

# CIS Sustainable Leaders Trust – Eurosif Transparency Document

## What is Eurosif?

Eurosif (The European Social Investment Forum) is a pan-European group whose mission is to encourage and develop sustainable and responsible investment and better corporate governance. Current members of Eurosif include pension funds, financial service providers, academic institutes, research associations, trade unions and NGOs. The association is a not-for-profit entity that represents assets totalling over 600bn through its membership. The key benefits members receive from Eurosif are EU lobbying, SRI information and European wide initiatives that promote and explain the SRI and Corporate Governance sectors.

## What are Eurosif's aims?

Eurosif's aims are:

- To inform, educate and provide a European network for discussion about sustainable and responsible financial services.
- To initiate and publish research related to legislation, policies and practices for the integration of social, environmental and ethical issues into European financial services.
- To encourage transparency, disclosure and active ownership, with regard to corporate practice and governance on social, environmental and ethical issues.
- To actively expand the European network by supporting the development of existing SIFs and encouraging the creation of new national SIFs.

## CIS Sustainable Leaders Trust Eurosif Transparency Document

The Eurosif Transparency Document focuses on the Sustainable Leaders Trust in order to provide extensive information and increase accountability to customers. The guidelines are also able to create greater clarity for asset managers, research providers and other stakeholders.

This document has been created due to two key drivers:

1. The opportunity for us to proactively clarify our approach to SRI and therefore, positively reflect this transparency to our customers.
2. The opportunity to pre-empt potential regulation that could be enacted without the involvement of the greater SRI community.

The Eurosif Guideline Categories and responses for the CIS Sustainable Leaders Trust are as follows:

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## Basic Details

1a	<p><b>Provide the name of the fund(s) and fund manager to which these guidelines apply.</b></p> <p>CIS Sustainable Leaders Trust (previously known as the Environ Trust<sup>†</sup>) Fund Manager is Michael Fox.</p>
1b	<p><b>Provide contact details for further information regarding the funds.</b></p> <p>Customer Contact Centre on 08457 46 46 46.</p>
1c	<p><b>What is the size of the fund? In currency at a specified date.</b></p> <p>GBP102m under management as of close of business on 28th April 2005.</p>
1d	<p><b>Where can financial performance history data about the fund be found?</b></p> <p>Financial performance data can be found at <a href="http://www.cis.co.uk">www.cis.co.uk</a>.</p>
1e	<p><b>Provide details of the content, frequency and means of communicating information to investors.</b></p> <p>Twice yearly written reports covering financial and social, environmental and ethical (SEE) issues.</p>
Additional	<p><b>Briefly describe the corporate responsibility policies of the organisation that manages or promotes the fund(s), or give direction to where this information can be located.</b></p> <p>Co-operative Financial Services (CFS) recognises the need to develop its business in a sustainable manner - business development that meets the needs of the present without compromising the ability of future generations to meet their own needs. More information can be found in the CFS Sustainability Report <a href="http://www.cfs.co.uk/sustainability2003/default.htm">http://www.cfs.co.uk/sustainability2003/default.htm</a>.</p>

<sup>†</sup>CIS Environ Trust was renamed CIS Sustainable Leaders Trust on 04/01/05.

## SRI Investment Criteria

2a	<p><b>How does the fund define SRI?</b></p> <p>Socially responsible investment (SRI) is investing in companies which meet the needs of the present without compromising the needs of the future.</p>
2b	<p><b>What are the SRI investment criteria of the fund?</b></p> <p>In broad terms the companies that qualify:</p> <ul style="list-style-type: none"> <li>■ meet the needs of the present without compromising the needs of the future</li> <li>■ seek to secure higher standards of living, now and for the future</li> <li>■ protect and enhance the environment</li> <li>■ make a positive contribution towards society.</li> </ul>
2c	<p><b>How are the SRI criteria defined, how frequently and by whom are the criteria reviewed?</b></p> <p>The ethos of the trust has remained consistent since its launch but the process for stock selection has evolved.</p>
2d	<p><b>How are criteria changes communicated to investors?</b></p> <p>There has been no material change that has required communication to investors.</p>

