The Church of Scotland Investors Trust
Constituted by Act of Parliament 1994

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Church of Scotland – Income Fund Factsheet
Q2 2025

Performance commentary

The second quarter saw positive returns from sterling credit investment grade markets (iBoxx). Against this, the RL Ethical Bond Fund outperformed the index. Following a volatile first half of 2025, performance remains comfortably ahead of the index.

Sector selection was the largest positive for the portfolio. Our bias towards insurance bonds was helpful as the sector performed strongly, as was our longstanding underweight in supranational bonds. The lower perceived risk of the supranational sector contributed to it lagging the wider market.

Stock selection effects were negative. We saw positive effects from holdings in the insurance sector, with exposure to long-dated bonds from Prudential and Aviva supporting returns. However, these positive impacts were offset by the negative impact of holdings in the structured sector. Many bonds in this area saw positive returns, but in a market of falling yields and tighter spreads, these often lag the broad market. In addition, we saw a negative impact from Thames Water – the bonds falling after US private equity firm KKR pulled out of a potential acquisition of the utility on 3 June. Our holding in global transport operator Mobico was also a drag on performance. Here the bonds traded weaker on the lower-than-expected proceeds from sale of its US school bus business and subsequent downgrades from Moody's towards the end of the quarter. We continue to see these latter two names as reasonable risk reward opportunities within the context of our diversified portfolios, and continue to closely monitor the issuers.

The RL Global Bond Opportunities fund produced a strong positive performance over the quarter. Returns from euro and US dollar investment grade markets were relatively modest compared to sterling markets, high yield, corporate hybrid markets and CoCos (contingent capital bonds), and the fund's diversified approach meant that it produced a stronger result than most of these for the quarter. The fund has a high degree of diversification, with material exposure to a range of assets including US dollar, euro and sterling investment grade bonds, high yield and unrated bonds. Within banks, the largest sector exposure in the fund, we have a significant exposure to AT1 and tier 1 bonds: these performed well during the period, as did holdings of subordinated insurance bonds.

The RL Sterling Extra Yield fund posted positive returns over the quarter. The bias towards financials and insurance bonds was helpful in the quarter and drove returns, as the two sectors performed strongly. Over the quarter, perpetual bonds from Santander and Virgin Money – an issue that saw Nationwide tender certain bonds following its acquisition and issued new subordinated debt – were among the strongest individual performers in financials, and subordinated bonds of Metro Bank also up in the quarter. Prudential was a highlight in the insurance sector.

Extracted from Royal London Asset Management's Investment Report for The Church of Scotland Investors Trust Income Fund as at 30 June 2025 and Savills Charities Property Fund @ cpfund.co.uk

RLAM Performance Summary:

	Church of Scotland (%)	Benchmark (%)	Relative (%)
Q2 2025	2.68	2.78	-0.10
12 months	8.15	5.33	2.82
3 Years	6.02	2.46	3.56
since migration (01/02/2012)	5.48	2.95	2.52

Investment Outlook

It is notable that after three months that created a lot of news headlines and uncertainty, markets largely appeared to shrug off 'noise'. Despite considerable uncertainty in the outlook, markets have returned to become driven more by current fundamentals. On an underlying basis, our credit analysis and company meetings have generally remained cautiously positive: companies are not experiencing the same volatility in their earnings that market moves would imply, and as yet, few are guiding to a major impact from tariffs. In the short term, further announcements on tariffs and US fiscal policy will undoubtedly have an impact on markets, but we believe that markets are becoming less easily spooked after a roller coaster first few months of the new administration.

In recent quarters we have reminded investors in our sterling credit strategies of the attractive all-in yields available in the asset class. We believe that will remain the case. While short-dated yields could easily fall due to lower interest rates and speculation about whether President Trump will announce a 'White House friendly' chair of the Federal Reserve, factors such as the 'Big Beautiful Bill' and increased EU defence spending will weigh on US and EU government bonds medium and longer-dated yields. In the UK, ongoing concerns over the fiscal position and the government's inability to rein in spending, as well as a potential slowing in quantitative tightening could impact gilts. As mentioned above, credit spreads have tightened and while further moves are possible, the capacity for significant moves lower in sterling yields are likely constrained simply due to the recent moves.

While near term absolute performance is likely to be largely influenced by movements in the yields of underlying government bond markets, we would expect relative performance to continue to be meaningfully influenced by relative exposure to supranational bonds and to more economically sensitive or cyclical industrial and consumer sectors. However, we believe that continued emphasis on diversification and our bias towards secured and collateralised debt to help mitigate default risk, as well as our focus on income, will continue to support returns as has been the case through the present environment of volatile yields.

Savills Charities Property Fund Performance Summary

	3 months	1 Year	3 Years (per annum)	5 Years (per annum)	10 Years (per annum)	Since launch (per annum)
CPF	1.5%	7.5%	-2.1%	4.4%	5.0%	6.4%
AREF / MSCI All Balanced Open Ended Property Fund Index	1.5%	6.8%	-4.1%	3.4%	4.2%	5.2%

Source: AREF/MSCI UK All Balanced Open Ended Property Fund Index 30 June 2025. NB past performance is not a reliable indicator of future performance. Total return is net of fees and expenses.