



for Charities

# **COIF Charities Fixed Interest Fund**

**Report and Accounts**

**Year ended 31 December 2010**

## **Contents**

- 3** Report of the Board
- 5** Report of the Investment Manager
- 9** Report of the Corporate Trustee
- 10** Report of the Independent Auditor
- 12** Net asset value, unit price range, net distribution, unit price and total expense ratio
- 14** Portfolio statement
- 16** Statement of total return
- 17** Statement of change in net assets attributable to unitholders
- 18** Balance sheet
- 19** Notes to the accounts
- 27** Distribution table
- 28** Statement of Board, Corporate Trustee and Manager responsibilities

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

(inside back cover)

### **Description of The 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 2010

On behalf of the Board, we have pleasure in presenting our annual report of 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 Fund's benchmark is a weighted average of the Barclays Capital UK Government (Gilt) Index (80%) and the Barclays Capital Sterling Aggregate 100mm (Non-Gilt) Index (20%), or equivalents.

### **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

# Report of the Board

## for the year ended 31 December 2010

stocks and in preference or convertible preference units provided they are quoted on a recognised stock exchange.

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.

D Henderson  
Chairman of the Board  
14 April 2011

# Report of the Investment Manager

## for the year ended 31 December 2010

### Performance

Over the year the Fund's portfolio holdings generated a total return of 6.63%. The Fund's composite benchmark, Barclays Capital UK Government (Gilt) Index (80%) and the Barclays Capital Sterling Aggregate 100mm Non-Gilt Index (20%), produced a total return of 7.74%.

Both gilts and corporate bonds generated positive returns, though there were significant differences in the level of returns. Lower rated securities produced returns in excess of 10% while short dated gilts returned only marginally higher levels than cash returns. The Fund's corporate bond portfolio achieved a higher return than gilts but our preference for stronger rated securities meant the overall return was less than the Barclays Sterling Aggregate index. The Fund's underperformance relative to

its benchmark can be principally attributable to the Fund's shorter average life, the overweight allocation of shorter dated securities having a negative affect on overall returns. However, it is our expectation that shorter dated securities prices will fall less than medium and long dated securities as economic growth accelerates and bond investors demand higher yields.

The COIF Fixed Interest Fund accumulation unit price rose from 545.62p to 580.30p, or by 6.36%. The value of an income unit rose from 126.29p to 127.03p at 31 December 2010, a capital return of 0.59%.

The annual distribution rate for the year remained unchanged at 7.2p per income unit. The income yield at 31 December 2010 was 5.67%. The corresponding gross redemption

### COIF Charities Fixed Interest Fund Annualised total capital and income return

To 31 December 2010	1 year %	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>	+6.63	+4.93	+5.73
Composite Benchmark	+7.74	+4.64	+5.40
BarCap £ Gilt Index	+7.54	+4.90	+5.35
BarCap £ Agg 100 mm Non Gilt Index	+8.47	+3.50	+5.54
<u>Performance after expenses</u>			
<b>Income units*</b>	+6.35	+4.68	+5.51
<b>Accumulation units*</b>	+6.36	+4.66	+5.49

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

Source: The Manager.

# Report of the Investment Manager

## for the year ended 31 December 2010

yield, which is an estimate of the total return of the Fund over the long-term, after management expenses, was 2.83%. The Fund's income and gross redemption yields are not guaranteed and will change over time due to changes in interest rates and the average maturity date of the securities held by the Fund. When the Fund's income yield is higher than the gross redemption yield, some income is being paid at the expense of capital.

### **Ethical exclusion policy**

We confirm that the fund is managed in accordance with the ethical exclusion policy set by the board.

### **Market Review**

After cutting the official bank rate to half of one percent in March 2009, the Bank of England Monetary Policy Committee (MPC) believed that the economy could not be rejuvenated by further interest rate cuts. The MPC then embarked on a Quantitative Easing programme (QE) with the aim to get money flowing around the economy; they purchased £200 billion of fixed interest securities, predominantly UK gilt-edged securities, over a period of just nine months. With the economy showing signs of recovery the MPC suspended QE in February 2010. The withdrawal of this major purchaser at a time of unprecedented gilt issuance, while not a surprise, led to an immediate rise in yields; the gilt maturing in 50 years time rising from 4.30% to 4.60%, almost a five year high.

