CHURCH OF SCOTLAND PENSION TRUSTEES MAY 2024

Proposed Deliverance

The General Assembly:
1. Receive the Report.
2. Approve the appointment of Rosalind Scott-Douglas as an Employer Nominated Trustee of all three Schemes *(Section 1.4.1)*.

Report

1. BACKGROUND & STATISTICS
As at 31 December 2023, The Church of Scotland Pension Scheme for Ministers and Overseas Missionaries (the **"Ministers Scheme"**), The Church of Scotland Pension Scheme for Staff (the **"Staff Scheme"**) and The Church of Scotland Pension Scheme for Ministries Development Staff (the **"MDS Scheme"**) (together referred to as the **"Schemes"**) collectively covered approximately 4,500 members. This Report is made by the Trustees of each of those Schemes (the **"Trustees"**). As at 31 December 2023 the Trustees held, in aggregate, total assets of approximately £352 million for the purposes of the Schemes.

1.1 Scheme funding
A summary of the respective funding positions of the Schemes at 31 December 2023 following completion of the annual actuarial updates are set out overleaf:

Scheme	Funding level at 31/12/2022	Funding level at 31/12/2023
Ministers Scheme, Main Pension Fund	**108%**	**114%**
Ministers Scheme, Widows & Orphans Fund	**112%**	**124%**
Ministers Scheme, Contributors Fund	**109%**	**125%**
Staff Scheme (CSC Section)	**101%**	**103%**
Staff Scheme (SCC Section)	**98%**	**104%**
MDS Scheme	**98%**	**102%**

The Trustees are pleased to advise that each Scheme/Section remains well funded.

This means that all Schemes are self sufficient, with all the money needed to pay benefits and expenses already held within the Schemes. There is therefore no current requirement for funding from the Employing Agencies of the Church.

The Scheme Actuary excluded data relating to the period of the pandemic, in line with with industry practice. The Trustees accepted a recommendation to review mortality assumptions at the next triennial valuation as at 31 December 2024, when more information would be available about the lasting impact of the pandemic and its associated restrictions.

The Trustees record thanks to the Assembly Trustees, each Employing Agency and the Church Officers for their past and continued support for the Schemes.

1.2 Increases to Pensions in Payment
1.2.1 Statutory increases
The statutory increases applied to pensions in payment across all of the Schemes, from 1 January 2024, were 5.0% in respect of benefits accrued between 6 April 1997 and 5 April 2005 and 2.5% in respect of benefits accrued after 5 April 2005.

The MDS Scheme had increases applied in respect of benefits accrued prior to 6 April 1997 and these were awarded at the statutory rate of 5.0%.

1.2.2 Discretionary increases in the Ministers Scheme
In line with the Rules of the Ministers Scheme, the Trustees have a unilateral power to award discretionary increases to benefits.

2024 pension increases
The Trustees of the Ministers' Scheme decided to implement increases as follows

- Ministers Main Fund: 6.7% increase on pre-1997 pensionable service for all pensions in payment as at 1 January 2024

- Widows and Orphans Fund: 8.9% increase on benefits as at 1 January 2024 for all deferred and pensioner members' benefits

- Contributors Fund: 8.9% increase on benefits as at 1 January 2024 for all deferred and pensioner members' benefits.

1.3 Investment Strategy

The investment strategy employed by the Trustees reflects the high funding level and the desire of the Trustees, with the support of the participating employers to minimise the risk of any future deficit contributions. This means holding predominantly assets which match the nature and duration of the Scheme's liabilities. These matching assets are typically fixed income securities, gilts, and inflation linked gilts. The objective is to reduce unrewarded investment risk being taken due to the interest rate and inflation sensitivities of the assets not matching those of the liabilities.

Adopting a lower risk investment strategy means the volatility of the funding position of the Scheme is reduced, leading to improved security of member benefits and more certainty for the employer around the requirement for future contributions.

The Trustees have agreed to target a return from the Scheme's assets of 0.3% per annum above the liability matching assets. This is achieved by investing in a diversified manner in a variety of low risk assets, whilst still maintaining a full hedge against interest rate and inflation movements. This target return is met by taking a low risk approach.

The Trustees continue to consider the nature, disposition, marketability, security, and valuation of the Scheme's investments and their appropriateness relative to the reasons for holding each class of investment. More details about investments are given in the notes to the financial statements.

The investment managers have full discretion over voting rights for the stocks they hold in the pooled funds on behalf of the schemes.

