# The Church of Scotland Investors Trust
# Annual Review 2019

Registered Offices: 121 George Street, Edinburgh, EH2 4YN
Scottish Charity No. SC022884

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## Administrative Information

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|---|---|---|
| **Name:** | The Church of Scotland Investors Trust | |
| **Reg. No.:** | Scottish Charity No. SC022884 | |
| **Address:** | The Church of Scotland Offices<br>121 George Street<br>Edinburgh EH2 4YN | |
| **Tel:** | 0131 225 5722 | |
| **E-mail:** | investorstrust@cofscotland.org.uk | |
| **Web:** | churchofscotland.org.uk/about_us/stewardship_finance_and_trusts/investors_trust | |
| **Investment Managers:** | Growth Fund | Newton Investment Management Ltd.<br>160 Queen Victoria Street, London EC4V 4LA |
| | Income Fund | Royal London Asset Management<br>55 Gracechurch Street, London, EC3V 0UF |
| | Deposit Fund | Thomas Miller Investment (Isle of Man) Ltd.<br>90 Fenchurch Street, London EC3M 4ST |
| **Investment Consultant:** | | Mercer Ltd<br>Quartermile One, 15 Lauriston Place,<br>Edinburgh, EH3 9EP |
| **Staff:** | Treasurer<br>Secretary<br>Administrator<br>Administrator | Mrs Anne F Macintosh<br>Mrs Nicola Robertson<br>Mrs Olive Hook<br>Mrs Vanda Cochrane |
| **Bankers and Safe Custody Agent:** | | Growth Fund<br>The Bank of New York Mellon Corporation<br>1 Piccadilly Gardens, Manchester M1 1RN |
| | | Income Fund<br>HSBC Securities Services<br>8 Canada Square, London, E14 5HQ |
| **Auditors:** | | RSM UK Audit LLP<br>First Floor, Quay 2, 139 Fountainbridge,<br>Edinburgh, EH3 9QG |

**Structure, Governance and Management**

The Church of Scotland Investors Trust is a statutory corporation, established by the Church of Scotland (Properties and Investments) Order Confirmation Act 1994, which permits the appointment of a maximum of twenty Trustees.

Suitably qualified individuals with relevant investment experience are identified by the existing Trustees and approached to become Trustees, advertisements are also placed in Life and Work magazine. Candidates are provided with copies of the Act which established the Church of Scotland Investors Trust, the Statement of Investment Policy, the most recent Annual Report and Financial Statements, the General Assembly Report and Minutes of meetings. Trustee appointments are approved by the General Assembly and all Trustees are regularly offered opportunities to keep themselves up to date on investment and charity matters.

**Trustees: The Investors Trust had thirteen Trustees at 31st December 2019:**

| | |
|---|---|
| **Brian J Duffin OBE** (Chairman) was formerly Group Chief Executive of Scottish Life. Currently Chairman of Scottish Equitable Policyholders Trust, Chairman of the GEC Pension Scheme, Chairman of Aviva With Profits Committee and a Non-Executive Director of NFU Mutual Insurance Society. Director of the Church Investors Group.<br><br>Appointed a Trustee in 2009. Member of the Chairman's Sub-Committee and Audit Committee. | **Robert D Burgon** worked in occupational pensions and trade association management for almost 40 years, before retirement in 2016. He has served as Chairman of the World Plumbing Council and was Master of the Worshipful Company of Plumbers in 2017-2018. He currently serves as Chairman of that organisation's Investment Committee and is Vice-Chairman of its charitable trust.<br><br>Appointed a Trustee in 2013 and Vice-Chairman in 2019. Member of the Chairman's Sub-Committee and Audit Committee. |
| **Alan A Aitchison** has worked in the investment management industry since the mid-1970s and has considerable experience in the management of private client and charity portfolios.<br><br>Former Executive Director and Head of Quilter Cheviot, Edinburgh.<br><br>Appointed a Trustee in 1985. | **Catherine Y Alexander** retired in 2017 from working with Inspiring Scotland, a venture philanthropy organisation, and has over 35 years' experience in banking and financial services.<br><br>Previously Catherine was Head of Client Service for Kames Capital, responsible for the insurance company relationships as well as managing institutional, insured and retail operations relationship managers, client support and client communication teams. Catherine also worked for the Clydesdale Bank serving 21 years with the Company. She is a member of the Chartered Institute of Bankers (Scotland).<br><br>Appointed a Trustee in 2005, Vice-Chairman 2012-2015 and Chairman 2016-2019. Member of the Chairman's Sub-Committee. |

**Trustees at 31st December 2019 Contd:**

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| **Robin Black** is a Global Equities Manager with Aegon Asset Management. Previously he was a stock broker in London, New York and Hong Kong, latterly as the Global Head of Pan Asian Sales for Macquarie.<br><br>He began his career as a fund manager with Martin Currie. He has 25 years financial markets experience.<br><br>Appointed a Trustee in 2019. | **David D Campbell** is UK Director of HCWE Inc., a US based research business advising on investment asset allocation.<br><br>Previously he worked in wealth management, institutional asset management and stockbroking.<br><br>Appointed a Trustee in 2013. |
| **Elaine Crichton** is a Specialist Volunteer Network Executive at Inspiring Scotland. Formerly a senior investment manager with Kames Capital, Elaine has over 30 years' experience in the investment industry with a focus on American equities.<br><br>Appointed a Trustee in 2015. Member of the Chairman's Sub-Committee. | **Rodger H Nisbet** trained and practiced as an investment manager at Walter Scott & Partners Ltd., leaving the firm as Executive Chairman.<br><br>With 25 years of market experience Rodger is engaged in a number of advisory and business roles with particular focus in developing markets.<br><br>Appointed trustee 2009 |
| **Thomas M Walker** is a chartered accountant With over 30 years' experience as an investment manager, he specialised in Asian, North American and Global equities for a number of institutions and latterly was a senior fund manager at Martin Currie Investment Management.<br><br>He maintains his involvement in the investment world as a charity trustee and an investment trust Non-Executive director.<br><br>Appointed a trustee in 2005. | **Grant Wilson** is Chief Investment Officer of Asset Risk Consultants. With more than 30 years' experience as an investment manager and executive director of a number of fund management companies, including Martin Currie Investment Management and Gartmore Investment Trust Management.<br><br>Associate of The CFA Society of the UK and The Institute of Chartered Secretaries and Administrators. Member of the Chartered Institute of Securities and Investment.<br><br>Appointed a Trustee in 1996. |
| **Gordon A Young** is a Senior Director with Clydesdale Bank's Corporate & Structured Finance Division covering the West of Scotland. His career with Clydesdale Bank spans over 40 years, currently with responsibility for some of the Bank's largest customers in the West.<br><br>He is a Fellow of the Chartered Banker Institute and a Director of the Merchants House of Glasgow.<br><br>Appointed a Trustee in 2019 | **Gordon R Young** is a Chartered Accountant with over 25 years' experience in the investment management industry, firstly with Ivory & Sime plc and then with Aberforth Partners until 2007, where he was the partner responsible for all aspects of investment accounting, compliance and administration.<br><br>Appointed a Trustee in 2009. Chairman of the Audit Sub-Committee and member of the Chairman's Sub-Committee. |