Uncertainty of who would govern the UK after the May 2010 General Election also weighed on sentiment and during this time bonds issued

by corporates notably outperformed gilt-edged securities. The yield difference, or spread, between Sterling corporate bonds and gilts fell from 187 to 139 basis points. An inconclusive election result saw the formation of a UK coalition government but its austerity measures and the high priority given to tackle the huge budget deficit was taken most positively.

This was in sharp contrast to austerity plans suggested by a few peripheral European countries. The belief that these governments could not solve their economic problems on their own resulted in peripheral countries government bond yields rising to levels well above those seen before European economic union in 1999. Greece became the first country to ask for help, with its Eurozone partners and the IMF providing bailout loans at a very penal rate but significantly below the rates in the international bond market. The huge multi billion euro rescue package was also anticipated to stop contagion spreading.

Concerns about the general economic policies within Europe as well as those in the US led to renewed expectations that further fiscal or monetary action may be required from governments and central banks. These worries caused German, US and UK government bond yields to fall; the yield on the 50 year gilt fell to 3.80%, while peripheral bond yields stayed high and corporate bonds yield spreads widened to levels seen at the start of the year. The US Federal Reserve decided to implement a second round of quantitative easing while the European Central Bank continued to supply liquidity in the money markets. The UK MPC talked about additional QE but while the rate of inflation

# Report of the Investment Manager

## for the year ended 31 December 2010

remained stumbingly above its target level the majority of committee members thought further QE was inappropriate. The announcement in the November Bank of England's Inflation Report that inflation is likely to remain above target for the whole of 2011 was unexpected. Investor confidence weakened on the assumption that the MPC could not return inflation to 2% in the medium term without having to raise the official bank rate and yields rose in response.

The European woes resurfaced towards the end of the reporting period which finally required the Irish government to seek financial aid from the IMF and Eurozone members, as well as, the ECB having to heavily support the peripheral bond markets. This support was a relief and investor demand returned in favour of peripheral bonds which caused those yields to fall and US, German and UK to rise. The 50 year gilt yield closed at 4.10% and the corporate bond/gilt yield spread at 186 basis points.

### Strategy

The Fund holds a broad range of sterling denominated securities issued by companies reflecting different sectors of the global economy, as well as, a number of UK gilt-edged securities. We currently have a bias towards higher rated corporate bonds and the overweight allocation relative to the Fund's benchmark has been retained. At the end of the reporting period the Fund's asset allocation weightings were gilt-edged securities/cash 67.4%, corporate bonds 31.9% and preference shares 0.7%. With deposit rates close to just half of one percent, the cash weighting has been kept to a minimal operating level.

Most economies at this time remain fragile and consequently gilt yields across the whole yield curve have remained at or close to historically low levels. It is our view the UK economy will not return to a recessionary period in the near term and the strategy during this reporting period reflects that expectation. The average maturity of the portfolio assets has been shortened to protect the capital value of the Fund. This was achieved by selling the very longest dated gilts and increasing the asset allocation to securities maturing within five years. Over the year the Fund's average term to maturity was reduced by more than four years to 10.1 years, compared to the benchmark index of 13.5 years.

### Outlook

In recent weeks there have been a number of data releases which have been surprising and highlight the MPC's policy dilemma, with upside risks to inflation and downside risks to economic growth.

There are increasing claims that the Bank of England is losing its anti inflationary credibility reflecting the fact that inflation has persistently been above the target level, December's annual CPI inflation rate was 3.7%. The rate of CPI inflation is likely to exceed 4% during the first six months of 2011 and stay well above the 2% target level for the whole of 2011.

The release of 2010 fourth quarter economic growth data revealed that the economy had shrunk by over half a percentage point. Nevertheless, excluding the estimated impact of the very poor weather, GDP growth would

# Report of the Investment Manager

for the year ended 31 December 2010

have only been flat, still substantially lower than the market forecast of +0.5%.

A very accommodative monetary stance is still appropriate for an economy which, even before the recent extreme weather conditions, was slowing. By the second quarter it should be clearer as to how the economy is coping. Providing strong economic growth re-establishes itself the first increase in the Bank of England's Official Bank Rate could occur late in 2011.

Once economic growth prospects improve we expect bond investors to demand higher yields. Bond prices are therefore expected to fall with medium and long dated securities falling more than shorter dated securities.

