations as all investments, income and short-term debtors and creditors are denominated in Sterling.

Credit risk

The Fund's transactions in securities expose it to the risk that the counterparty will not deliver the investment for a purchase or the cash for a sale. To minimise this, the Fund only deals with an approved list of brokers maintained by the Manager. The corporate bond holdings in the Fund are also exposed to the risk of issuer default.

# Notes to the accounts

## Liquidity risk

Financial instruments held by the Fund, excluding short-term debtors and creditors are made up of Sterling fixed interest securities and Sterling cash deposits. These assets are generally liquid and enable the Fund to meet the payment of any redemption of units that unit holders may wish to make.

## Interest rate risk

The Fund invests in fixed interest securities. The income may be affected by changes in interest rates relevant to particular securities or as a result of the Manager being unable to secure similar returns following the disposal or redemption of securities. The value of fixed interest securities may be affected by interest rate movements or the expectation of such movements in the future.

The interest rate profile of the Fund's financial assets and liabilities are set out below:

31 December 2008

<i>Currency</i>	<i>Floating rate financial assets*</i> £'000	<i>Fixed rate financial assets</i> £'000	<i>Financial assets not carrying interest</i> £'000	<i>Total</i> £'000
<b>Sterling</b>	<b>2,725</b>	<b>161,867</b>	<b>2,970</b>	<b>167,562</b>

<i>Currency</i>	<i>Floating rate financial liabilities</i> £'000	<i>Fixed rate financial liabilities</i> £'000	<i>Financial liabilities not carrying interest</i> £'000	<i>Total</i> £'000
<b>Sterling</b>	<b>-</b>	<b>-</b>	<b>2,020</b>	<b>2,020</b>

31 December 2007

<i>Currency</i>	<i>Floating rate financial assets*</i> £'000	<i>Fixed rate financial assets</i> £'000	<i>Financial assets not carrying interest</i> £'000	<i>Total</i> £'000
<b>Sterling</b>	<b>3,428</b>	<b>163,748</b>	<b>2,662</b>	<b>169,838</b>

<i>Currency</i>	<i>Floating rate financial liabilities</i> £'000	<i>Fixed rate financial liabilities</i> £'000	<i>Financial liabilities not carrying interest</i> £'000	<i>Total</i> £'000
<b>Sterling</b>	<b>-</b>	<b>-</b>	<b>2,003</b>	<b>2,003</b>

\* The floating rate financial assets of the Fund earn interest at rates based on either LIBOR or base rate.

# Notes to the accounts

The fixed rate element of the portfolio is further analysed in the following table.

31 December 2008

<i>Currency</i>	<i>Fixed rate financial assets £'000</i>	<i>Weighted average interest rate %</i>	<i>Weighted average period for which the rate is fixed Years</i>
<b>Sterling</b>	<b>157,325</b>	<b>4.14</b>	<b>15.0</b>
<b>Sterling – undated</b>	<b>4,542</b>	<b>9.38</b>	<b>-</b>

31 December 2007

<i>Currency</i>	<i>Fixed rate financial assets £'000</i>	<i>Weighted average interest rate %</i>	<i>Weighted average period for which the rate is fixed Years</i>
Sterling	162,873	7.15	12.8
Sterling – undated	875	11.50	-

All financial liabilities are due to be settled within one year, or on demand.

There were no derivatives held by the Fund at 31 December 2008 (31.12.2007, £nil).

## 12. Board remuneration

The Board members receive no remuneration from COIF Charity Funds. Mr R Fitzalan Howard is a Director of the Manager and receives remuneration from the Manager, which is disclosed in that Company's accounts.

## 13. Commitments and contingent liabilities

There were no commitments or contingent liabilities at 31 December 2008 (31.12.2007, £nil).

# Notes to the accounts

## 14. Related party transactions

The Manager's periodic charge is paid to the Manager and the Trustee fee, safe custody and transaction charges are paid to HSBC Bank plc, both related parties to the Fund. The amounts paid in respect of these charges are disclosed in note 4.

A rebate of management fees is credited to the Fund's income for its deposits in the COIF Charities Deposit Fund where the management fees are charged to income.

At 31 December 2008, the balances due to the Manager and HSBC Bank plc were as set out below:

	<b>31.12.2008</b>	<i>31.12.2007</i>
	<b>£'000</b>	<i>£'000</i>
The Manager	-	-
HSBC Bank plc – Trustee fee	<b>3</b>	5
HSBC Bank plc – safe custody and transaction charges	<b>4</b>	2

There were no other transactions entered into with the Manager or HSBC Bank plc during the year.

At 31 December 2008 a cash balance of £2,770,718 (31.12.07, £1,824,439) was held in the COIF Charities Deposit Fund.

