

THE CHURCH OF SCOTLAND INVESTORS' TRUST MAY 2024

Proposed Deliverance

The General Assembly:

1. Receive the Report.
2. Approve the re-appointments of Mrs J McKeown, Mr J Millar and Mr R Nisbet as from 1 June 2024.
3. Approve the appointment of Mr S Anderson with effect from 1 June 2024.
4. Receive the Annual Report and Financial Statements of the Investors Trust for 2023.

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-ninth 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, diversification 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 decline in the capital value of investments does not necessarily have a corresponding effect on income receivable.

1.3 The trustees communicate with investors through a range of methods including bulletins which are sent direct to investors and posted on the COSIT section of the Church of Scotland website (which contains comprehensive information for investors, including practical guidance to assist church treasurers). In September 2023 an online webinar was organised which attracted a good number of representatives of congregations and other investors. Presentations were made by the investment managers of the three COSIT funds and the opportunity was given to ask questions. It is planned to repeat this exercise later in 2024.

1.4 Following a competitive tendering exercise, the trustees appointed new investment consultants, Barnett Waddingham, in September 2023. Since that time, the trustees have worked with the consultants on a comprehensive review of all elements of our investment policy. This is being followed by a review of all three of our funds, commencing with the Growth Fund. Any changes in the investment management arrangements for the three Funds will be communicated to investors in due course.

2. ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

2.1 Ethical considerations form an integral part of the investment management process and the Trustees have given instructions in this respect 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 which engages in management practices which are judged by the Trustees to be unacceptable. In particular, investment is avoided in shares in any company substantially involved (generating more than 10% (previously 15%) of turnover) in gambling, tobacco products (including vaping), alcohol, armaments, thermal coal and tar sands and recreational cannabis. In general, investment is sought in companies that demonstrate responsible employment and good corporate governance practices, have regard to environmental performance (particularly Climate Change), acknowledge the importance of human rights and act with sensitivity to the communities in which they operate. It is recognised that issues relating to Environmental, Social and Governance (ESG) issues are complex and more work is required in the investment management industry before there is a standard method of assessing and reporting on these matters.

2.2 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 church-linked organisations, and with links to a growing number of international church investors. 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 ESG organisations and through its own activities, CIG is able to exert significant influence on corporate behaviour. The Investors Trust has been represented on the Board of CIG by its past Chairman, Mr Brian Duffin.

2.3 Following the establishment by the 2023 General Assembly of the Ethical Oversight Committee (EOC), three COSIT trustees have participated in the work of this Committee and have contributed to the development of the proposed Front Door Language which is referred to in the Deliverance from the EOC. The COSIT representatives supported the EOC's proposed reduction in the turnover limit from 15% to 10% for investment in restricted sectors (see 2.1 above).

3. INVESTMENT PERFORMANCE AND OUTLOOK

3.1 After the turbulent market conditions experienced in 2022, which saw negative returns in almost all global markets, the main themes which affected performance in 2023 were price inflation, rising interest rates, and concerns about recession. Although price inflation fell from the relatively high levels of 2022, the rates of price inflation did not fall to the target levels set by central banks, including the Bank of England. As a result of that, interest rates did not fall as quickly as had been anticipated. As the year ended, markets continued to have concerns about the possibility of major economies falling into recession. Almost all markets delivered positive returns in sterling terms for the year and the Growth and Income Funds both saw increases in unit prices.

3.2 The net total value of funds due to investors increased from £474.5million at 31 December 2022 to £508.9million at 31 December 2023. All three funds were able to increase the level of income distributed to investors.

3.3 Growth Fund (£318.6 million (2022 - £294.6 million))

The Growth fund is mainly invested in UK and overseas company shares (equities) and is managed by Newton Investment Management. In 2023, the Growth Fund delivered a total net return of 10.6% against the composite benchmark (adjusted to mirror the ethical guidelines of this fund) of 13.2%. The Fund outperformed the ARC Steady Growth Index return for the year by 3.3%. One of the changes arising from the review of our Investment Policy is that the future objective for the Growth Fund is to be amended to produce returns in line with increases in CPI inflation plus 3% per annum net of fees over the long term.

3.4 Although the managers of the Growth Fund are not given an income target, investors in the Fund will receive a total distribution of 13.5p per unit for 2023 (2022: 12.00p per unit) (a 12.5% increase).

3.5 Income Fund (£82.9 million (2022 - £77.4 million))

The Income Fund continues to be invested in pooled funds investing in underlying bonds offered by the managers, Royal London Asset Management and in a small direct holding in the Savills Charity Property Fund. The Income Fund's total return for the year was 9.44% (2022: -12.16%) against the composite benchmark return of 8.60% (2022: -17.72%). The Fund has consistently outperformed its benchmark over every period since the appointment of the managers in February 2012.

3.6 After an increase in the income distributed from the Income Fund in 2022, there was a further increase in the income earned by the Fund in 2023 and the total income distribution to investors for 2023 has increased by 15.8% to 55.0p per unit (2022: 47.5p per unit).

3.7 Deposit Fund (£ 107.4 million (2022 - £102.5 million))

The Fund is invested in short-term deposits with Banks and Building Societies. Deposits are generally placed for periods of up to 12 months at the rates prevailing at the time the deposit is made. After increases in UK bank base rates in 2022 and early 2023, the market anticipation is that as price inflation falls, there will be reductions in bank base rates. The timing of these changes remains uncertain.

3.8 The average annual rate of interest paid for 2023 was 4.26% (2022: 1.16%).

4. MEMBERSHIP

4.1 In accordance with the terms of the Constitution, the following members are due to retire by rotation at 31 May 2024: Mrs J McKeown, Mr J Millar and Mr R Nisbet.

4.2 Mrs McKeown, Mr Millar and Mr Nisbet have indicated that they wish to seek re-election. It is recommended to the General Assembly that Mrs McKeown, Mr Millar and Mr Nisbet should be reappointed as from 1 June 2024.

4.3 Following advertisements inviting expressions of interest from prospective new trustees, and in accordance with the terms of the Constitution, it is recommended that Mr S Anderson be appointed as a trustee as from 1 June 2024.

4.4 Having served as a trustee since 2009, including a three-year term as Chairman, Mr B Duffin has indicated his wish to retire. Mr Duffin has served COSIT faithfully during his years of service and led the organisation during a busy period for COSIT and challenging times in investment markets. He has also represented COSIT on the Board of the Church Investors Group. We are grateful to him for all that he has done.

4.5 The COSIT trustees wish to record their sincere thanks to Mrs Anne Macintosh, General Treasurer, for all her support and assistance and to extend our best wishes to her on her retirement.

5. ANNUAL REPORT AND FINANCIAL STATEMENTS FOR 2023

5.1 Copies of the 2023 Annual Review and the Annual Report and Financial Statements for the year to 31 December 2023 are available to download from The Church of Scotland website or can be obtained from the Secretary.

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

R D BURGON, *Chair*
E CRICHTON, *Vice-Chair*
J LEE, *Executive Officer*