## Research Process

3a	<p><b>Describe your SRI research methodology and process.</b></p> <p>The trust avoids companies that conduct a significant amount of business in countries where human rights have been disregarded, and companies linked to the armaments, tobacco and nuclear power industries. The research process seeks to identify companies, which are managing their SEE risks and opportunities. Companies are evaluated against sector specific criteria and the best performers from each sector are included in the trust. The proportion of companies that the fund manager may invest in is determined by how material the SEE risks and opportunities are for the sector and the sectors' alignment with the aims of the Trust.</p>
3b	<p><b>Does the fund manager use an in-house research team and/or an external research team? Please explain.</b></p> <p>The fund has a dedicated SRI Investment Analyst and the expertise of the Responsible Shareholding Unit is also available for the SRI research</p>
3c	<p><b>Is there an external control or external verification process in place for the research process? Where an Advisory Committee is used, please state its responsibilities.</b></p> <p>A Socially Responsible Investment Advisory Committee (SRIAC) is responsible for overseeing that the research process selects companies that are true to the original ethos of the trust and that the trust evolves in line with best practise in the SRI industry. SRIAC members are Dr Jane Collier - Judge Institute of Management Studies, University of Cambridge; Antony Hardy - Church of England's Ethical Advisory Group; The Rt Hon. the Lord Morris of Manchester AO QSO; David Shreeve - Conservation Foundation; and Valerie Singleton OBE. The SRIAC meet quarterly with the Fund Manager, SRI Investment Analyst and the Manager of Responsible Shareholding.</p>
3d	<p><b>Does the research process include stakeholder consultation? If yes, please provide details.</b></p> <p>A process to engage Co-operative Insurance Society's (CIS) five million customers in the development of an SRI Policy, the customer mandate, began in March 2004. A customer registration campaign was initiated to ensure that all customers who wish to have their say and vote are given every opportunity. This Policy will affect all Responsible Shareholding, including the trust.</p>
3e	<p><b>Do companies have the opportunity to see their profile or analysis? If yes, how often?</b></p> <p>Companies may see their profiles upon request, which is normally when engagement has taken place.</p>
3f	<p><b>How frequently is the research process reviewed?</b></p> <p>The research process has been reviewed during the past year and although it is effectively reviewed at each SRIAC meeting, it is unlikely to change materially for the time being.</p>
3g	<p><b>What research findings are disclosed to the public? How?</b></p> <p>At present research findings are not systematically disclosed to the public. An update on SEE issues is communicated through the written Sustainable Leaders Trust twice-yearly report and also the website. The SRI Investment Analyst, on a case-by-case basis, deals with requests for more specific information.</p>

## Evaluation and Implementation

4a	<p><b><i>How are the results of research integrated into the investment process, including selection and approval of companies for investment?</i></b></p> <p>Companies that are considered leaders in sustainability are approved for investment and form the Approved List of companies. Companies that are on the Approved List are eligible for investment and analysed in accordance with the CIS Investment Process that applies to all stock selection for CIS funds. Companies are evaluated by the Responsible Shareholding Unit (RSU) and mainstream analysts to determine whether or not they represent long-term investment opportunities.</p>
4b	<p><b><i>What internal or external measures are in place to ensure portfolio holdings* comply with SRI investment criteria?</i></b></p> <p>The SRIAC and Internal Advisory Committee ensure that portfolio holdings comply with the SRI investment criteria.</p>
4c	<p><b><i>What is the policy and procedure for divestments* on SRI grounds?</i></b></p> <p>Divestment will take place if the activities of a business become incompatible with the ethos of the trust or justify a revised rating which results in the company no longer being considered a sustainability leader in its sector. The SRIAC and Internal Advisory Committee will approve the decision to divest. The exit strategy involves the Fund Manager being required to actively look for alternative investments and orderly divestment when suitable alternatives are found.</p>
4d	<p><b><i>Are investors informed about divestments on SRI grounds? If yes, how frequently and by what means?</i></b></p> <p>Investors are not necessarily informed about divestments.</p>
4e	<p><b><i>Does the fund manager inform companies of portfolio exclusions* or divestments due to non-compliance with its SRI policy and criteria?</i></b></p> <p>Companies are informed about divestments due to SRI grounds.</p>
Additional	<p><b><i>To what extent do any results of engagement* activities feed into company selection?</i></b></p> <p>RSU and mainstream analysts work together to give companies a SEE grading. A company's response to the engagement process and fulfilment of engagement outcomes is likely to have a strong impact on the grading a company obtains. This process helps identify areas where the company has exposed itself to risks, such as sourcing items from a third world supplier who ignores proper employment practices. If these areas of risk were not dealt with, the long-term effect would be a loss of reputation and high staff turnover for the company – resulting in loss of profit. A company's SEE grading is fed into the investment process and contributes towards the analysis on which the Fund Manager will make investment decisions.</p>