S Freeman  
Fund Manager  
CCLA Investment Management Limited  
14 April 2011

## Changes in portfolio composition

	<i>Cost</i> £'000		<i>Proceeds</i> £'000
<b>Purchases:</b>		<b>Sales:</b>	
Treasury 6% Stock 2028	19,038	Treasury 4.25% Stock 2036	8,266
Treasury 8% Stock 2021	8,785	Treasury 4.25% Stock 2055	8,213
Treasury 8% Stock 2013	7,633	Treasury 4.5% Stock 2042	6,587
Treasury 4.75% Stock 2038	3,225	Treasury 4.75% Stock 2038	5,575
Conversion 9% Stock 2011	2,238	Treasury 4.25% Stock 2032	4,158
EIB 8.75% Bond 2017	2,225	Treasury 8% Stock 2015	3,562
Treasury 8% Stock 2015	1,705	Conversion 9% Stock 2011	2,891
Telefonica 5.375% Bond 2018	696	BMW 6.375% Bond 2010	2,650
		Treasury 6% Stock 2028	1,247
		Treasury 8.75% Stock 2017	958

## Risk warning

The Fund's units and the revenue 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 revenue. 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 revenue is being paid at the expense of capital.

# Report of the Corporate Trustee

## for the year ended 31 December 2010

### **Statement of the Trustee's responsibilities in respect of the Scheme**

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.

### **HSBC Bank plc**

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.*

14 April 2011

# 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 ("the Fund") for the year ended 31 December 2010 which comprise the Statement of Total Return, Statement of Change in Net Assets Attributable to Unitholders, Balance Sheet, the related notes 1 to 15 and the Distribution Table. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the unitholders of the Fund, as a body, in accordance with section 43 of the Charities Act 1993 and regulations made under section 44 of that Act. Our audit work has been undertaken so that we might state to the Fund'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 unitholders of the Fund, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the manager and auditors**

As explained more fully in the Statement of Manager's' Responsibilities set out on page 28 the manager is responsible for the preparation of financial statements which give a true and fair view.

We have been appointed as auditor under section 43 of the Charities Act 1993 and report in accordance with regulations made under section 44 of that Act. Our responsibility is to

audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the manager; and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the Fund as at 31 December 2010 and of the net revenue and the net gains on the scheme property of the Fund for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 1993.

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

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Charities Act 1993 requires us to report to you if, in our opinion:

- the information given in the Annual Report is inconsistent in any material respect with the financial statements; or
- sufficient accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or we have not received all the information and explanations we require for our audit.

Ernst & Young LLP  
Statutory Auditor  
London  
14 April 2011

---

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 price and total expense ratio

## Net asset value

At 31 December	Net asset value £'000	Income units		Accumulation units	
		Net asset value pence per units	Number of units in issue	Net asset value pence per units	Number of units in issue
2008	165,553	130.98	111,109,783	534.86	3,742,036
2009	161,275	126.29	118,218,057	545.62	2,195,255
2010	158,921	127.03	113,646,413	580.30	2,544,362

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).

## Unit price range

Year to 31 December	Income units		Accumulation units	
	Highest offer pence per unit	Lowest bid pence per unit	Highest offer pence per unit	Lowest bid pence per unit
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
2009	131.62	123.90	560.56	505.96
2010	133.80	125.39	594.69	542.97

## Net distribution

Year to 31 December	Income units pence per unit	Accumulation units pence per unit
2006	7.20	25.63
2007	7.20	27.40
2008	7.20	28.65
2009	7.20	30.94
2010	7.20	31.96

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

## Unit prices at 31 December 2010

	<i>Bid price pence per unit</i>	<i>Offer price pence per unit</i>
Income units	126.78	127.28
Accumulation units	579.14	581.46

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 0.2% deduction or surcharge respectively.

