

CHURCH OF SCOTLAND PENSION TRUSTEES MAY 2025

Proposed Deliverance

The General Assembly:

- 1. Receive the Report.
- 2. Approve the re-appointment of Ray Martin as Employer Nominated Trustee of all three Schemes.

Report

1. BACKGROUND & STATISTICS

As at 31 December 2024, 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 4,400 members. This Report is made by the Trustees of each of those Schemes (the “Trustees”). As at 31 December 2024 the Trustees held, in aggregate, total assets of approximately £330 million for the purposes of the Schemes.

1.1 Scheme funding

The preliminary results of the actuarial valuation as at 31 December 2024 are set out in the table below:

Scheme	Funding level at 31/12/2023	Funding level at 31/12/2024
Ministers Scheme, Main Pension Fund	114%	108%
Ministers Scheme, Widows & Orphans Fund	124%	118%
Ministers Scheme, Contributors Fund	125%	112%
Staff Scheme (CSC Section)	103%	Now fully insured
Staff Scheme (SCC Section)	104%	Now fully insured
MDS Scheme	102%	Now fully insured

The Trustees are pleased to advise that the Ministers Scheme/Sections remain well funded and the Schemes for Staff and MDS are now fully insured.

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 rules of the Ministers Scheme have been amended to give the Trustees discretion to pay a dependant’s pension under the Widows & Orphans Fund to an adult child of a member, in circumstances where that child suffers from mental or physical impairment.

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 2025, were 1.7% in respect of benefits accrued between 6 April 1997 and 5 April 2005 and 1.7% 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 1.7%.

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.

2025 Pension Increases

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

- Ministers Main Fund: 1.7% increase on pre-1997 pensionable service for all pensions in payment as at 1 January 2025
- Widows and Orphans Fund: 2.7% increase on benefits as at 1 January 2025 for all deferred and pensioner members’ benefits
- Contributors Fund: 2.7% increase on benefits as at 1 January 2025 for all deferred and pensioner members’ benefits.

1.3 Investment Strategy

Ministers Scheme

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 asset classes whilst maintaining a full hedge against interest rate and inflation movements.

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.

MDS and Staff Schemes

The investment strategy employed by the Trustees reflects the objectives of the Schemes. For the majority of the year, the Schemes were preparing for an insurer transaction to secure the liabilities. During this time, the Scheme assets were held predominantly in gilts, corporate bonds, and cash, with a small proportion in multi-asset funds. This strategy targeted a return from the Scheme's assets of 0.3% per annum above the liability matching assets, whilst still maintaining a full hedge against interest rate and inflation movements. This low-risk strategy meant that the strong funding position was protected by reducing unrewarded investment risk being taken due to the interest rate and inflation sensitivities of the assets not matching those of the liabilities.

In December 2024, the Schemes purchased a bulk annuity policy with the insurer "Just". Immediately prior to the transaction, the Schemes disinvested from both the corporate bond and multi-asset allocations.

At the time of the transaction, the Scheme held more assets than the price of the policy, which meant that there was a surplus. This surplus is receiving interest in a cash fund.

The Trustees continue to consider the nature, disposition, marketability, security, and valuation of the Scheme's investments.

Prior to the purchase of the bulk annuity policy, the investment managers had discretion over exercising voting rights for the equities held in the pooled fund multi-asset funds. Alliance Bernstein and Baillie Gifford did exercise these rights throughout the year - details on this can be found in the implementation statements which are available on the Pension Trustee Section of the Church website. As the Scheme no longer holds any funds with equities, there are no voting rights in respect of assets at the year end.

1.3.1 Environmental, Social & Governance (ESG)

Ministers Scheme

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, as determined by the Trustees' Investment Adviser, other than in exceptional circumstances where the Trustees believed this would compromise the return they were seeking against the inherent risk of the asset class they were looking to invest in.

