

CHURCH OF SCOTLAND INVESTORS' TRUST

May 2017

PROPOSED DELIVERANCE

The General Assembly:

1. Receive the Report.
2. Approve the re-appointments of Mrs J Henderson and Mr T M Walker as members of the Investors Trust from 1 June 2017.
3. Receive the Annual Report and Financial Statements of the Investors Trust for 2016.

REPORT

The Church of Scotland Investors Trust, which was established by the Church of Scotland (Properties and Investments) Order Confirmation Act 1994, submits its twenty third Report to the General Assembly.

1. Introduction

1.1 The function of the Investors Trust is to provide investment services to the Church of Scotland and to bodies and trusts within or connected to the Church. The Investors Trust offers simple and economical facilities for investment in its three Funds - Growth Fund, Income Fund and Deposit Fund. Investors receive the benefits of active professional investment management, regular portfolio supervision, combined with spread of investment risk and economies of scale in pooling monies via collective investment vehicles.

1.2 The bulk of the Church of Scotland's investment is held on a long term basis, for the purpose of generating recurring income and growth in capital to support the Church's work. An increase or decline in the capital value of investments does not necessarily have a corresponding effect on income receivable.

1.3 Ethical considerations form an integral part of the investment management process and the Trustees have given instructions to the investment managers, taking into account views expressed by the General Assembly. At their own meetings, the Trustees regularly review and consider matters arising in respect of ethical investment. Investment is avoided in any company which engages in management practices which are judged by the Trustees to be unacceptable. In particular, investment is avoided in any company substantially involved in gambling, tobacco products, alcohol, armaments and in other activities which are felt to harm society more than they benefit it. In addition to the foregoing exclusions, in 2016 the Trustees agreed to avoid investment in companies who derive more than 15% of their turnover from extraction and/or sale of thermal coal and/or oil extracted from tar sands. In general, investment is sought in companies that demonstrate responsible employment and good corporate governance practices, have regard to environmental performance and human rights and act with sensitivity to the communities in which they operate.

1.4 The Trust is a member of the Church Investors Group (CIG), an ecumenical grouping of Churches and other charitable investors which lobbies companies and investment managers to encourage them to pursue more ethical policies. Research by Edinburgh University has shown that this policy of shareholder engagement is effective.

1.5 Representatives of the Trust have engaged with the Church and Society Council in a short life working group on fossil fuel investment. The resulting report on the discussions around fossil fuel investment will be presented to the General Assembly in 2018. However, the discussions have highlighted the need for a wider review of the Church investment policy to take account of developing thinking on ethical, social and governance issues arising from the investment of funds. An approach has been made to the Council of Assembly to ask that such a comprehensive review be undertaken to provide updated guidance for it. It is anticipated that the Council of Assembly via the Church and Society Council will facilitate this review with participation from all relevant bodies in the church.

2. Investment Performance and Outlook

2.1 The total value of funds invested through the Church of Scotland Investors Trust increased from £386.4 million at 31 December 2015 to £419.6 million at 31 December 2016. Factors contributing to this were a combination of investments returns and inflows of funds from investors.

2.2 The Growth Fund invests predominantly in listed company shares (equities) in the UK and overseas stock markets, with smaller exposures to corporate bonds and property. Newton Investment Management has managed the Growth Fund since January 2006. Total Return for the fund in 2016 was 14.21% against the composite benchmark return (adjusted to mirror the ethical guidelines of this fund) of 19.34%.

2.3 The Income Fund has been managed by Royal London Asset Management since February 2012 and is invested in a variety of Royal London pooled funds which

invest in underlying bonds and equities. The Fund achieved a total return for 2016 of 9.10% against the composite benchmark of 10.39%.

3. Income Distributions

3.1 The Growth Fund has earned dividend and interest income of 16.6p per unit against a target of 16.0p. Accordingly, we will be able to maintain the distribution for the year 2016 at 16.75p per unit. This represents a yield of 3.53% on the unit price as at 31 December 2016.

3.2 The level of income earned on the Income Fund was in line with our forecast and allowed the fund to maintain the targeted distribution of 50.0p per unit while modestly building on reserves. This represents a yield of 4.20% on the unit price as at 31 December 2016.

3.3 The average rate for 2016 declared by the Deposit Fund was 0.69% despite Bank of England base rate being cut to 0.25% earlier in the year. The average rate payable in 2017 will, as usual, depend on money market rates but current expectations are that we could see interest rates start to rise later in the year.

4. Membership

4.1 In accordance with the terms of the Constitution, the following three members retire by rotation at 31 May 2017: Mr J B Michael Dick, Mrs Jane Henderson and Mr Thomas M Walker. Mrs Henderson and Mr Walker have indicated they wish to seek re-election, however Mr Dick has chosen to retire. It is recommended to the General Assembly that Mrs Henderson and Mr Walker be re-appointed members from 1 June 2017.

4.2 In addition to Mr J B M Dick, Mr A W T Gibb and Mrs I J Hunter have indicated their intention to retire as Trustees from 28 May 2017. These three individuals have made outstanding contributions to the work of the Investors Trust both as Trustees and former Chairmen. The expertise and diligence they have shown in their service to the Investors Trust is an example to the current Trustees and their legacy is healthy, well managed and governed trust in which our investors can have confidence.

5. Annual Report and Financial Statements for 2016

Copies of the 2016 Annual Review and the Annual Report and Financial Statements for the year to 31 December

2016 are available to download from The Church of Scotland website or can be obtained from the Secretary.

In the name and by the authority of The Church of Scotland Investors Trust

C Y ALEXANDER, *Chairman*
B J DUFFIN, *Vice-Chairman*
N ROBERTSON, *Secretary*