**Trustees at 31st December 2019 Contd:**

| | |
|---|---|
| **Michael G S Yuille** currently holds a number of Non-Executive positions and has extensive experience of governance, Audit and Risk.<br><br>Michael led the merger of the three Colleges of Further Education in the West Region of Scotland and in 2015 was appointed by the Scottish Government to join the replacement Board at Glasgow Clyde College.<br><br>Former Director of Finance at the Universities of Aberdeen, Glasgow and Liverpool where, amongst other duties, he was a Trustee of the pension schemes for non-academic staff and chaired their investments sub-committees.<br><br>Appointed a Trustee and member of the Audit Sub-Committee in 2016. | ***** 2020 *****<br>*****COULD THIS BE YOU *****<br><br>If you think that you may be able to contribute to the work of the Trust please email the Secretary nrobertson@cofscotland.org.uk for an application form. The Investors Trust Chairman would be happy to discuss this informally. |

The Trustees meet at least four times per year to receive performance reports from the managers of the three Funds who also submit regular written reports. The Trustees have engaged an investment consultant to report on the performances of the Growth and Income Fund Managers which includes comparison with a relevant peer group of Fund Managers. There is a Chairman's Sub-Committee which deals with issues of policy for presentation to full Trustees' meetings and acts as an interviewing and nominating Sub-Committee for potential Trustees. Additionally there is an Audit Sub-Committee which considers the Annual Report and Financial Statements prior to submission to the Trustees for approval.

The Trustees maintain a Risk Register which is regularly reviewed by the Audit Sub-Committee in order to ensure that the main risks to which the Trust is exposed are being managed effectively. The principal risk relates to the management of the performance of the three Fund Managers. This is mitigated by the investment expertise of the Trustees and their regular monitoring of the relative performance of the Investment Managers. As mentioned above, an external investment consultant is retained to provide independent advice on the performance of the Growth and Income Fund Managers. The risk of market fluctuations in capital values and income distributions rests with individual investors and not with the Investors Trust.

The day to day administration of The Church of Scotland Investors Trust is delegated to the Secretary and, in respect of financial matters, to the Treasurer.

The Chairman reports annually to the General Assembly in May. The Annual Report and Financial Statements and Annual Review are made available to Commissioners to the General Assembly and are published on the Church of Scotland website, but are also available in hard copy form on request to the Secretary. Quarterly reports, monthly dealing procedures and unit price and distribution history are also available on the website.

## Objectives and Principal Activities

The Investors Trust offers to Congregations, Councils and Committees of the Church of Scotland and to bodies within or connected to the Church, a range of economical facilities for investment of their funds. Investors enjoy the benefits of professional management, with continuous portfolio supervision, spread of investment risk and economies of scale. The Investors Trust has wide powers of investment and is exempt from UK income and capital gains tax. All income distributions to investors are paid gross, thus relieving investors from the requirement to reclaim tax.

Three professionally managed investment funds, with the following objectives, are available to meet the varying needs of Church investors. The Growth Fund is intended to provide a growing annual income and to provide an increase in the value of capital long term. The Income Fund is intended to provide consistent high income and to protect the nominal value of capital. The Deposit Fund is intended for short-term investment and seeks to provide a competitive rate of interest whilst preserving nominal capital value. Further details on each of the Funds can be found on pages 11, 14 and 17.

The Managers of the Growth and Income Funds are set income earnings targets annually to assist the Trustees to forecast distribution levels.

## Ethical Investment and Socially Responsible Investment

Ethical considerations form an integral part of the investment management process and the Trustees have given guidance 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 whose management practices are judged by the Trustees to be unacceptable. In particular, investment is avoided in any company substantially involved in gambling, tobacco products, alcohol, armaments, the extraction of thermal coal or tar sands and other activities which are felt to harm society more than they benefit it. "Substantially" is interpreted as resulting in around 15% or more of total turnover being derived from these sectors. 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.

The Church of Scotland Investors Trust is a member of the Church Investors Group, an organisation which represents institutional investors from many mainstream Church denominations and church related charities with combined assets of over £15 billion. The Church Investors Group encourages the formulation of investment policies based on Christian ethical principles. The Chairman is a board member and part of the Steering Committee for the Church Investors Group. The Church Investors Group encourages the formulation of investment policies based on Christian ethical principles.

The Church of Scotland has no specific resource dedicated to research into Ethical, Social and Corporate Governance matters and consequently membership of CIG is an important connection to current thinking on ESG topics by like-minded Christian organisations. Another key source of information on ESG matters is research, engagement activity and campaigns undertaken by our Investment Managers. The Investors Trust Chairman has engaged with Councils and Committees in the Church on ethical investment questions.