## Total expense ratio

	<b>31.12.2010</b>	<i>31.12.2009</i>
Total expense ratio	<b>0.29%</b>	0.29%

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

# Portfolio statement

at 31 December 2010

	<i>Holding</i>	<i>Bid value £'000</i>	<i>% Fund</i>		<i>Holding</i>	<i>Bid value £'000</i>	<i>% Fund</i>
<b>GOVERNMENT BONDS 65.92%</b>				Network Rail 4.875%			
<b>(31.12.09, 65.02%)</b>				Bond 2012	2,000,000	2,088	1.31
Conversion 9%				ICO 4.625%			
Stock 2011	14,100,000	14,725	9.26	Bond 2012	2,650,000	2,663	1.67
Treasury 8%				BOC 12.25%			
Stock 2013	17,210,000	20,361	12.82	Bond 2012/2017	682,000	793	0.50
Treasury 8%				Wal-Mart 4.75%			
Stock 2015	5,675,000	7,206	4.53	Bond 2013	1,650,000	1,752	1.10
Treasury 8.75%				Royal Bank of			
Stock 2017	6,030,000	8,275	5.20	Scotland 10.5%			
Treasury 8%				Bond 2013	1,000,000	1,181	0.74
Stock 2021	9,770,000	13,611	8.56	Blue Circle 10.75%			
Treasury 6%				Bond 2013	1,500,000	1,745	1.10
Stock 2028	23,085,000	28,687	18.05	E.ON 5.125%			
Treasury 4.75%				Bond 2014	350,000	376	0.24
Stock 2038	8,000,000	8,755	5.51	Scottish and			
Treasury 4.5%				Southern Energy			
Stock 2042	3,000,000	3,169	1.99	5.75% Bond 2014	1,350,000	1,460	0.92
				IFFIM 3.375%			
<b>Debenture Stocks 1.32%</b>				Bond 2014	1,000,000	1,043	0.66
<b>(31.12.09, 1.38%)</b>				Lloyds TSB 6.625%			
Monks Investment				Bond 2015	2,000,000	2,038	1.28
Trust 11% Debenture				Natwest 7.875%			
Stock 2012	550,000	611	0.38	Bond 2015	1,470,000	1,552	0.98
British Sugar				Aviva 9.5%			
10.75% Debenture				Bond 2016	2,600,000	3,244	2.04
Stock 2013	800,000	905	0.57	Centrica 5.5%			
BAA Lynton				Bond 2016	2,150,000	2,327	1.46
10.25% Debenture				EIB 8.75%			
Stock 2017	500,000	585	0.37	Bond 2017	3,700,000	4,884	3.07
				Telefonica 5.375%			
<b>Credit 30.55% (31.12.09, 30.27%)</b>				Bond 2018	2,800,000	2,846	1.79
Marks & Spencer				Bank of Scotland			
6.375% Bond 2011	2,065,000	2,133	1.34	10.50% Bond 2018	500,000	594	0.37

# Portfolio statement

at 31 December 2010

	<i> Holding</i>	<i> Bid value £'000</i>	<i> % Fund</i>
McDonald's 6.375%			
Bond 2020	2,300,000	2,662	1.67
British Telecom			
8.625% Bond 2020	2,150,000	2,602	1.64
Atlantia 6.25%			
Bond 2022	2,365,000	2,507	1.58
Network Rail			
4.75% Bond 2024	2,130,000	2,244	1.41
GlaxoSmithKline			
5.25% Bond 2033	2,400,000	2,437	1.53
Pfizer 6.5%			
Bond 2038	850,000	1,001	0.63
E.ON 6.75%			
Bond 2039	2,000,000	2,424	1.52
<b>Preference Shares 0.69%</b>			
<b>(31.12.09, 0.69%)</b>			
General Accident			
7.875% Preference			
Shares	1,065,000	1,094	0.69
<b>INVESTMENT ASSETS</b>		<u>156,579</u>	<u>98.48</u>
<b>OTHER NET ASSETS</b>		2,417	1.52
<b>NET ASSETS</b>		<u><u>158,996</u></u>	<u><u>100.00</u></u>

# Statement of total return

for the year ended 31 December 2010

		31.12.2010		31.12.2009	
	Notes	£'000	£'000	£'000	£'000
Income					
Net capital gains/(losses)	2		<b>2,199</b>		(5,983)
Revenue	3	<b>8,085</b>		9,581	
Expenses	4	<u><b>(465)</b></u>		<u>(454)</u>	
Net revenue			<u><b>7,620</b></u>		<u>9,127</u>
<b>Total return before distributions</b>			<b>9,819</b>		3,144
Finance costs: distributions	6		<b>(9,073)</b>		(9,147)
<b>Change in net assets attributable to unitholders from investment activities</b>			<u><b>746</b></u>		<u>(6,003)</u>

The notes on pages 19 to 26 form part of these accounts.

