The Church of Scotland Investors Trust

Constituted by Act of Parliament 1994

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Church of Scotland – Growth Fund Factsheet
Q3 2020

Global financial markets produced mixed returns in the third quarter. Global equity markets, led by the US and its heavier concentration to technology stocks, performed well and produced positive returns. UK equity markets continued to suffer losses, however, as higher exposure to financial and oil stocks weighed heavily on index performance as economic uncertainty persisted.

Performance to 30th September 2020

	3 months (%)	12 months (%)
Fund	-0.87	-5.49
Comparative index	0.10	-2.95
Relative	-0.97	-2.54
FTSE ALL Share index*	-2.94	-15.57

**adjusted to exclude sectors covered by Growth Fund restrictions*

For much of the quarter, financial markets also appeared to have returned to business as usual, resuming the upward momentum with which they began the year before the onset of the pandemic. Global equities, as represented by the MSCI World index, chalked up their best August – traditionally a quieter month for trading – since 1986.[1] September, however, began with a rout in technology stocks, whose share prices had soared well ahead of the rest of the market in the prior months, and market volatility remained elevated for the rest of the quarter, meaning that global equities forfeited a large proportion of the gains made earlier in the period.

Investor sentiment was boosted over the summer as economies reopened and hopes grew for the development of an effective Covid-19 vaccine, while markets were further encouraged by a series of positive economic-data releases and the accommodative stance of the US Federal Reserve.

The Fund underperformed over the quarter as a combination of holdings in Covid-impacted stocks and not owning some strong technology-related companies impacted on the portfolio. Good stock selection in financials was insufficient to offset these negatives.

A number of other developments hinted at a more uncertain and fragile backdrop. Global cases of the coronavirus continued to rise throughout the period, with numerous European nations in particular seeing a resurgence, leading to the reintroduction of localised lockdowns. Trade tensions between the US and China continued to escalate, as President Trump announced sweeping restrictions on popular Chinese social media networks, and introduced sanctions against prominent Hong Kong officials following the introduction of stringent new security laws in the region. Meanwhile, although the US labour market continued to rebound, there were increasing signs that the recovery could be slow. By late September, the country had only regained around half of the 22 million jobs lost during March and April.[2]

1. https://www.ft.com/content/b37fc114-57e2-4f5e-b4b4-e373dbcd58cc
2. https://www.ft.com/content/802371ab-d35e-4259-8af8-8b393f11abe6

Extracted from Newton Investment Management's Investment Report for The Church of Scotland Investors Trust Growth Fund as at 30th September 2020

Major Stock Positions
Top 10 Relative Holdings

Company	Total Value	Percentage of Portfolio
	£ 000	%
Sterling Capital Account	13,153,071	4.60
Microsoft Corp Com Stk USD0.0000125	10,755,008	3.76
Charities Property Fund (Inc)	8,103,562	2.83
Unilever Ord GBP0.031111	7,448,650	2.60
AstraZeneca PLC Ord USD0.25 (UK Listing)	7,235,302	2.53
UK Treasury Gilt 1.75% 07/09/2022 GBP0.01	7,197,920	2.51
Nestle SA CHF0.10 (Regd)	7,086,525	2.48
UK Treasury Gilt 4.25% 07/09/2039 GBP0.01	6,744,091	2.36
Ferguson PLC Ord GBP0.10	6,668,323	2.33
Novartis AG CHF0.50 (Regd)	6,346,914	2.22

The array of fiscal and monetary stimulus deployed by governments and central banks globally in response to the Covid-19 pandemic has undoubtedly helped to underpin risk assets. Liquidity conditions have continued to improve, and investors have started to look forward to some economic normalisation as economies have tentatively begun to exit from lockdowns.

However, investors are facing a structural backdrop which has changed dramatically and which remains highly distorted. It is defined by the simultaneous commitments of central banks to purchase government debt and direct fiscal spending by governments to support household and corporate incomes – effectively the monetary financing of government deficits. The global economy is therefore returning to work aided by monetary and fiscal stimulus on a scale never seen before in peacetime. Under these conditions, which are set to remain for the foreseeable future, there is a very real chance of a sustained acceleration of goods and services inflation over the longer term.

While the pandemic may have been dominating the headlines, the broad momentum of global politics has remained on track. The US presidential election campaign is in full swing, while trade negotiations between the UK and the EU have been continuing. Historically, US elections have exaggerated and extended price volatility. Failure to reach a post-Brexit trade deal may cause the UK and, to a lesser extent, other European economies to stutter further at a time when they are already fragile. The continuing US-China trade dispute is further evidence that the rise of populism and its negative effect on trade is likely to continue.

In an environment which remains highly unpredictable, we feel it is important to retain a focus on individual holdings, their long-term prospects and valuations. We also emphasise the increasing importance of environmental, social and governance considerations as an essential piece of the mosaic of information to better understand the risks and opportunities presented by individual investments.

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