



The Church of Scotland Investors Trust

Constituted by Act of Parliament 1994

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Church of Scotland – Income Fund Factsheet Q1 2025

Performance commentary

The first quarter was a strong one for our sterling credit strategies. We saw spreads begin to widen towards the end of the quarter, after two years of near-constant tightening, but it was a relatively calm three months for sterling debt investors. The sterling corporate debt market found a path between the larger US and euro markets – which have seen greater volatility in the period. While sterling investment grade all-in yields are attractive, their make-up has changed; a larger component of the yield is from government bond yields. The volatility we are seeing in fixed income markets is coming from government bond yields. However, credit spreads also remain susceptible to further weak macroeconomic news.

There were positive returns from the three underlying funds over the quarter. For the RL Ethical Bond Fund, sector allocation and stock selection had the largest impact. After a strong start to the year, we looked to reduce the risk in our portfolios, slightly reducing our overweight position in the bank sector, particularly subordinated debt, moving into a favoured sector, structured bonds, where spreads were wider. This general move added to performance: benefiting early on as spreads tightened and then taking risk off ahead of the modest widening we saw later. Credit allocation was also positive in the quarter, with our large overweight to structured proving positive, including by holdings in secured shopping centre debt from Intu and Trafford performed well – helped by not being interest rate sensitive and the uptick in consumer sentiment.

The RL Global Bond Opportunities fund produced a strong positive performance over the quarter. While other credit markets such as high yield, corporate hybrid markets and CoCos (contingent capital bonds) did produce positive returns, the fund 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 bonds: these performed well during the period, as did bonds from Close Brothers, which saw a strong recovery from the fourth quarter, when negative news headlines around car leasing fines pushed prices lower.

The RL Sterling Extra Yield fund posted positive returns over the quarter. Income generation was a significant aspect of the robust performance, with strong returns in January and February in particular. These included some holdings in the financial sectors, with bonds of Santander and insurance company Bupa Finance and with subordinated bonds of Metrobank up on further reassessment of business prospects. Bonds of Southern Water Services were up on the prospect of additional substantial equity investment in the business against a backdrop of improving sentiment on the prospect of a workable regulatory framework for the sector

RLAM Performance Summary:

	Church of Scotland (%)	Benchmark (%)	Relative (%)
Q1 2025	1.53	0.70	0.83
12 months	6.20	2.36	3.84
3 Years	2.94	-0.82	3.76
since migration (01/02/2012)	5.37	2.79	2.58

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.

Extracted from Royal London Asset Management's Investment Report for The Church of Scotland Investors Trust Income Fund as at 31 March 2025 and Savills Charities Property Fund @ cpfund.co.uk

Investment Outlook

Amidst global geopolitical and macroeconomic uncertainties affecting global government bond markets, sterling credit still offers attractive sources of value for those prepared to look carefully. In a diversified portfolio, we believe that we can generate good levels of income by taking appropriate levels of risk but ensuring, where possible, mitigation of those risks.

At the margin, we have taken advantage of further spread tightening to reduce risk, primarily through selling financials into structured bonds. We remain overweight in the financials, particularly subordinated bonds, but with a smaller overweight than we had at the start of 2025. We will continue to take a pragmatic view – trimming exposure if spreads reach levels where we feel we can add yield or reduce risk by switching into other bonds – but avoiding a widespread move to reduce exposure to any given sector.

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 be 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 towards secured and collateralised debt to help mitigate default risk, and on income, will support returns in the medium term and through the present environment of volatile yields and potentially wider spreads.

Looking at index linked markets, after rising in recent months, we feel that real yields look attractive. We believe that a world of rising tariffs is helpful for index linked assets as we expect these to be ultimately deflationary, and would also expect rate cuts across the globe to add to interest in this area. For the UK, real yields are now close to levels last seen in the Truss selloff, but we will be cautious until there is more clarity on tariffs and what these may mean for global trade and inflation.

The Spring Statement generated numerous headlines but ultimately had little impact on our outlook. The gilt remit was more noteworthy; although index-linked issuance will be slightly lower in percentage terms (11% vs. 10%), overall issuance is increasing, meaning that total issuance will remain largely unchanged. The impact of reduced LDI demand can be seen in those figures, with index-linked issuance accounting for over 20% some five years ago.

Savills Charities Property Fund Performance Summary