The Investors Trust has delegated to the individual funds' Investment Managers responsibility for complying with the Stewardship Code of the Financial Reporting Council.

**Description of Investment Funds**

The three funds offered by the Church of Scotland Investors Trust are, as noted above, exempt from UK income and capital gains taxes. There are no initial charges.

The objective of the Growth Fund is to provide long term capital growth and a growing annual income. It is largely invested in UK and overseas equities and therefore is unsuitable for short term investment. The fund is operated on a unitised basis with a monthly valuation and dealing date. Expenses are charged to capital. Income distributions are made on 15th May and 15th November.

The objective of the Income Fund is to provide a consistent high income and provide nominal capital protection. It is predominantly invested in UK bonds through collective investment schemes managed by Royal London Asset Management. The fund is operated on a unitised basis with a monthly valuation and dealing date. The majority of expenses, most of which arise in the collective investment schemes, are charged to capital. Income distributions are made on 15th March and 15th September.

The objective of the Deposit Fund is to provide a competitive rate of interest. Funds are invested in short term deposits with banks and building societies. Dealing can take place on any business day. Withdrawals of sums **up to £100,000** may be made on demand. **Over this sum, 7 days notice is required**. Expenses are charged to income. Interest, which is announced quarterly, is paid in arrears on 15th May and 15th November.

Application and withdrawal forms for all three funds may be downloaded from the Church of Scotland website by utilising the link below. Up to date information about each of the funds and dealing procedures may also be found there. There are no minimum or maximum investment limits. The Trustees will always have the discretion to declare a dealing date and revalue the unitised Funds at any time during the month should special circumstances arise.

Whilst the Managers of each of the Funds are regulated by the Financial Conduct Authority, (FCA), the Church of Scotland Investors Trust, under the provisions of the Financial Services and Markets Act 2000, is not considered to be operating the funds by way of business. Consequently, it is not required to be regulated by the FCA and the Trustees are not required to be authorised by the FCA.

Deposits taken by the Deposit Fund are exempted from the Financial Services and Markets Act 2000, by virtue of the Financial Services and Markets Act 2000 (Exemption) Order 2001. Investments in the Growth and Income Funds and deposits in the Deposit Fund are **not** covered by the Financial Services Compensation Scheme.

The Audited Accounts of the Investors Trust and additional copies of this Review can be viewed and/or downloaded from the Investors Trust's webpage. Quarterly reports on each of the three funds are also published on this page.

http://www.churchofscotland.org.uk/about_us/stewardship_finance_and_trusts/investors_trust

**Risk Warning**: - Investors should bear in mind that values fluctuate and, as past performance is no guarantee of future returns, investors may not get back the original amount invested. The Growth Fund and Income Fund units are only realisable on the monthly dealing dates. The distributions paid by the Deposit, Growth and Income Funds are all liable to fluctuation.

**Chairman's Review**

This Annual Review might be expected to start with details of all that has happened in 2019 and the actions taken on behalf of our investors by the Trustees. However the opening months of 2020 have been so dramatic that they deserve to be described first and how they may affect the financial position of all those who depend on the Investors Trust.

In January reports emerged from China of a developing flu epidemic in the city of Wuhan. This appeared to be a completely new virus which led to respiratory difficulties for some of those infected, and it also became clear that the infection could spread rapidly. However, it was not until a month later that the potential global impact of this virus became clear, both in terms of the deaths it might cause or the economic disruption which would be produced by quarantine measures. Financial markets fell heavily in March, with the FTSE 100 index, for example, reaching a level on 23 March which was 37% below its previous high.

Governments responded by requiring their populations to "lockdown" as much as possible so that the virus should not spread quickly and overload health treatment systems, and this has been largely successful at the date of writing this review. However, the economic cost has been enormous with many business sectors closing completely and several others operating at low levels. Central banks and finance ministries have created liquidity, launched compensation schemes for employees and stimulated bank lending in response. Otherwise, the outcome would have been unprecedented levels of unemployment and deprivation.

At this point we have little clarity on what will happen in the remaining months of this year or even in 2021. The best solution will be an effective vaccine which can be available worldwide, but most medical professionals caution that this may not be possible for another twelve months. In the meantime, it is likely that some restrictions on social and business activity will be gradually relaxed although many sectors will continue to be providing jobs and wages at much lower levels than at the start of the year. Consequently compensation schemes and other means of government support will be in place for a long time – and businesses will generate low levels of profits or further substantial losses.

Against this gloomy setting, it is perhaps surprising that financial markets have staged a recovery over the past month. The FTSE 100 index referred to earlier is now down 25% from the previous high referred to earlier – a recovery of nearly 20% from the low point. This suggests that the pandemic is seen as a massive, but temporary, phenomenon and that economic recovery will be slow initially but will eventually restore much of the previous global profits and trading. However, much caution is needed - the timescale is impossible to predict and we do not know the cost of unwinding government borrowings undertaken to fund compensation schemes.

In the immediate future, we know that company dividends will be reduced as several companies have announced either cancellations or deferments, and this will reduce the ability of Investors Trust to distribute income from the Growth Fund. The payments being made in May 2020 are not affected but the normal November 2020 and May 2021 payments are likely to be reduced, perhaps by as much as 25% or 50%. I regret that I cannot be more specific at this point.

One other significant matter has taken place this year. In January we discussed the prospects for the Oil and Gas sector with our Growth Fund managers, Newton. Their view of the strategic outlook for the energy sector was of a change away from fossil fuels towards renewable energies (and a shift away from oil to gas within fossil fuels). They believed that it would be difficult for the sector to transition profitably and quickly to new energy generation and distribution although the pace of change is accelerating. As a result Newton planned to reduce our exposure to the Oil and Gas sector and began to do so.

However, in the meantime, the combined effect of rapidly falling economic activity and a collapse of OPEC's restraint on oil production caused a precipitate fall in the oil price from around $60 a barrel to below $20, and Oil shares suffered accordingly. This made the terms of a switch to other market sectors unattractive, so the Fund continues to hold Oil shares although the exposure has been reduced.

