



CHURCH OF SCOTLAND INVESTORS TRUST

Ewan McAlpine – Senior Client Portfolio Manager

June 2020

ASSET MANAGEMENT

For professional clients only, not suitable for retail investors

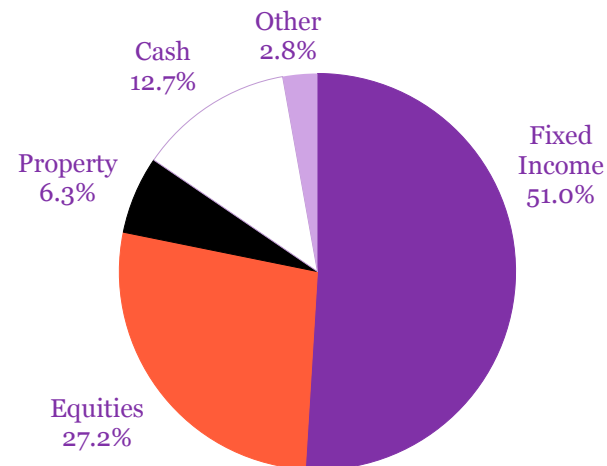
INVESTMENTS AND ASSET MANAGEMENT

ASSETS UNDER MANAGEMENT

RLAM Total Assets under management as at 31 March 2020: £127.8bn

Asset class	£bn
Fixed Income	65.2
Equities	34.8
Property	8.1
Cash	16.2
Other	3.6
Total	127.8

Assets under management by asset class



Source: RLAM as at 31 March 2020 subject to rounding.

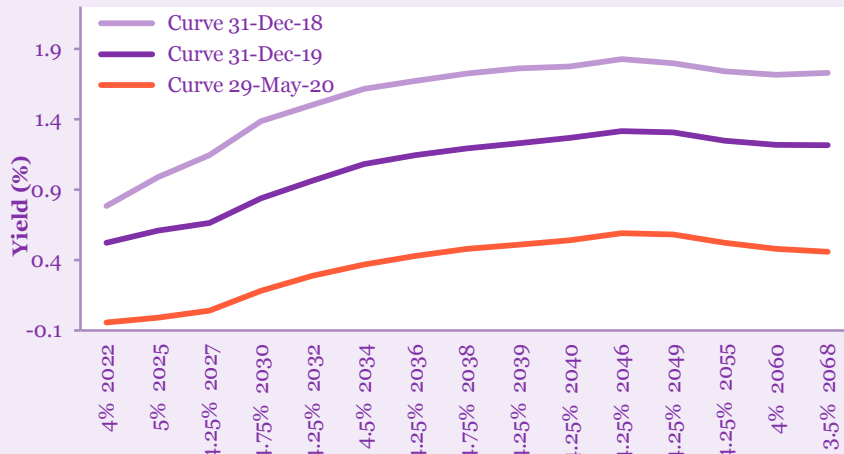
Experience in all asset classes

MARKET REVIEW AND OUTLOOK

GOVERNMENT AND CORPORATE BONDS

ASSET MANAGEMENT

Government bonds: gilt yield curve



Corporate bonds: average sterling investment grade credit spread



- **Safe haven assets have outperformed, year-to-date**
 - Gilts have returned 9.5% to end of May
 - Yields fell sharply as investors sought safety and the outlook for growth and inflation fell
 - UK has outperformed global government bond markets
 - Short-dated yields fell below zero in May and remain negative
 - BoE cut interest rates from 0.75% to 0.10% in March
- **Risk assets have underperformed, year to date**
 - Sterling investment grade credit returned 2.1% to end of May
 - Yield spreads widened significantly in March on default fears
 - Bank, insurance and travel/leisure/consumer sectors were weakest
 - Supranational bonds outperformed other sectors
 - Secured sectors performed in line with the broader market
 - Sharply negative performance in March has been followed by moderate to good recovery across all sectors
 - Issuance has continued through the crisis period
- **Outlook is dependent on management of C-19**
 - Expect global growth to remain low for some time, and for this to be reflected in government bond yields and bank rates
 - Expect credit to continue to outperform as default fears are managed as businesses recover

Past performance is not a reliable indicator of future results. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested. The views expressed are the author's own and do not constitute investment advice.