## 15. Portfolio transaction costs

	<b>31.12.2008</b>	<i>31.12.2007</i>
	<b>£'000</b>	<i>£'000</i>
Analysis of total purchase costs:		
Purchases in year before transaction costs	<b>56,661</b>	30,010
Commissions	<b>9</b>	-
Total gross purchases	<b><u>56,670</u></b>	<u>30,010</u>
Analysis of total sale costs:		
Gross sales in year before transaction costs	<b>59,849</b>	23,132
Commissions	-	(1)
Total sales net of transaction costs	<b><u>59,849</u></b>	<u>23,131</u>

# Distribution table

## for the year ended 31 December 2008

<i>Period ended</i>	<i>Date paid/payable</i>	<i>Distributions paid/payable pence per unit</i>	
		<b>2008</b>	2007
<b>Income units</b>			
31 March 2008	30 May 2008	<b>1.80</b>	1.80
30 June 2008	29 August 2008	<b>1.80</b>	1.80
30 September 2008	28 November 2008	<b>1.80</b>	1.80
31 December 2008	27 February 2009	<b>1.80</b>	1.80
		<b><u>7.20</u></b>	<u>7.20</u>
			<i>Income accumulated pence per unit</i>
		<b>2008</b>	2007
<b>Accumulation units</b>			
31 March 2008		<b>7.11</b>	6.65
30 June 2008		<b>7.06</b>	6.77
30 September 2008		<b>7.24</b>	6.98
31 December 2008		<b>7.24</b>	7.00
		<b><u>28.65</u></b>	<u>27.40</u>

# Statement of Board, Corporate Trustee and Manager responsibilities

## Responsibilities of the Board

The Board shall comply with the duty of care when exercising their powers and discharging their duties under the Scheme of the Charity Commission made under the Charities Act 1993, dated 29 November 2000, for the Fund to:

- make and revise the written statement of the investment objectives of the Fund and details of such investment objectives will be included in the Scheme Particulars;
- determine the criteria and methods for evaluating the performance of the Fund;
- appoint the Auditor of the Fund and agree their terms of engagement;
- make an annual report on the discharge of the Board's responsibilities;
- determine the rate of remuneration of the Trustee and the Manager in accordance with the Scheme and the Scheme Particulars;
- apply to the Commission for an order to discharge the Trustee from the provisions of the Scheme and an order to appoint a new Trustee of the provisions of the Scheme: provided that any Board member who has any interests in the Trustee or the new Trustee shall not participate in the Board's discussions and decisions on the matter and shall not be counted in the quorum necessary for the transaction of such business; and

- inform the Charity Commission promptly and in writing if the Board is not satisfied at any time as to the compliance of the Trustee or the Manager with the Scheme or the Scheme Particulars.

## Responsibilities of the Trustee

The Trustee shall be responsible for those aspects of the administration and management of the Fund and its property which are specified in the Scheme. To the extent of those duties and powers, the Trustee is a charity trustee of the Fund within the meaning of the Charities Act. The Trustee shall comply with the duty of care when exercising its powers and discharging its duties under this Scheme. The following are the duties and powers of the Trustee:

- the supervision and oversight of the Manager's compliance with the Scheme and the Scheme Particulars. In particular, the Trustee shall be satisfied on a continuing basis that the Manager is competently exercising the powers and competently discharging the duties conferred or imposed on it by or pursuant to the provisions of the Scheme and that the Manager is maintaining adequate and proper records;
- the appointment, supervision and oversight of any Registrar or other delegate which it has appointed in accordance with the provisions of this Scheme;
- the custody and control of the property of the Fund and the collection of all income due to the Fund in accordance with the Scheme;

# Statement of Board, Corporate Trustee and Manager responsibilities

- the creation and cancellation of units in accordance with the instructions of the Manager (except where the Scheme Particulars permit the Trustee to disregard those instructions);
- making distributions to Participating Charities holding income units and making allocations to Participating Charities holding accumulation units in proportion to their respective shares in the property of the Fund;
- the making of an annual report on the discharge of its responsibilities for the management of the Fund; and
- the authorisation of payment out of the property of the Fund of any reasonable costs or expenses of the Board members incurred by them in the execution of their duties in accordance with the Scheme.
- comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the Investment Management Association (IMA) in December 2005;
- follow generally accepted accounting principles and applicable accounting standards;
- keep proper accounting records which enables the Manager to demonstrate that the accounts as prepared comply with the above requirements;
- make judgments and estimates that are reasonable and prudent; and
- prepare the accounts on the basis that the Fund will continue in operation unless it is inappropriate to presume this.

## Responsibilities of the Manager

The Manager of the Fund is required by the Scheme to prepare accounts for the Fund in accordance with the Statement of Recommended Practice 2005 (Accounting and Reporting by Charities). The Manager is required to:

- select suitable accounting policies that are appropriate for the Fund and apply them on a consistent basis;

The Manager is required to manage and administer the Fund in accordance with the Scheme, maintain accounting records and take reasonable steps for the prevention and detection of fraud and other irregularities. The Trustee has appointed the Manager to act as Registrar to the Fund.