Performance in 2019

Reverting to the year just past, it was successful on a number of fronts even if it seems a long time ago.

After a dull year in 2018, both equity and bond markets rose in 2019. Within a global setting of steady but unspectacular growth, the US markets enjoyed stronger returns due to perceived political encouragement from the Republican party under President Donald Trump and accommodative monetary policy from the Federal Reserve. Political considerations played a strong part in the UK as well, as Boris Johnson became Prime Minister in July 2019. This resulted in a clearer position on the timing and nature of the British exit from the European Union which had been decided in a referendum in 2016.

The Growth Fund achieved a total return of 17.0%, after expenses, and the total distribution of income to investors within this return was 17.25p, which was an increase from 17.0p in respect of 2018. Newton Investment Managers also supported the Trustees by actively operating as stewards under an ESG (Environment, Social and Governance) policy which was discussed frequently between us.

The Income Fund, managed by Royal London Asset Management (RLAM), performed very well again against its benchmark. The total return was 9.0%, after expenses, against the benchmark of 8.0%. The longer term record from RLAM is remarkably strong; over five years the total return has been 6.0% per annum against the equivalent benchmark return of 4.4%.

The Income Fund was able to maintain the annual rate of distribution of 50.0p, but the actual income earned has been falling for many years and in 2019 it was only possible to maintain the previous level of distribution by drawing on reserves. Unfortunately, this reducing ability to maintain income distributions is outside the control of the Trustees or our managers as it is determined by falling levels of fixed interest yields. Gilt yields in particular set the basis from which other bond yields are traded, even if the margin varies as corporate conditions are perceived to vary. The demand for secure government bonds (gilts) has been high and has pushed down the yields available as a result. In the current year the uncertainty generated by the Covid-19 pandemic has reinforced the market's appetite for security and yields have continued to fall.

Although our managers seek higher, reliable yields as much as they can, we need to warn investors that reductions in the Income Fund distributions should be expected unless there is a reversal of the trend experienced in recent years. However, the scale of reductions anticipated should be much less than those expected to apply to the Growth Fund distributions.

The Deposit Fund is managed by the firm of Thomas Miller and places deposits on behalf of the Investors Trust with a range of approved banks, seeking to optimise returns by varying the terms for which the deposits are placed up to twelve months. In 2019 the Bank of England Base Rate was 0.75% but the Deposit Fund returned an income level of 0.84% after expenses. This was a very creditable performance.

In March of this year the Base Rate was reduced to 0.1% to mitigate the economic effects of the pandemic, even if only to a limited extent. Consequently investors must expect a declining rate of interest from the Deposit Fund as the year progresses and as deposits already placed with banks mature and are reinvested at much lower rates.

I want to record my thanks to the Treasurer, Secretary and staff of the Investors Trust who ensure smooth day-to-day operations and are the front line point of contact for both our investors and investment managers. Each year brings a new set of challenges, but 2019 has been exceptional by any standard. Working from home has replaced the normal office conditions and I am very impressed at the way this transition has been managed, which speaks well for the dedication and professionalism of all our staff, including those who support our work outside the finance team.

In previous years we have engaged with the Church and Society Council on ethical issues, particularly with regard to Climate Change and the role of Oil and Gas companies. Following the reorganisation of Councils within the church we have started to build a new relationship with the Faith Impact Forum. Our membership of the Church Investors Group and the growing importance of ESG issues in fund management mean that we have access to authoritative data and research on several current issues and we expect to work with the Forum in future to develop common positions on key matters.

Finally, I am indebted to the work and support I have received from the Trustees, all of whom live busy lives but volunteer generously their expertise and time. A particular thanks is offered to our previous Chair, Catherine Alexander, who is retiring as a Trustee and to the new Vice Chairman, Robert Burgon, who stepped into this role in May 2019. The work of the Audit Committee under Gordon Young is also vital and my thanks go to them as well.

**Brian J Duffin OBE**
**Chairman**
**April 2020**

## GROWTH FUND

**Managed by** **Newton Investment Management Ltd**
160 Queen Victoria Street, London EC4V 4LA

Newton Investment Management Limited was founded in 1978 and manages £49.8 billion on behalf of UK charities, pension funds, mutual funds, trusts, institutions and other clients (2018 - £ 47.3bn). A subsidiary of The Bank of New York Mellon Corporation, Newton's teams of specialist Fund Managers are based in London. The management of charitable investments is a core business at Newton with more than £2.2 billion being managed on behalf of over 337 charitable clients, of all sizes, across the UK. Newton offers both specialist knowledge and a commitment to the charity sector. Newton uses a distinctive global, thematic approach to maintain perspective and to generate strong and durable investment ideas.

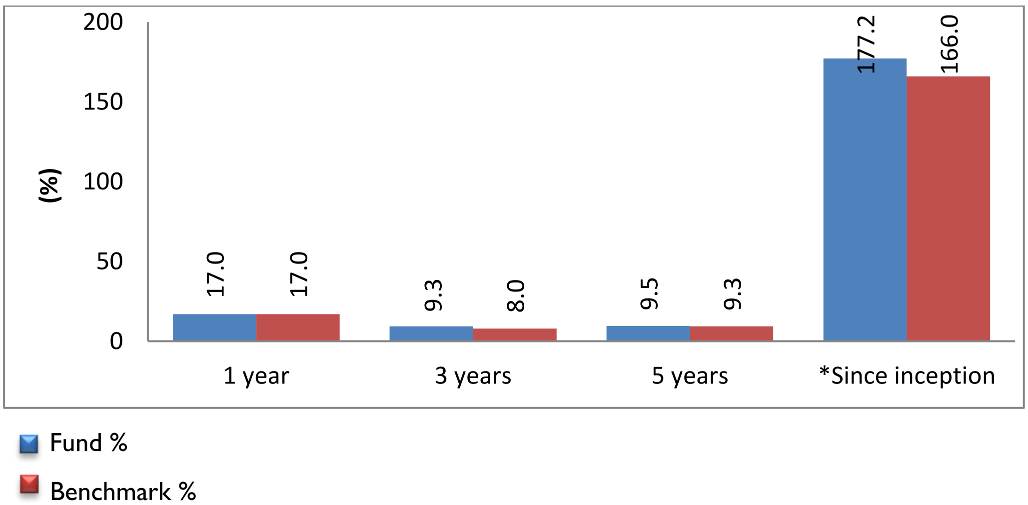
Its investment philosophy is that no industry, market or economy can be considered in isolation and events, trends and competitive pressures worldwide must be assessed in order that shares, bonds and other assets may be evaluated properly. Newton conducts its own research into shares and other assets in which it invests for clients and its only responsibility is to manage its clients' assets in order to meet their investment objectives. Newton's analysts search globally for profitable stock opportunities based on a number of investment themes.