Source: RLAM as at 31 May 2019

YOUR PORTFOLIO Q1 2020 - OVERVIEW

ASSET MANAGEMENT

31 March 2020

Benchmark	73.0%	iBoxx Sterling Non-Gilt All Maturities Index
	10.8%	iBoxx Sterling Non-Gilt All Maturities index
	10.8%	FTSE A All Stocks Gilts
	5.4%	7 Day LIBID
Objective	To provide a high and sustainable level of income as agreed annually with the Trustees	
Inception date	01 February 2012	
Permitted Funds	Royal London Ethical Bond Fund	Range 43.2% - 91.9%
	Royal London Sterling Extra Yield Bond Fund	Range 0% - 21.6%
	Royal London UK Government Bond Fund	Range 0% - 21.6%
	Royal London Cash Plus Fund / Cash	Range 0% - 21.6%
Value of portfolio	As at 31 March 2020	£68.72m
	As at 31 March 2019	£68.86m

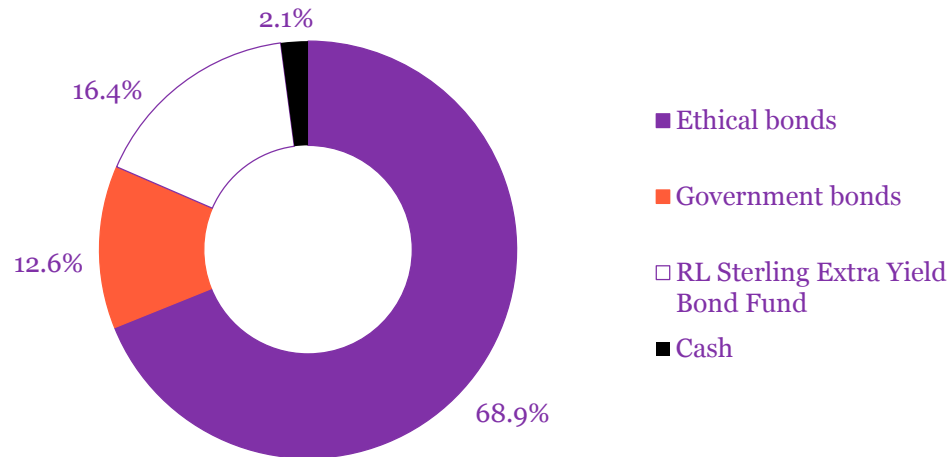
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Source: RLAM as at 31 March 2020

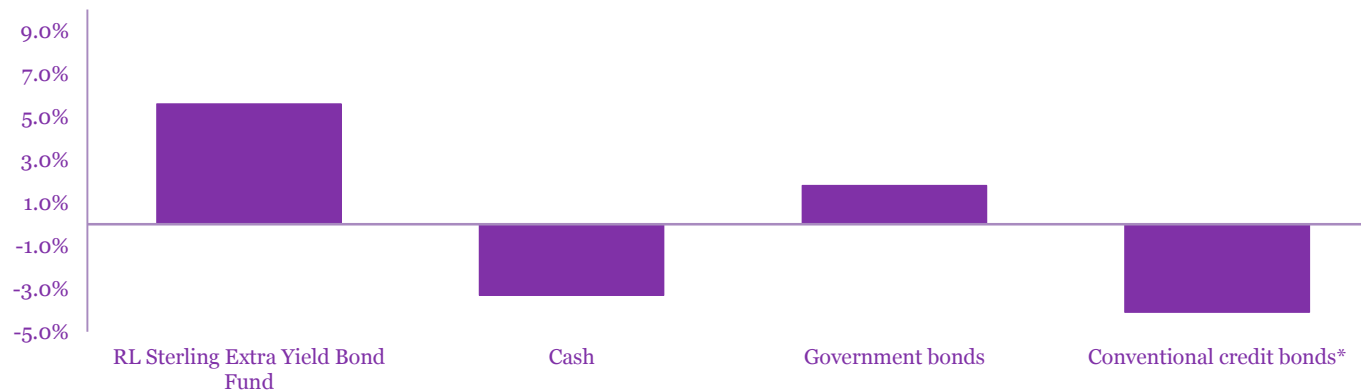


YOUR PORTFOLIO ASSET ALLOCATION

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Allocation versus benchmark index



Source: RLAM as at 31 March 2020. **Portfolio characteristics and holdings are subject to change without notice. This does not constitute an investment recommendation. For information purposes only.**

*Includes ethical bonds and residual bonds. Subject to rounding.