# Statement of change in net assets attributable to unitholders

for the year ended 31 December 2010

	31.12.2010		31.12.2009	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to unitholders</b>		<b>161,220</b>		165,542
Amounts receivable on issue of units	<b>15,117</b>		26,850	
Amounts payable on cancellation of units	<b><u>(18,893)</u></b>		<b><u>(25,983)</u></b>	
		<b>(3,776)</b>		867
Change in net assets attributable to unitholders from investment activities		<b>746</b>		(6,003)
Retained distribution on accumulation units		<b>806</b>		814
<b>Closing net assets attributable to unitholders</b>		<b><u>158,996</u></b>		<b><u>161,220</u></b>

The notes on pages 19 to 26 form part of these accounts.

# Balance sheet

at 31 December 2010

		31.12.2010		31.12.2009	
	Notes	£'000	£'000	£'000	£'000
<b>ASSETS</b>					
Investment assets			156,579		156,970
Debtors	7	3,042		3,093	
Cash and bank balances	8	1,446		3,305	
Total other assets			4,488		6,398
<b>Total assets</b>			<b>161,067</b>		<b>163,368</b>
<b>LIABILITIES</b>					
Creditors	9	24		20	
Distribution payable on income units		2,047		2,128	
<b>Total liabilities</b>			<b>2,071</b>		<b>2,148</b>
<b>Net assets attributable to unitholders</b>			<b>158,996</b>		<b>161,220</b>
Approved on behalf of the Board 14 April 2011				D Henderson, Chairman	

The notes on pages 19 to 26 form part of these accounts.

# 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 October 2010.

### (b) Revenue 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 revenue on the dates when the shares are first quoted ex-dividend.

Revenue on debt securities is recognised on the effective yield basis which takes into account of the amortisation of any discounts or premiums arising on the purchase price, compared to the final maturity value, over the remaining life of the security. Accrued interest purchased or sold is excluded from the cost of the security and is recognised as revenue of the Fund.

### (c) Expenses

During the year, the Manager's periodic charge, paid to the Manager, was charged to the revenue 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. A fee for ethical services is also charged by the Manager. The Trustee fee, audit, legal, safe custody fees and transaction charges and insurance fees are charged separately to the revenue of the Fund before distribution.

### (d) Distributions

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

# Notes to the accounts

The Fund has adopted a distribution policy that follows the coupon basis. A reconciliation of the net distribution to the net revenue of the Fund as reported in the Statement of Total Return is shown in note 6.

## (e) Basis of valuation

All 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.

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 capital gains/(losses)</b>	<b>31.12.2010</b>	31.12.2009
	<b>£'000</b>	£'000
The net capital gains/(losses) during the period comprise:		
Non-derivative securities	<b><u>2,199</u></b>	<b><u>(5,983)</u></b>
<b>3. Revenue</b>	<b>31.12.2010</b>	31.12.2009
	<b>£'000</b>	£'000
Interest on debt securities	<b>8,071</b>	9,542
Interest on the COIF Charities Deposit Fund	<b>6</b>	39
Bank interest	<b>8</b>	-
	<b><u>8,085</u></b>	<b><u>9,581</u></b>

# Notes to the accounts

<b>4. Expenses</b>	<b>31.12.2010</b>	<i>31.12.2009</i>
	<b>£'000</b>	<i>£'000</i>
Payable to the Manager, associates of the Manager and agents of either of them:		
Manager's periodic charge – see note 1(e)	<b>419</b>	407
Manager's periodic charge rebate – see note 1(e)*	<b>(7)</b>	(9)
Manager's fee for ethical screening services	<b>2</b>	2
	<b><u>414</u></b>	<u>400</u>
Payable to the Trustee, associates of the Trustee and agents of either of them:		
Safe custody fees and transaction charges	<b>19</b>	18
Trustee expenses	<b>19</b>	24
	<b><u>38</u></b>	<u>42</u>
Other expenses:		
Insurance	<b>3</b>	3
Audit fee	<b>9</b>	9
Professional fees	<b>1</b>	-
	<b><u>13</u></b>	<u>12</u>
Total expenses	<b><u>465</u></b>	<u>454</u>

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

The above expenses include VAT where applicable.

## 5. Taxation

The Fund is exempt from UK income 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 revenue credited gross to shareholders on the basis that all recoverable UK taxation has been reclaimed.