Newton has a well-established approach to responsible investment, which is integral to the investment process. Newton's responsible investment team is charged with exercising voting rights, conducting research and carrying out engagement activities on environmental, social and governance matters. Newton believes that responsibly managed companies are best placed to achieve sustainable competitive advantage and provide strong long-term investment opportunities.

### Performance

An internal benchmark, reflecting ethical constraints, has been agreed with the Managers, in order to allow objective assessment to be made of investment performance. In 2019 the fund performed in line with the benchmark achieving total return of 17.04% against the benchmark of 17.02%.

### Total Return Performance of Growth Fund versus Benchmark




**Benchmark** 37.5% FTSE Ethical All Share, 37.5% FTSE All World (ex UK), 6% FTA Govt. All Stocks, 6% Bank of America Merrill Lynch £ Non-Gilt All Stocks, 10% IPD Annual Index, 3% 7 Day LIBID
**Since Newton managed the Growth Fund (03/01/2006)*

**Performance Contd.**

Over the last five years of its management of the Fund, the Managers have achieved a total annualised return of 9.51% versus a benchmark of 9.34%. The total expense ratio of the Growth Fund is 0.35%.

The Growth Fund returned income in excess of the Managers 16.75p target as at 31 December 2019, generating 18.13p per unit. The Trustees agreed to pay a distribution of 17.25p per unit whilst also adding to reserves.

**Growth Fund - Net Assets per Unit and Comparative Table as at 31 December 2019**

| | No of Units | Value of Unit | Total Value of Fund* £'000 | Earnings per Unit | Distributions per Unit |
|---|---|---|---|---|---|
| **2015** | 53,769,788 | £4.34 | £232,415 | 16.35p | 16.75p |
| **2016** | 55,403,387 | £ 4.75 | £ 262,282 | 17.20p | 16.75p |
| **2017** | 56,205,168 | £5.10 | £ 285,971 | 17.10p | 17.00p |
| **2018** | 56,820,654 | £ 4.92 | £ 276,811 | 16.73p | 17.00p |
| **2019** | 56,503,609 | £ 5.58 | £ 312,230 | 18.13p | 17.25p |

**Total value adjusted to include final dividend payment*

**Manager's Report**

The Growth Fund underperformed its benchmark over the final quarter however it still managed to broadly keep pace over a strong calendar year as a whole despite concerns about the prospects for the global economy.

Global equities gained in the fourth quarter of 2019 despite markets enduring a difficult start to the period, not least owing to the US/China trade war, the current phase of which many began to fear would rumble on into 2020. However, as the quarter progressed, sentiment was bolstered as news flow improved. While the US saw some encouraging economic data releases, greater certainty as to the timing, and the ultimate nature, of Brexit was also forthcoming as Boris Johnson's UK government negotiated a revised withdrawal agreement; and then gained a meaningful parliamentary majority following December's general election.

Elsewhere, as the year-end approached, both the US and China intimated that a 'phase-one' trade deal would be signed in early 2020, enabling the US economy to dodge the imposition of another round of tariffs that had been scheduled to come into force on 15 December.

**Growth Fund Portfolio Asset Distribution as at 31 December 2019**

| Class | Total Value (£000) | Percentage of Portfolio (%) |
|---|---|---|
| **UK and Overseas Fixed Interest** | 33,862 | 10.79 |
| **Property & Collective Investment Schemes** | 15,034 | 4.79 |
| **UK Equities** | 118,430 | 37.74 |
| **Overseas Equities** | 124,619 | 39.71 |
| **Net Current Assets** | 21,882 | 6.97 |
| **Total** | 313,827 | 100 |

A recent survey in the US has found that almost two-thirds of Americans believe that stock-market movements have little or no effect on their financial wellbeing. Such findings highlight how the decade-long bull market, in which monetary policy and quantitative easing in particular have helped to support asset prices, has benefited relatively few asset owners, while the vast majority of the population have seen little financial gain. It is therefore unsurprising that calls for a different approach – specifically forms of fiscal easing – are becoming louder. Should economic weakness continue in 2020, some governments are likely to look to untested fiscal policies to further stimulate growth, with potentially significant consequences for different asset classes and sectors.

**Growth Fund Portfolio Major Holdings**
**31 December 2019**

| Name | Total Value | Percentage of Portfolio |
|---|---|---|
| | **£000** | **%** |
| Royal Dutch Shell | 10,678 | 3.4 |
| Charities Property Fund | 8,479 | 2.70 |
| UK Treasury Gilt 2% 22/07/20 | 7,684 | 2.45 |
| Microsoft Corp | 7,869 | 2.51 |
| Lloyds Banking Group PLC | 7,401 | 2.36 |
| Novartis AG | 6,757 | 2.15 |
| Prudential PLC | 6.674 | 2.13 |
| BP PLC | 6.664 | 2.12 |
| AstraZeneca PLC | 6,508 | 2.07 |
| RELX | 6,449 | 2.06 |

**Full portfolio listing can be found on Appendix 1 on p19.*

Political risks are likely to remain elevated over the coming year as global trade tensions continue and the US gears up for a presidential election. Furthermore, long-term structural factors remain which present a threat to global growth. Debts in the world's major economies are at historically high levels, while the changing climate and technological innovation have the potential to disrupt industries across the world. The Chinese economy, widely viewed as the engine driving global growth, has continued to lose momentum, and the country faces significant debt and liquidity challenges.