What are the inefficiencies?

- Constraints imposed upon the market result in mis-pricing of key attributes of assets

Benchmarks

- Rule-based index construction
- Weightings based on indebtedness

Security

- Market is not structured to reflect security as an attribute
- Targeted analysis of structure and covenants to identify value

Ratings

- Not comprehensive: focus on default, not recovery
- Increasing inflexibility

Liquidity

- Investors generally over-value liquidity
- Long-term investors can exploit heightened illiquidity premium

Awareness and understanding of inefficiencies provides opportunities

RL ETHICAL BOND FUND

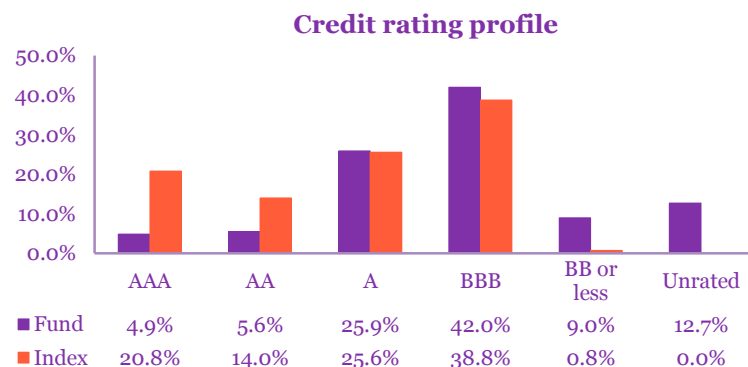
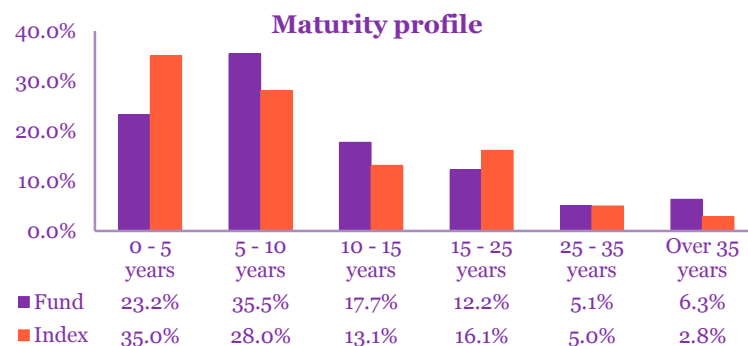
ASSET MANAGEMENT

Fund facts	Fund	Index
Size	£1,034m	-
No. of holdings	395	1,175
Duration (yrs)	7.9	7.9
Gross redemption yield (%)	3.2	2.0
Sector positioning		
	Fund (%)	Index (%)
Banks & financial services	19.2	16.9
Consumer goods	0.8	7.1
Consumer services	5.1	6.1
Foreign sovereigns	0.0	0.7
General industrials	1.2	4.6
Insurance	11.0	5.5
Covered	2.0	3.2
Investment trusts	1.7	0.0
Real estate	5.2	2.6
Social housing	14.1	4.5
Structured	26.2	9.3
Supranationals & Agencies	0.8	21.9
Telecommunications	1.5	5.4
Utilities	11.2	12.2
Capital Structure		
	Fund (%)	Index (%)
Secured	48.8	17.2
Unsecured	51.2	82.8

Diversified

Portfolio yield reflects value

Security



Distribution History

	Mar 20	Dec 19	Sep 19	Jun 19	May 19*
Share Class M (Income)	0.96p	1.00p	0.99p	0.19p	0.90p
Share Class Z (Income)	0.93p	0.97p	0.96p	0.18p	0.87p

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Source: RLAM as at 30 April 2020. The benchmark for the portfolio is the iBoxx Sterling Non-Gilts All Maturities Index, a broad universe of investment grade sterling credit bonds. *May 19 represents a mid-quarter distribution as the RL Ethical Bond Fund merged to form the RL Ethical Bond Fund II.