# Notes to the accounts

## 6. Financial costs

### Distributions

Distributions, which are paid on the last working day of the month, take account of revenue received on the issue of units and revenue deducted on the cancellation of units, and comprise:

	<b>31.12.2010</b>	<i>31.12.2009</i>
	<b>£'000</b>	<i>£'000</i>
31 March – interim distribution	<b>2,275</b>	2,244
30 June – interim distribution	<b>2,250</b>	2,276
30 September - interim distribution	<b>2,265</b>	2,303
31 December - final distribution	<b>2,258</b>	2,295
	<b><u>9,048</u></b>	<u>9,118</u>
Add: revenue deducted on cancellation of units	<b>116</b>	255
Deduct: revenue received on issue of units	<b>(91)</b>	(196)
Net distribution for the period	<b><u>9,073</u></b>	<u>9,147</u>
Net revenue for the period	<b>7,620</b>	9,127
Transfer to income reserve – see note 10	<b>(75)</b>	(37)
Amortisation	<b>1,528</b>	57
Net distribution for the period	<b><u>9,073</u></b>	<u>9,147</u>

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

## 7. Debtors

	<b>31.12.2010</b>	<i>31.12.2009</i>
	<b>£'000</b>	<i>£'000</i>
Accrued revenue	<b>3,042</b>	3,093
	<b><u>3,042</u></b>	<u>3,093</u>

## 8. Cash and bank balances

	<b>31.12.2010</b>	<i>31.12.2009</i>
	<b>£'000</b>	<i>£'000</i>
Cash in COIF Charities Deposit Fund	<b>1,350</b>	3,082
Cash at bank	<b>96</b>	223
	<b><u>1,446</u></b>	<u>3,305</u>

# Notes to the accounts

<b>9. Creditors</b>	<b>31.12.2010</b>	31.12.2009
	<b>£'000</b>	£'000
Accrued expenses	<b>24</b>	20
	<b><u>24</u></b>	<u>20</u>

## 10. Income Reserve

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

	<b>31.12.2010</b>	31.12.2009
	<b>£'000</b>	£'000
Income reserve at the start of the period	<b>1,492</b>	1,455
Transfer (from)/to income reserve	<b>75</b>	37
Income reserve at the end of the period	<b><u>1,567</u></b>	<u>1,492</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 year 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.

# Notes to the accounts

## Currency risk

There is no exposure to foreign currency fluctuations as all investments, revenue 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.

## 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 unitholders may wish to make.

## Interest rate risk

The Fund invests in fixed interest securities. The revenue 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 risk profile of the Fund's financial assets and liabilities are set out below:

### 31 December 2010

<i>Currency</i>	<i>Floating rate financial assets* £'000</i>	<i>Fixed rate financial assets £'000</i>	<i>Financial assets not carrying interest £'000</i>	<i>Total £'000</i>
<b>Sterling</b>	<b>1,446</b>	<b>156,579</b>	<b>3,042</b>	<b>161,067</b>

<i>Currency</i>	<i>Floating rate financial liabilities £'000</i>	<i>Fixed rate financial liabilities £'000</i>	<i>Financial liabilities not carrying interest £'000</i>	<i>Total £'000</i>
<b>Sterling</b>	<b>-</b>	<b>-</b>	<b>2,071</b>	<b>2,071</b>

# Notes to the accounts

31 December 2009

	<i>Floating rate financial assets*</i>	<i>Fixed rate financial assets</i>	<i>Financial assets not carrying interest</i>	<i>Total</i>
<i>Currency</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Sterling	3,305	155,865	4,198	163,368

	<i>Floating rate financial liabilities</i>	<i>Fixed rate financial liabilities</i>	<i>Financial liabilities not carrying interest</i>	<i>Total</i>
<i>Currency</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Sterling	-	-	2,148	2,148

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

The fixed rate element of the portfolio at 31 December 2010 is further analysed in the following table:

<b><i>Currency</i></b>	<b><i>Fixed rate financial assets £'000</i></b>	<b><i>Weighted average interest rate %</i></b>	<b><i>Weighted average period for which the rate is fixed Years</i></b>
<b>Sterling</b>	<b>155,485</b>	<b>3.22</b>	<b>10.0</b>

31 December 2009

<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	155,865	3.84	14.1

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 2010 (31.12.2009, £nil).

