

**CHURCH OF SCOTLAND INVESTORS TRUST MAY 2022****Proposed Deliverance****The General Assembly:**

1. Receive the Report.
2. Appoint Mr R D Burgon as Chairman of the Investors Trust from 1 June 2022.
3. Reappoint Ms E Crichton as a member and as Vice-Chairman of the Investors Trust from 1 June 2022.
4. Approve the reappointment of Mr M G S Yuille and Mr J G Wilson as members of the Investors Trust from 1 June 2022.
5. Approve the appointment of Mr I Blair and Mr A Richmond as members from 1 June 2022.
6. Receive the Annual Report and Financial Statements of the Investors Trust for 2021.

**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-seventh 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 with the Church. The Investors Trust offers simple and economical facilities for investment in its three Funds: Growth Fund; Income Fund; Deposit Fund. Investors receive the benefits of professional investment management, regular portfolio supervision, spread of investment risk, and economies of scale through the pooling of monies in collective investment vehicles.

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

**1.3** Ethical considerations form an integral part of the investment management process and the Trustees have given instructions to the investment managers, taking full account of 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 (generating more than 15% of turnover) in gambling, tobacco products, alcohol, armaments, thermal coal and tar sands. Furthermore, the screening service used alerts us to any turnover above 10% from unacceptable activities so that we can be confident that the 15% limit is observed in dynamic circumstances. In general, investment is sought in companies which demonstrate responsible employment, good corporate governance practices, have proper regard to environmental performance (particularly Climate Change), recognise 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 investment bodies charged with investing funds for UK churches and other church-linked organisations, and with links to a growing number of international churches. CIG lobbies companies and investment managers to encourage them to pursue policies aligned with our Christian faith, as well as conducting research on companies' behaviour and collating such research from several agencies. Through its co-operation with other organisations, and on its own, CIG exerts significant influence on corporate behaviour. For example, CIG has actively assisted the implementation of The Modern Slavery Act by monitoring the reporting published by companies and drawing shortcomings to their attention, while also ensuring that the relevant UK Parliamentary Committee is kept informed. The Investors Trust Chairman is a member of the CIG Board.

**2. ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS**

**2.1** In 2021 the General Assembly established a Special Committee to consider the best framework for future recommendations about the ethics of investment practice. This Committee is charged with reporting to the General Assembly in 2023, and in its first year of operation Investors Trust has assisted it in its work. The fund management industry has paid increasing attention to Environmental, Social and Governance issues (ESG) in recent years and greater reporting on these aspects is required by investors, governments and regulators. However, many of the issues are not capable of precise measurement, there are conflicting priorities and most reporting is made by the companies themselves without independent verification. Consequently, this field will continue to develop even though there is general support for many of the principles involved, such as the need to control Climate Change by globally coordinated transformations of energy use and other greenhouse gas emissions. Most investors want to use their capital to build sustainable businesses which will produce good long-term returns. Investors Trust shares these beliefs on behalf of the churches, trusts and central committees placing funds with us.

### 3. INVESTMENT PERFORMANCE AND OUTLOOK

**3.1** The net total value of funds due to investors increased from £468.9 million at 31 December 2020 to £519.4 million at 31 December 2021. As in the previous year, the Covid pandemic was the most significant factor in 2021, but this time with positive results. As confidence grew that vaccines were effective in controlling the impact of Covid on public health, particularly in developed economies, equity markets recovered significantly. The US markets rose by 28.1%, with technology-related companies leading the way. In the final months of the year concerns grew that high inflation was returning and central banks warned that they would reverse the policy of supporting economies by keeping interest rates low and would raise interest rates instead. Unsurprisingly, investors responded by selling longer duration bonds.

**3.2** Growth Fund (£ 329.9 million (2020 - £298.9 million))

Following discussions with the Managers and with significant investors, a new strategy for the Growth Fund was implemented on 25 February 2021. The main changes were to manage equities on a global basis (having been previously split between UK and International), to remove an allocation to UK Government Bonds and to introduce allocations to Global Bonds and to Alternative assets including Infrastructure.

**3.3** To allow objective assessments to be made of investment performance, an internal benchmark reflecting the ethical constraints described in Section 1 has been agreed with the Managers. The Fund's performance (which includes the change of strategy in February) to end 2021 was +14.9% (2020: -0.62%) compared to the new benchmark total return of +16.2% (2020: +3.06%). Income received was 10.10p per unit (2020 - 12.91p per unit).