## INCOME FUND

**Managed by** **Royal London Asset Management**
55 Gracechurch Street, London, EC3V 0UF

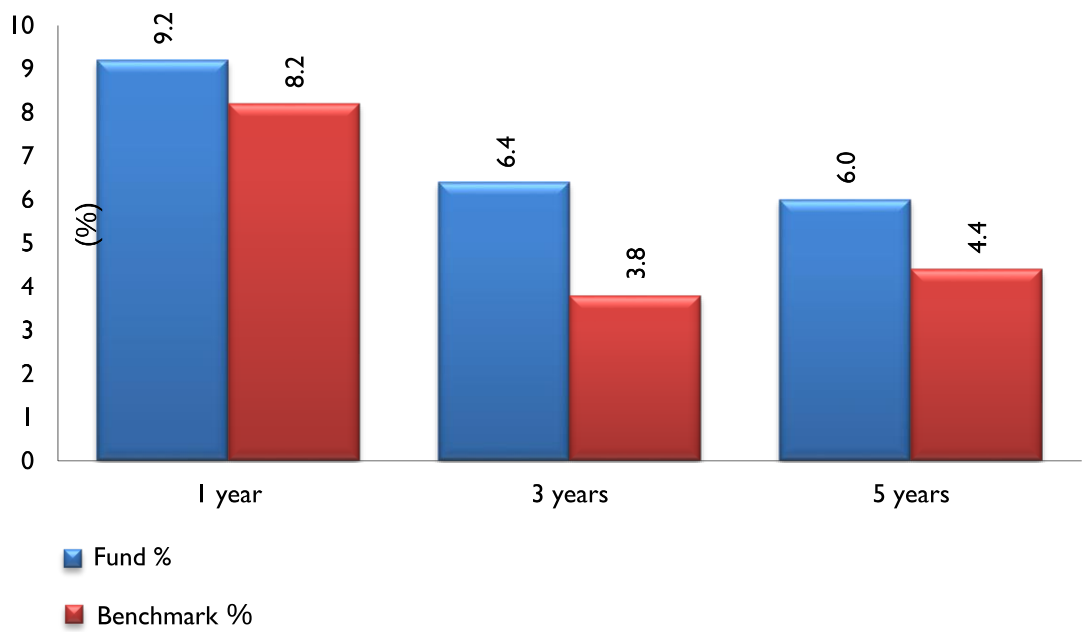
Royal London Asset Management (RLAM) is one of the UK's leading fund management companies, managing investment, pension fund and other assets on behalf of a wide range of clients. RLAM was established in 1988 and is a wholly owned and central part of the Royal London Group. Based in the City of London, its experienced team of investment specialists manages over £ 139 billion of assets (2018 - £123.4bn), investing across all major asset classes. RLAM offer a range of pooled investment products run with ethical investment mandates and with good past performance.

### Performance

An internal benchmark has been agreed with the Managers in order to allow objective assessment to be made of investment performance. In 2019 the total return was 9.02% compared with the benchmark return of 8.02%. 48.5p per unit of income was received and the Trustees agreed to distribute 50.00p per unit, with the deficit paid from previous years undistributed income reserves.

Over the five year period the Income Fund, has returned a very respectable 6.0% per annum versus a benchmark return of 4.4%. The total expense ratio of the Income Fund is 0.30%.

### Total Return Performance of Income Fund versus Benchmark



**Manager's Report**

Index returns were strong in 2019, reflecting lower government bond yields and a recovery in the relative performance of corporate bonds after their sharp setback in the fourth quarter of 2018. Returns were also strong in the fourth quarter, revealing significant resiliency considering that government bonds yields partially retraced their earlier declines.

With the Conservatives securing a clear parliamentary majority, investors concluded that greater political clarity will lead to more economic stability. Sterling strengthened on the result and UK risk assets rallied sharply. While there was little impact on gilt yields, in credit the financials and utilities sectors outperformed.

Global growth was pushed in two directions in 2019 by the interplay of stimulus and trade tensions. With several governments making substantial spending commitments at the end of the year and progress in the US-China trade talks, it is now appropriate to consider the possibility of a significant upturn. That being said, numerous uncertainties still hang over the global economy, which will weigh on growth. In our base case we think that a global recession will be avoided, although we acknowledge that the recessionary risks are significant.

**Income Fund - Net Assets per Unit and Comparative Table as at 31 December 2019**

| | No of Units | Value of Unit | Total Value of Fund* £'000 | Earnings per Unit | Distributions per unit |
|---|---|---|---|---|---|
| **2015** | 5,213,866 | £11.40 | £ 59,456 | 51.85p | 50.00p |
| **2016** | 5,675,842 | £ 11.89 | £ 67,521 | 50.26p | 50.00p |
| **2017** | 5,857,300 | £ 12.44 | £ 72,851 | 51.79p | 50.00p |
| **2018** | 5,696,025 | £ 11.96 | £ 71,797 | 48.76p | 50.00p |
| **2019** | 6,346,333 | £12.50 | £ 77,536 | 48.50p | 50.00p |

* Total value adjusted to include final dividend payment

So long as consumer spending holds up, the euro area should experience soft positive growth rates, helped by fiscal and monetary stimulus as well as an improvement in the global trade backdrop. The region still appears vulnerable to shocks given the periodic recurrence of euro break-up worry; lack of monetary policy ammunition; reluctance to engage in fiscal stimulus; and incomplete structural reforms. There are also risks that the US may turn its attention to the EU as US-China trade tensions ease, and that trade talks with the UK will be bumpy.