# Notes to accounts

## 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 2010 (31.12.2009, £nil).

## 14. Related party transactions

The Manager's periodic charge and fee for ethical services are paid to the Manager. The Trustee fee, safe custody and transaction charges are paid to HSBC Bank plc. Both are 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 revenue for its deposits in the COIF Charities Deposit Fund where the management fees are charged to revenue.

At 31 December 2010, the balances due to the Manager and HSBC Bank plc were as set out below:

	<b>31.12.2010</b>	<i>31.12.2009</i>
	<b>£'000</b>	<i>£'000</i>
The Manager	-	-
HSBC Bank plc – Trustee fee	<b>9</b>	<i>5</i>
HSBC Bank plc – safe custody and transactions charges	<u><b>7</b></u>	<u><i>6</i></u>

## 15. Portfolio transaction costs

	<b>31.12.2010</b>	<i>31.12.2009</i>
	<b>£'000</b>	<i>£'000</i>
Analysis of total purchase costs:		
Purchases in period before transaction costs	<b>45,546</b>	<i>38,823</i>
Commissions	-	<i>1</i>
Gross purchases total	<u><b>45,546</b></u>	<u><i>38,824</i></u>
Analysis of total sales costs:		
Gross sales in period before transaction costs	<b>42,690</b>	<i>37,682</i>
Commissions	-	<i>(1)</i>
Total sales net of transaction costs	<u><b>42,690</b></u>	<u><i>37,681</i></u>

# Distribution table

## for the year ended 31 December 2010

<i>Period ended</i>	<i>Date paid/payable</i>	<i>Dividends paid/payable pence per unit</i>	
<b>Income units</b>		<b>2010</b>	2009
31 March 2010	28 May 2010	<b>1.80</b>	1.80
30 June 2010	31 August 2010	<b>1.80</b>	1.80
30 September 2010	30 November 2010	<b>1.80</b>	1.80
31 December 2010	28 February 2011	<b>1.80</b>	1.80
		<u><b>7.20</b></u>	<u>7.20</u>
		<i>Revenue accumulated pence per unit</i>	
<b>Accumulation units</b>		<b>2010</b>	2009
31 March 2010		<b>7.81</b>	7.60
30 June 2010		<b>7.82</b>	7.45
30 September 2010		<b>8.04</b>	7.62
31 December 2010		<b>8.29</b>	8.27
		<u><b>31.96</b></u>	<u>30.94</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 revenue due to the Fund in accordance with the Scheme;
- the issue and cancellation of units in accordance with the instructions of the

# Statement of Board, Corporate Trustee and Manager responsibilities

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.
- 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.
  - 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.

## 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;
- comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the Investment Management Association (IMA) in October 2010;



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

**Board**

D Henderson, Chairman of the Board, FCA, Company Director

T Bell, FRICS

P Cawdron, FCA, Company Director (resigned 10.3.10)

T Clark, Solicitor

A Daws, Solicitor

R Fitzalan Howard, Chairman, FF&P Asset Management Limited

G Newson, MRICS

**Secretary**

J Fox

**Investment Manager, Administrator and Registrar**

**CCLA Investment Management Limited**

*Authorised and regulated by the Financial Services Authority*

80 Cheapside, London EC2V 6DZ

Telephone: 020 7489 6000

Client Service:

Freephone: 0800 022 3505

Facsimile: 0844 561 5126

Email: [clientservices@ccla.co.uk](mailto:clientservices@ccla.co.uk)

[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**

J Fox

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

A Kemp

**Head of Ethical and Responsible  
Investment**

H Wildsmith

**Corporate Trustee and Custodian**

HSBC Bank plc

8 Canada Square, London E14 5HQ

**Banker**

The Royal Bank of Scotland plc

62/63 Threadneedle Street, London EC2R 8LA

**Solicitors**

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 Ethical Investment Fund**

- An actively managed fund with a diversified portfolio suitable from a wide range of charities
- Managed with a strong regard for ethical and socially responsible investment principles
- A focus on long term returns and a rising income stream for investors

### **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, Ethical 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**

80 Cheapside

London EC2V 6DZ

Client Service:

Freephone: 0800 022 3505

Facsimile: 0844 561 5126

Email: [clientservices@ccla.co.uk](mailto:clientservices@ccla.co.uk)

[www.ccla.co.uk](http://www.ccla.co.uk)