**CCLA INVESTMENT MANAGEMENT LIMITED**  
**COIF Charities Fixed Interest Fund**  
**(Charity Registration No. 803610)**

**Board**

B Wrey, MA, Chairman of the Board, *former Chairman, Henderson Global Investors*  
T Bell, FRICS (appointed 28.10.08) *former Head of Property Investment, F&C Asset Management plc*  
P Cawdron, FCA, *Company Director*  
T Clark (appointed 26.2.08), *Solicitor, a former Partner, Slaughter and May*  
A Daws (appointed 26.2.08), *Solicitor, Trustee of The Stroke Association, Non Executive Director of West Middlesex University*  
R Fitzalan Howard, *Chief Executive, Fleming Family & Partners Asset Management Limited*  
D Henderson, FCA, *Company Director, Chairman of Kleinwort Benson Private Banking*  
A Huntley, FRICS (resigned 29.4.08)  
G Newson, MRICS (appointed 28.10.08) *former Head of Property, Aberdeen Asset Management*  
Mrs F Quint, *Barrister, specialising in charity law, former Deputy Commissioner Charity Commission*  
N Wilson, *Solicitor (retired 26.2.08)*

**Secretary**

Mrs J Fox

**Investment Manager, Administrator and Registrar**

**CCLA Investment Management Limited**

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the Financial Services Authority*  
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[www.ccla.co.uk](http://www.ccla.co.uk)

**Directors responsible for the Fund**

M Quicke (Chief Executive)  
J Bevan (Chief Investment Officer)  
S Curran (Chief Operating Officer)  
C Peters (Investment Director)  
A Robinson (Director Market Development)

**Fund Manager**

S Freeman

**Company Secretary**

Mrs J Fox

**Head of Operational Risk,  
Internal Audit and Compliance**

A Kemp

**Socially Responsible Investment**

Mrs H Wildsmith

**Corporate Trustee**

HSBC Bank plc  
8 Canada Square  
London E14 5HQ

**Banker**

The Royal Bank of Scotland plc  
62/63 Threadneedle Street  
London EC2R 8LA

**Solicitors**

Bates Wells & Braithwaite LLP  
2-6 Cannon Street  
London EC4M 6YH  
Farrer & Co LLP  
66 Lincoln's Inn Fields  
London WC2A 3LH

**Independent Auditor**

Ernst & Young LLP  
1 More London Place  
London SE1 2AF



## **CCLA INVESTMENT MANAGEMENT LIMITED** **COIF Charity Funds**

The COIF Charity Funds provide a ready and practical means for charities to obtain, at reasonable cost, constant professional investment and cash management for their long-term capital and short-term cash. They also provide protection through diversification combined with simplified administration.

### **COIF Charities Investment Fund**

- A suitable 'all-in-one' long-term fund for most charities
- Highly diversified and well-balanced spread of investments
- Designed to help meet growth and income requirements
- Focus on delivering attractive, growing income

### **COIF Charities Global Equity Income Fund**

- Attractive income now
- Rising income in the future
- Strong growth opportunities from the global economy

### **COIF Charities Fixed Interest Fund**

- Long-term investment focused on income
- Gross income paid quarterly
- Usually held with other investments such as equities and cash to give a broad spread of assets and achieve combined income and growth objectives

### **COIF Charities Property Fund**

- High quality, well-diversified commercial and industrial property portfolio
- Focus on delivering attractive income
- Actively managed to add value
- Usually held with other investments such as equities, bonds and cash to give a broad spread of assets and achieve combined income and growth objectives

### **COIF Charities Deposit Fund**

- A competitive rate
- Interest paid gross
- No minimum balance
- Easy access
- Simple operation
- Excellent service
- Free BACS transfers
- AAA/V1 credit rating\*

\* The Deposit Fund is rated AAA/V1 by Fitch Ratings. This reflects the high credit quality of the portfolio and its low volatility.

The COIF Charity Funds are common investment funds established by the Charity Commission for England and Wales under Section 24 of the Charities Act 1993. The Deposit Fund was established under Section 25 of the Charities Act 1993. Any charity in the United Kingdom within the meaning of the Charities Act 1993 (as amended or replaced) may invest in the Deposit, Investment and Global Equity Funds. Any charity in England and Wales may invest in the Fixed Interest and Property Funds. CCLA Investment Management Limited operates as the Investment Manager and Administrator of the Funds.

The value of the investments may fall as well as rise and an investor may not get back the full amount originally invested. Deposits in the Deposit Fund are not covered by the Financial Services Compensation Scheme.

CCLA Investment Management Limited (registered in England No. 2183088 - registered office 80 Cheapside, London EC2V 6DZ) is authorised and regulated by the Financial Services Authority.

### **CCLA INVESTMENT MANAGEMENT LIMITED**

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