## Engagement Approach

5a	<p><b><i>What are the aims of the engagement policy?</i></b></p> <p>Engagement must protect our customers' savings, champion customers' expectations of corporate behaviour and challenge for change those companies not promoting customers' financial interests and values. For reporting purposes, 'engagement' is taken to cover instances where CIS has pressed a point of difference with a company, made a persuasive case for change or where CIS has proactively endorsed a material ethical or sustainability initiative. Initiatives classified as 'engagement' will have clear objectives, such as a set of recommendations, which set forth challenges to companies and/or encourage improvement on existing company practice. Letters of enquiry and seminar attendance for research purposes are not classified as 'engagement'. The term 'engagement' is not taken to cover endorsements of corporate behaviour that are essentially the sector norm, or close to it.</p>
5b	<p><b><i>How does the fund prioritise which companies it will engage with?</i></b></p> <p>The RSU prioritises companies or SEE issues for engagement where they have a high potential investment impact or reflect priority issues for customers, as confirmed by the customer mandate consultation process.</p>
5c	<p><b><i>Who undertakes engagement on behalf of the fund?</i></b></p> <p>The RSU manages engagement for all CIS Investments, including the Sustainable Leader's Trust.</p>
5d	<p><b><i>What methods of engagement are employed?</i></b></p> <p>CIS challenges companies, either by highlighting investment risk, following detailed analysis, or by proposing alternative solutions or initiatives on SEE issues. Engagement can be pursued via correspondence, face-to-face meetings, attending company briefings to specifically raise SEE issues or via attendance and the exercise of voting rights at a company's annual general meeting.</p>
5e	<p><b><i>How is the effectiveness of engagement activity monitored/addressed?</i></b></p> <p>Every engagement task is outcome driven and each has a specified objective and accompanying performance measures. Objectives range from raising awareness to getting public commitment to a change of behaviour. All CIS engagement activity is subject to independent third-party audit, with particular attention given to matters of ethics and sustainability.</p>
5f	<p><b><i>What further steps, if any, are taken if engagement is considered unsuccessful?</i></b></p> <p>If engagement has failed or has no prospect for success the fund manager is required to look for alternative investments and assess the risk of divestment (see 4c). Engagement is only considered to have failed once alternative and viable engagement strategies, such as joint investor initiatives, have been considered.</p>
5g	<p><b><i>How, and how frequently, are engagement activities communicated to investors and other stakeholders?</i></b></p> <p>Engagement activities are communicated to external stakeholders annually through the CFS Sustainability Report and through the Sustainable Leaders Trust twice yearly written reports covering financial performance and SEE issues. Engagement activities are communicated to internal stakeholders through a quarterly newsletter and reporting to the SRIAC.</p>