RL ETHICAL BOND FUND

TEN LARGEST HOLDINGS

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Description	Sector	Credit Rating	% of portfolio
Prudential Corp 6.125% 2031	Insurance	BBB+	1.0%
Thames Water Utilities Finance 7.738% 2058	Structured	BBB+	1.0%
NBHA 3.625% 2028	Social Housing	BBB+	0.9%
ICSL 1 A1 2056	Structured	A	0.9%
Aviva 6.875% 2058	Insurance	BBB+	0.9%
Premiertel 6.175% 2032	Structured	BB	0.8%
M&G 6 1/4 2068	Insurance	BBB	0.8%
Delamare Finance 6.067% 2029	Structured	BBB- (rl)	0.7%
Fidelity International 7.125% 2024	Banks & Financial Services	BBB	0.7%
Derby Healthcare 5.564% 2041	Structured	A	0.7%
Total			8.3%

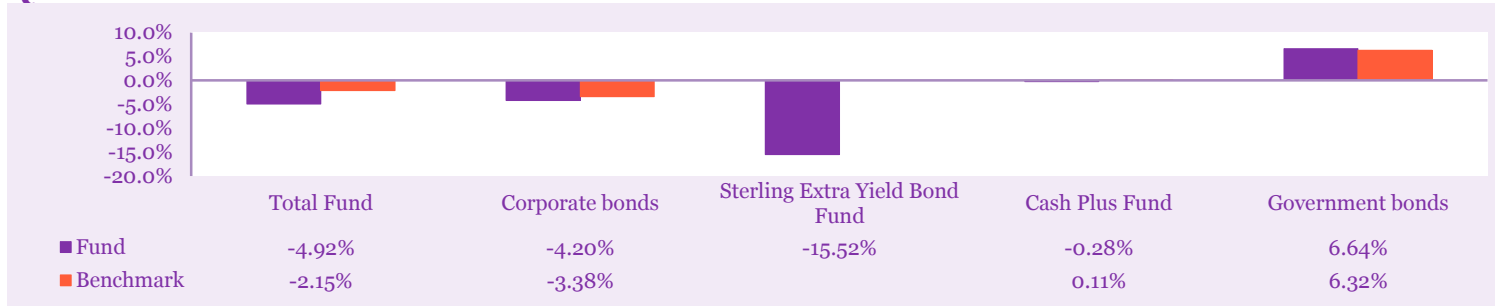
* Internally rated.

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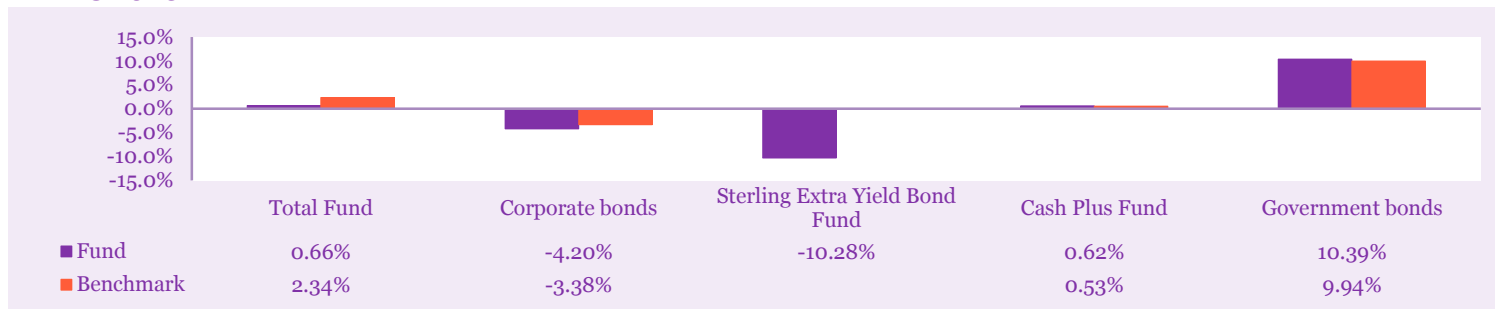