1.3.1 Environmental, Social & Governance (ESG)

The Schemes, given their strong funding positions, no longer invest directly in shares of companies. The Trustees invest through pooled investment funds and their policy is for these funds, and the underlying investment managers, to have the highest Environmental, Social and Governance ("ESG") rating available for the asset class they are looking to invest in, as determined by the Trustees' Investment Adviser, other than in exceptional circumstances where the Trustees believe this would compromise the return they are seeking against the inherent risk of the asset class they are looking to invest in. Investments are sought in companies, both through shares and debt, which comply with good corporate governance principles, which act as responsible employers, which have regard to the environment and which show sensitivity to the communities in which they operate.

During the reporting period, the Trustees received formal advice from their Investment Adviser proposing a sustainable multi-asset mandate. It was recognised that the majority of any ESG impact within the Schemes' investments would arise in the growth assets, and hence this was an area that a positive impact could be made. The Schemes transferred their holdings in the Baillie Gifford Diversified Growth Fund to a sustainably equivalent fund, the Baillie Gifford Sustainable Multi-Asset Fund. This switch follows on from the introduction of the Alliance Bernstein Sustainable All Market Portfolio in 2022, meaning that the Schemes' entire multi-asset allocations are considered to be sustainable and have achieved the highest ESG rating available (as assessed by the Schemes' Investment Advisers). In addition to adding another sustainable mandate to the Schemes' portfolios, the in-specie transfer within Baillie Gifford reduced expected transition costs. The Schemes' Investment Adviser is comfortable that the introduction of this mandate aligns well with, and will help fulfil, the Schemes' ESG objectives as well as the Trustees' ESG views.

The Trustees expect the investment manager to vote on all company resolutions unless they are of a purely routine nature.

1.3.2 Investment Markets

The Trustees monitor, through the Investment and Funding Sub-Group (IFSG), all its investments closely, in conjunction with the investment and actuarial advisers. Given its low risk approach the Trustees do not expect the assets of the scheme to deviate significantly from the movement in the value of the liabilities. During 2023 the assets of the scheme moved broadly in line with the liability value. The Scheme saw a significant improvement in funding level at the year-end due to a change in actuarial basis and strong growth asset performance.

The calendar year 2023 saw monetary policy and the potential of an economic downturn dominate investment markets. Fortunately given the low-risk investment strategy of the Scheme, these challenges were all manageable by the IFSG and the funding level was protected by the interest rate and inflation hedging strategy of the Scheme.

The Scheme's 4% allocation to growth assets served it well over the year, with global equities rallying largely due to the expectation that the US economy would avoid a recession. Global equities enjoyed their best month in three years in November 2023, with the positive momentum continuing into December 2023. This equity performance was reflected in strong positive returns from both the Baillie Gifford and the Alliance Bernstein fund over the year.

1.4 Changes in Trustees

1.4.1 Trustees

We are pleased to propose the appointment of Rosalind Scott-Douglas as an Employer Nominated Trustee of all three Schemes, replacing Gordon Taylor. The General Assembly is asked to approve the appointment of Rosalind Scott-Douglas as Trustee of the Schemes.

The Pension Scheme for Ministries Development Staff

Ian Gray retired on 3 July 2023 and John Flynn was appointed on 29 November 2023.

The Pension Scheme for Staff

Following Stuart Stephen's appointment as Chair of Trustees, John Thomson was appointed on 29 November 2023 to fill the resultant vacancy.

The Pension Scheme for Ministers and Overseas Missionaries

Gordon Taylor, Alan Garrity and Susan Anderson retired on 17 August 2023, 1 October 2023 and 7 November 2023 respectively. Gary Yeaman was appointed on 29 November 2023.

We are fortunate to be served by so many skilled and experienced people, willing to serve in this way. We currently have a vacancy for a Member Nominated Trustee of the Ministers Scheme and we are always looking for new Trustees, so please consider serving yourself or nominating someone who would make a good Trustee.

1.4.2 The Trustees wish to record their thanks to Ian Gray, Gordon Taylor, Alan Garrity and Susan Anderson for their dedicated service and contribution to the work of the Trustees.

2. SCHEME ADMINISTRATION

2.1 The Trustees monitor the administration team's performance by receiving quarterly reports on service achieved and welcoming feedback from Scheme members on the service they have received from the team.

2.2. A formal Administration Agreement has now been put in place between the Pension Trustees and the Assembly Trustees to ensure that the administration team remains appropriately resourced and that the other internal functions on which the Pension Schemes rely, are supported.

This has always happened in practice, but until now had not been formally documented.

The Agreement was signed on behalf of the Pension Fund Trustees and the Assembly Trustees on 12 December 2023.

3 GOVERNANCE

3.1 The Trustees continue their focus on training and development. Each new Trustee completes the Pensions Regulator's Trustee Toolkit. On-going training this year included a day of training from the Schemes' advisers prior to the November Trustee meeting and shorter topical sessions as part of quarterly meetings.

In the name of the Pension Trustees

STUART STEPHEN, *Chair*
LIN MACMILLAN, *Vice-Chair*