We expect the Fed to keep rates on hold throughout 2020. We think that the European Central Bank will continue its asset purchase programme through to the end of 2020. We expect the Bank of England to cut rates by 25bps in 2020 if the UK remains in a state of Brexit-related uncertainty and if business surveys remain at levels consistent with flat to negative growth. We anticipate that Chinese authorities will ease policies further over the coming months; though that stimulus is likely to remain targeted and accompanied by efforts to reduce financial risks.

**Income Fund Portfolio Asset Distribution**
**31 December 2019**

| Class | Total Value (£000) | Percentage of Portfolio (%) |
|---|---|---|
| **Ethical Bonds** | 49,009 | 63.58 |
| **Government Bonds** | 7,234 | 9.44 |
| **Property** | 5,398 | 7.00 |
| **Cash & Cash Funds** | 2,069 | 2.68 |
| **High Yield** | 13,338 | 17.30 |
| **Total** | **79,301** | **100.0** |

## DEPOSIT FUND

**Managed by** **Thomas Miller Investment (Isle of Man) Limited**
90 Fenchurch Street, London EC3M 4ST

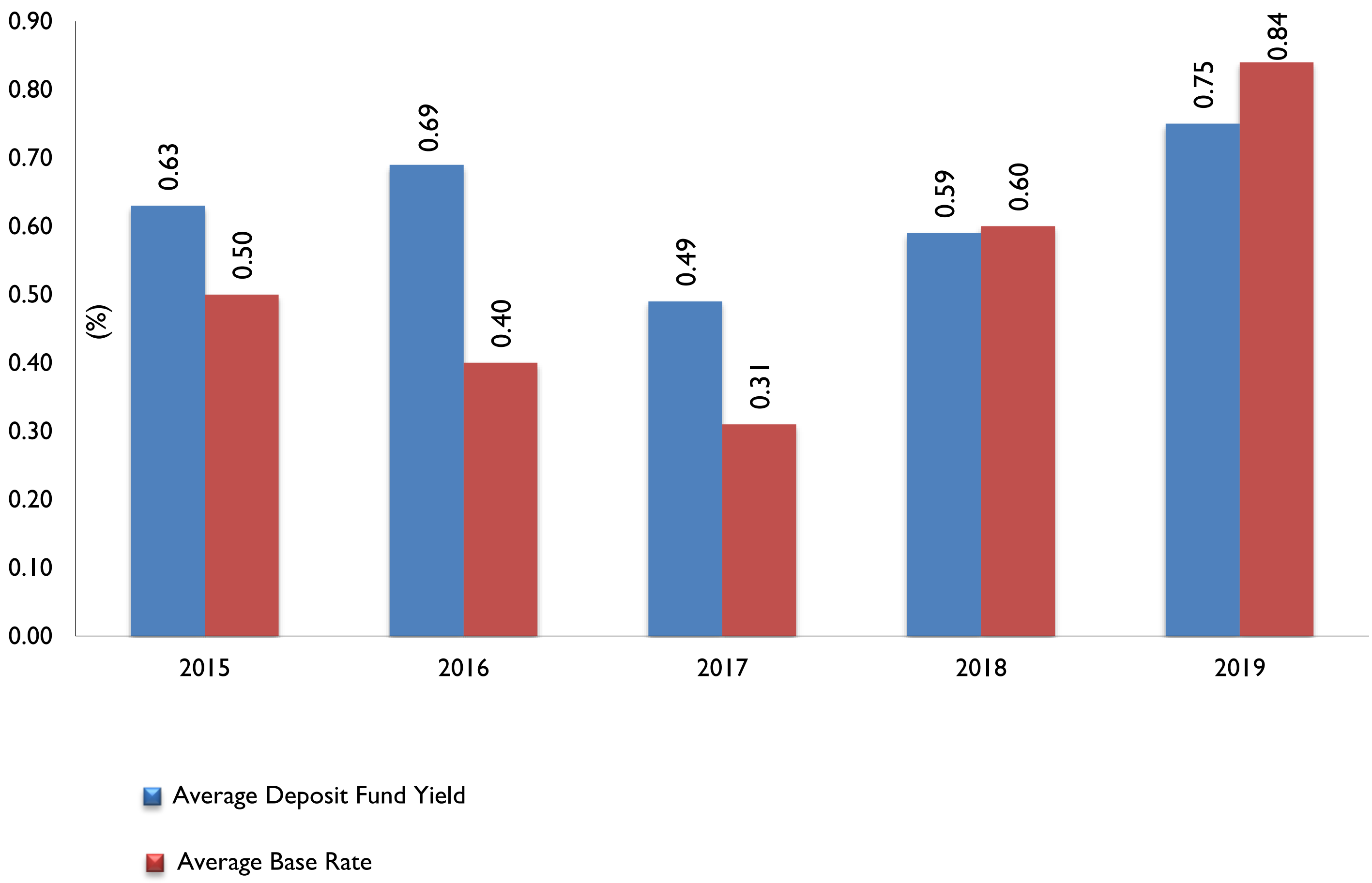
Thomas Miller Investment (Isle of Man) Limited is part of Thomas Miller Investment and the wider Thomas Miller Group of Companies, founded in 1885, and employing over 750 staff across 18 locations. Thomas Miller Investment is a specialist investment manager with a disciplined investment philosophy that puts each client's investment objectives at the very centre of each solution. Its rich heritage of prudent investment management spanning decades sees it today managing over £2.6bn of assets (2018 - £2.6bn).

### Performance

The Fund is invested in short-term deposits with Banks and Building Societies which are selected from an approved list of institutions which meet the required credit ratings. This list is regularly reviewed by both the Trustees and Thomas Miller to ensure a high credit quality is maintained and managed according to limits for credit quality, liquidity and maturity.

The average annual rate of interest paid for 2019 was 0.84%. The total expense ratio of the Deposit Fund is 0.14%.

### Average Deposit Fund Yield versus Average Base Rate



## Manager's Report

2019 turned out to be a great year for financial markets, with the majority of asset classes recording strong positive returns for the year. The gains were partly attributable to the remarkable turnaround in monetary policy settings by the major central banks, including the US Fed, Euro-zone's ECB and China's PBOC. The policy shift was led by the US Federal Reserve (Fed) which ended up cutting interest rates three times in 2019 despite having spent most of late 2018 warning investors that it intended to raise interest rates several times in the coming year.