## Voting Policy

6a	<p><b><i>Does the fund have a voting policy? If so, what is it?</i></b></p> <p>CIS regards voting in a responsible, informed and consistent manner by institutional investors to be a fiduciary duty. From the outset of the Responsible Shareholding policy, CIS undertook to play an active part as a shareholder by exercising its vote on every motion put to the general meetings of all companies in which shares are held. In exercising its votes, CIS seeks actively to support the management of companies that are considered to act in the long-term interests of shareholders, while taking account of the Combined Code and institutional guidelines. In general, CIS will vote FOR a resolution if it is consistent with the Society's guidelines, accords with best practice and is believed to be in shareholders' long-term interests. It will, however, ABSTAIN if the resolution falls short of best practice, but the issue is not sufficiently important to oppose management. Votes AGAINST arise when the resolution is inconsistent with the CIS guidelines, does not accord with best practice and is not in shareholders' long-term interests. As a matter of course, CIS informs companies in advance of all instances when it intends to vote against or abstain on any resolution proposed by the directors at a general meeting, and is prepared in all cases to explain its course of action. CIS does not necessarily regard voting against the receiving of the report and accounts as a vote of no confidence in the Board. To date, the focus of corporate engagement has been, predominantly, on issues of corporate governance and executive remuneration, but it increasingly embraces the ethical and sustainability performance of companies.</p>
6b	<p><b><i>Does the fund disclose its voting practices and reasoning for decisions? If so, where can this information be found?</i></b></p> <p>In 2002, the CIS became the first institutional investor in this country to publish its voting record on its website: <a href="http://www.cis.co.uk">www.cis.co.uk</a>. The CIS's initiative is intended to encourage other investors to follow suit, in accordance with a proposal that the government included in its White Paper on the reform of company law which was clearly designed to encourage large shareholders to exercise their votes. The Society's Chief Operating Officer has publicly called for a more extensive declaration of voting records to enhance transparency.</p>
6c	<p><b><i>Does the fund sponsor/co-sponsor shareholder resolutions?</i></b></p> <p>The CIS works with other like-minded institutions that have common concerns over specific issues, and is willing either to attend meetings with other investors or to represent their views when questioning companies.</p>

## Periodical Activities

7a	<p><b>List the fund holdings at a specified date within the last 6 months.</b></p> <p>At 24/02/2005 top holdings in the trust were: RPS Group, Cranswick, Shaftesbury, St Mowden Properties, SIG, AWG, Vodafone, Yell Group, GlaxoSmithKline and Barclays.</p>
7b	<p><b>What engagement activity has been carried out on behalf of the fund during the past year?</b></p> <p>CIS engaged with the pharmaceuticals sector to identify elements of best practice and make recommendations to companies about companies' future strategy on access to medicines. To this end, we recommended 'Eight Key Elements of an Effective Strategy' for addressing the health crisis in emerging markets.</p> <p>CIS also engaged with banks to assess the degree to which they were implementing the Equator Principles in a substantial manner and to identify and promote best practice in regard to reporting on the social and environmental impacts of project finance.</p>
7c	<p><b>What voting actions occurred that were related to the SRI fund criteria?</b></p> <p>The CIS voting record can be found at <a href="http://www.cis.co.uk">www.cis.co.uk</a>.</p>

\* see definitions of key terms

\*\* if applicable

## Definitions of key terms used in the guidelines

Term	Definition
Divestments	Companies that are sold from the fund portfolio.
Engagement	A long-term process of dialogue with companies which seeks to influence company behaviour in relation to their social, ethical and environmental practices.
Exclusion	The exclusion of sectors or companies from a fund if involved in certain activities based on specific SRI fund criteria (e.g. no tobacco or no animal testing).
Fund(s) investments.	A legal entity, the purpose of which is solely the acquisition of portfolio. This also includes compartments and sub-funds.
Fund Manager	The entity responsible for overall management of the fund.
Fund Purpose	The spirit and overall focus of the fund, but not the investment criteria employed.
Holdings	Equities and/or bonds of companies that collectively comprise the fund portfolio.
Portfolio	A collection of investments managed by the fund manager.
Signatories	Fund(s) and/or fund manager that commits to disclose SRI information in line with the Guidelines.
SRI Investment Criteria	The principle or standard of judgement used to determine what the fund can and cannot invest in from a social, ethical or environmental (SEE) perspective.
Voting Policy	Policy of a fund to exercise its voting rights as investors to influence company behaviour.



### Co-operative Insurance Society Limited

Miller Street, Manchester M60 0AL

Telephone 0161 832 8686

Internet <http://www.cis.co.uk>

E-mail [cis@cis.co.uk](mailto:cis@cis.co.uk)

Minicom - 08000 684244

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