It is recognised that the majority of any ESG impact within the Scheme's investments arises in the growth assets, and that this is an area that a positive impact could be made. The Scheme continues to hold the Baillie Gifford Defensive Growth Fund and the Alliance Bernstein Sustainable All Market Portfolio. The Scheme's entire multi-asset allocation is considered to be sustainable and has achieved the highest ESG rating available (as assessed by the Scheme's Investment Advisers). The Scheme's Investment Adviser remains comfortable that these mandates align well with the Trustees' ESG views and will help fulfil the Scheme's ESG objectives. During the reporting period, the Trustees received no formal advice from their Investment Adviser on implementing further sustainable allocations.

MDS and Staff Schemes

Prior to purchasing the bulk annuity policy, the Schemes gained exposure to equity markets via investment in multiple pooled investment multi-asset funds. The Trustees' policy was for these funds, and the underlying investment managers, to have the highest Environmental, Social and Governance ("ESG") rating available, as determined by the Trustees' Investment Adviser, other than in exceptional circumstances where the Trustees believed this would compromise the return they were seeking against the inherent risk of the asset class they were looking to invest in. Before the bulk annuity purchase, the vast majority of ESG impact within the Scheme's investments arose in the multi-asset funds and it was recognised that this was an area that positive impacts could be made. Therefore, the Schemes continued to hold the Baillie Gifford Defensive Growth Fund and the Alliance Bernstein Sustainable All Market Portfolio, with both funds achieving the highest ESG rating available (as assessed by the Schemes' Investment Advisers).

This consideration was also extended to the bulk annuity selection process, where the Trustees incorporated ESG credentials as part of the criteria in assessing each insurer.

1.3.2 Investment Markets

The Investment and Funding Sub-Group, in conjunction with the investment and actuarial advisers, monitor all Scheme investments closely. Given its low risk approach, the Trustees do not expect the assets of the Schemes to deviate significantly from the movement in the value of the liabilities. During 2024 the assets of the Schemes outperformed the liability value. The Schemes remain well funded at the year-end due to a combination of the liability hedging assets performing as designed and strong growth asset performance over the year.

2024 saw global geopolitical tensions, elections, and monetary policy dominate markets once again. Fortunately given the low-risk investment strategy of the Schemes, these challenges were all managed and the funding level was protected by the interest rate and inflation hedging strategy of the Schemes.

The Schemes' 12% allocation to growth assets performed well over the year, with global equities once again rallying largely due to easing monetary policy and growth in US tech stocks. Geopolitical tensions and an uncertain inflation outlook hit markets in the fourth quarter but US stocks still managed to move higher. Significant concentration in US stocks, particularly in the technology sector, coupled with elevated valuations in US markets, means diversification becomes even important and can act as a prudent safeguard against future market volatility. In credit markets, investors sought to take advantage of the continued high-yield environment as global interest rates remained high, although this continued investment took credit spreads to historical lows, leading some investors to seek compelling investment opportunities in alternative areas.

The MDS and Staff Schemes have purchased a bulk annuity policy and as the surplus assets are held in a single cash fund, ongoing investment risk for these Schemes is negligible. The Statement of Investment Principles outlines how the residual risks are monitored and managed.

The Trustees have adopted a Statement of Investment Principles ('SIP') as required by Section 35 of the Pensions Act 1995 and these principles have been applied consistently throughout the year. A copy of the SIP is available on the Pension Trustee Section of the Church website.

1.4 Changes in Trustees

1.4.1 Trustees

There have been no changes to the Trustees this year.

We are still running with one vacancy for a Member Nominated Trustee in the Ministers Scheme and we have agreed, with confirmation from our legal advisers, that we will keep that vacancy open.

The Chair of our Investment and Funding Sub Group, Ray Martin, reaches the end of his term of office in November 2025 and he has agreed to stay on for another term.

We are fortunate to be served by so many skilled and experienced people willing to serve in this way.

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.

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*