The pace of global economic growth slowed steadily throughout 2019 as a combination of factors including tightening financial conditions, geo-political uncertainty and trade wars acted as headwinds to growth. In the UK, the results of the general election in December have removed an element of political uncertainty although the hard work of the future trade agreement remains.

### Deposit Fund Value and Comparative Table of Quarterly Declared Rates

| | Deposits | Mar | Jun | Sep | Dec |
|---|---|---|---|---|---|
| | £m | % | % | % | % |
| **2015** | 94 | 0.61 | 0.62 | 0.65 | 0.65 |
| **2016** | 89 | 0.67 | 0.70 | 0.71 | 0.66 |
| **2017** | 87 | 0.59 | 0.51 | 0.43 | 0.44 |
| **2018** | 86 | 0.42 | 0.56 | 0.63 | 0.75 |
| **2019** | 88 | 0.80 | 0.88 | 0.86 | 0.82 |

Looking ahead to the full year, the known risk events on the horizon are the UK-EU trade negotiations and the US elections later in the year. These are likely to drive volatility in the second half of 2020. For now, positive earnings reports and accommodative monetary policy are driving risk assets higher, leading to concerns about stretched valuations, particularly in the US. On balance, the available evidence supports a pro-risk asset allocation stance.

It is always useful to consider whether the consensus is overly bullish or bearish. At this point, our assessment of the evidence from various leading economic indicators supports consensus expectations of a modest outlook for global economic growth. For the UK and Euro-zone economies, a caveat is that while the level of political uncertainty has dialled down a notch, there remains a significant risk that an adverse post-Brexit trade negotiation could undermine economic growth.

### Deposit Fund Portfolio Asset Distribution
### 31 December 2019

| Class | Value | Percentage of Portfolio |
|---|---|---|
| | £m | % |
| **Banks** | 83 | 94.31 |
| **Building Societies** | 5 | 5.69 |
| **Total** | **88** | **100.0** |

## APPENDIX 1

The General Assembly 2019 requested that full portfolio details for the Growth Fund were published on an annual basis. Further to seeking approval from the investment managers, we have pleasure in disclosing these details:

**Growth Fund Portfolio at 31st December 2019**

| | | |
|---|---|---|
| ACCENTURE PL USD0.0000225 | INFORMA PLC GBP0.001 | ROYAL BANK OF SCOTLA GBP1 |
| ADMIRAL GROUP PL GBP0.001 | INSURANCE AUSTRALIA G NPV | ROYAL DUTCH SHELL EUR0.07 |
| AIA GROUP LTD USD1 | INTACT FINANCIAL CORP NPV | SAGE GROUP GBP0.01051948 |
| ALCON INC NPV | JOHNSON & JOHNSON USD1 | SIGNATURE AVIATI GBP0.372 |
| APPLIED MATERIALS USD0.01 | LEG IMMOBILIEN AG NPV | SMITH & NEPHEW PLC USD0.2 |
| ASTRAZENECA PLC USD0.25 | LLOYDS BANKING GRO GBP0.1 | SMITHS GROUP PLC GBP0.375 |
| BANGKOK BANK PCL-FO THB10 | MARKS & S 6.125% 06/12/21 | SMURFIT KAPPA GR EUR0.001 |
| BP PLC USD0.25 | MASTERCARD INC- USD0.0001 | ST JAMES'S PLACE GBP0.15 |
| BRENNTAG AG NPV | MEDTRONIC PLC USD0.0001 | THREADNEEDLE PROPERTY |
| BUREAU VERITAS SA EUR0.12 | MERCK & CO. INC. USD0.5 | TOTAL SA EUR2.5 |
| CHARITIES PROPERTY FUND | MICROSOFT C USD0.00000625 | TRAVIS PERKINS PLC GBP0.1 |
| CISCO SYSTEMS IN USD0.001 | MOWI ASA NOK7.5 | UK(GOVT) 2% 22/07/20 |
| CRH PLC EUR0.32 | NATIONAL EXPRESS GBP0.05 | UK(GOVT) 2.25% 07/09/23 |
| DERWENT LONDON PL GBP0.05 | NATIONAL GRID GBP0.124312 | UK(GOVT) 3.5% 22/01/45 |
| DEUTSCHE WOHNEN SE NPV | NESTLE SA-REG CHF0.1 | UK(GOVT) 4.25% 07/09/39 |
| DNB ASA NOK10 | NEXT GROU 4.375% 02/10/26 | UK(GOVT) 4.25% 07/12/27 |
| ENTRA ASA NPV | NOVARTIS AG-REG CHF0.5 | UNILEVER PLC GBP0.0311 |
| EVERSOURCE ENERGY USD5 | ORSTED A/S DKK10 | UNITE USA 3.374% 30/06/28 |
| FERGUSON PLC GBP10 | PROPERTY INC TR FOR CHARI | VIVENDI EUR5.5 |
| GILEAD SCIENCES USD0.001 | PRUDENTIAL PLC GBP0.05 | VODAFONE GROUP USD0.2095 |
| GLAXOSMITHKLINE P GBP0.25 | RECKITT BENCKISER GBP0.1 | WOLTERS KLUWER EUR0.12 |
| HAYS PLC GBP0.01 | RELX PLC GBP0.144397 | ZURICH INSURANCE G CHF0.1 |
| HEATHROW 5.225% 15/02/23 | ROCHE HOLDING AG-GENU NPV | |

**Income Fund Portfolio at 31st December 2019**

| |
|---|
| ROYAL LONDON STERLING EXTRA HIGH YIELD |
| ROYAL LONDON ETHICAL BOND FUND |
| ROYAL LONDON CASH PLUS FUND |
| ROYAL LONDON UK GOVERNMENT BOND FUND |
| CHARITIES PROPERTY FUND |