**3.4** The income paid to investors in respect of Financial Year 2021 was 11.0p per unit, reduced from the income paid in 2020, 12.0p per unit, and significantly reduced from the income paid in earlier years. The reduction in income received by the fund was directly linked to a widespread reduction of dividends from companies from mid-2020, following a collapse of economic activity due to the Covid pandemic. This continued to have an impact on the income received in 2021 and investors were advised in both June and November that the income expected to be paid for the Financial Year 2021 would be 11.0p per unit.

**3.5** The change in investment strategy which came into effect in February 2021 was expected to further reduce income received by the Fund, but to a very small extent. But the new strategy is expected to lead to higher rates of income growth in the years to come.

**3.6** Income Fund (£88.7 million (2020 - £78.8 million))

An internal benchmark has been agreed and regularly reviewed with the Managers to allow objective assessment to be made of the investment performance. In 2021 the fund's total return was 0.88% (2020: 6.90%) against the composite benchmark of -3.55% (2020: 7.2%). This is a remarkable level of outperformance in one year and follows a good record of outperformance by our managers.

**3.7** On 29 September 2021 a new investment strategy was implemented in the Income Fund, in which the main change was to remove the previous allocation to UK Government Bonds and to introduce an allocation to Global Bonds. This is expected to produce higher levels of income in future years although it should be noted that the Income Fund carries an increased credit risk from the switch.

**3.8** Income Fund distributions for Financial Year 2021 continued to reduce due to low bond yields. For several years, as existing bonds matured, it has not been possible to replace the income they were paying. Total income earned during the year was 40.87p per unit (2020 - 43.0p per unit). Investors were advised in June and November 2021 that the income distributions were expected to fall to 40.0p per unit; this is the total distribution from revenue earned in 2021 (2020: 42.5p per unit).

**3.9** Deposit Fund (£ 100.8 million (2020 - £91.2million))

The Fund is invested in short-term deposits with Banks and Building Societies. The average annual rate of interest paid for 2021 was 0.08% (2020 - 0.54%).

**3.10** In the early months of 2022 financial markets produced a rise in long term bond yields but falls in highly rated equity shares, notably tech stocks in the US. This was followed by the shock of an invasion by Russia of its neighbour, Ukraine. The response of western governments, particularly the imposition of sanctions against Russia, prompted sharp rises in energy and raw material prices. Our funds were not directly affected by these sanctions as they had no direct exposure to Russia.

**3.11** The devastation of cities in Ukraine and the human suffering involved introduce new perspectives which may bring long-term changes for financial markets as well as for other aspects of our lives. We have greater uncertainty than normal to deal with and forecasts of economic activity are likely to be lower as a result. As trustees, we will continue to monitor the risks and opportunities with our advisers and fund managers.

#### **4. OFFICE BEARERS**

**4.1** Under the terms of the constitution of the Investors Trust, Mr B J Duffin is due to retire as Chairman. It is recommended that the Vice-Chairman, Mr R D Burgon, be appointed Chairman and Ms E Crichton be appointed Vice-Chairman.

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#### **5. MEMBERSHIP**

**5.1** In accordance with the terms of the Constitution, the following two members are due to retire by rotation at 31 May 2022: Mr M G S Yuille and Mr J G Wilson.

**5.2** Mr Yuille and Mr Wilson have indicated that they wish to seek re-election. It is recommended to the General Assembly that Mr Yuille and Mr Wilson should be reappointed as from 1 June 2022.

**5.3** Following 17 years of service Mr T M Walker has indicated his wish to retire. Mr Walker has contributed a lot to our deliberations as an experienced fund manager and his wise guidance will be missed.

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#### **6. ANNUAL REPORT AND FINANCIAL STATEMENTS FOR 2021**

**6.1** Copies of the 2021 Annual Review and the Annual Report and Financial Statements for the year to 31 December 2021 are available to download from The Church of Scotland website or can be obtained from the Investment Executive.

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

BJ DUFFIN, *Chairman*  
RD BURGON, *Vice-Chairman*  
J LEE, *Executive Officer*

#### **Addendum**

##### **Mr B J Duffin, Chairman**

Brian Duffin has used his wide-ranging investment knowledge and experience to lead the Investors Trust during what has been a challenging 3-year period for investors. He has also played a valuable role in representing COSIT on the Church Investors Group, on the Board of which he has been a Director.

We are delighted that Brian will continue as a member of the Investors Trust and look forward to continuing to receive his support.

RD BURGON, *Vice-Chairman*  
J LEE, *Executive Officer*