YOUR PORTFOLIO PERFORMANCE

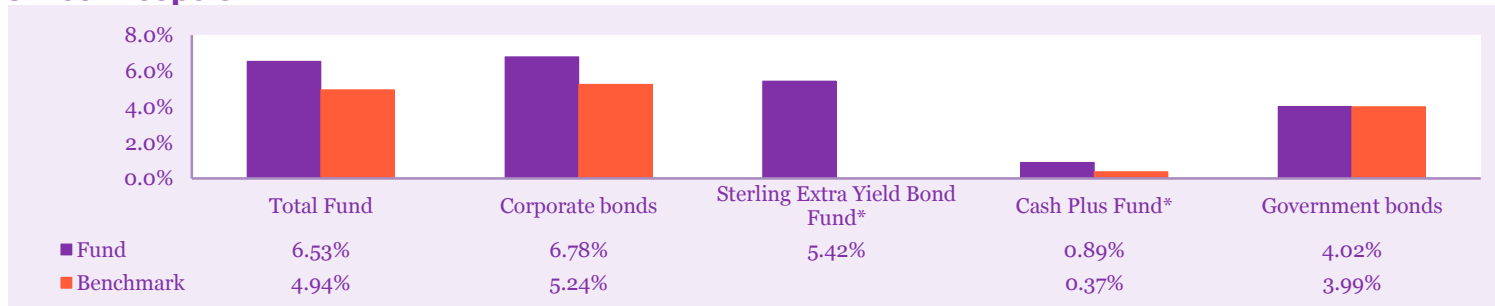
Q1 2020



12 Months



Since inception



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Source: RLAM, based on Z share classes with the exception of RL Sterling Extra Yield Bond Fund which is A share class performance. Performance quoted gross of fees as at 31 March 2020.



YOUR PORTFOLIO PERFORMANCE TO 30 APRIL 2020

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	Church of Scotland (%)	Benchmark (%)	Relative (%)
1 month	4.04%	4.27%	-0.23%
3 months	-3.58%	-0.62%	-2.96%
YTD	-1.09%	2.02%	-3.11%

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Source: RLAM at 30 April 2020. Performance quoted gross of fees.

Asset allocation

- Significant overweight to higher-risk credit bonds, which contributes to positive performance and strong income over the medium to long term, detracted in Q1.
- Smaller overweight to UK government bonds contributed positively in Q1.
- Since the peak of the crisis in March, these effects have partially reversed.

Credit selection

- Overweights in financial and insurance sector bonds and underweight in supranational bonds negatively impacted performance in Q1 but have since contributed positively.
- Overweight secured credit bonds limited underperformance in Q1 but has since limited recovery. However, the medium to long term benefits of secured exposure remain.
- Underweight exposure to consumer sectors has limited underperformance as the these sectors have and continue to face uncertainty.
- A broad overweight to lower-rated credit bonds, which broadly performed poorly in Q1, have since strongly outperformed.

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Source: RLAM, 31 May 2020.

- Risk assets, including investment grade credit and high yield bonds, performed negatively over the quarter, while safe haven assets such as government bonds and cash performed positively.
- Unprecedented economic shock prompted significant and supportive central bank and government measures but outlook remains uncertain
- Outlook for interest rates has changed from being dovish to even lower for even longer; yield curves will stay low.
- Overall strategy and structure of the Income Fund portfolio have been maintained
- Income generation is key to long-term performance; equity dividends remain under greater pressure versus corporate bond coupons
- Bias towards higher yielding credit bonds, but with limited interest rate risk where possible, remains appropriate
- Secured debt acts as a steadying influence against higher default environment but careful stock selection remains key

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Source: RLAM, 31 May 2020.

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All information is correct at June 2020 unless otherwise stated. Telephone calls are recorded.

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