

## CHURCH OF SCOTLAND INVESTORS TRUST MAY 2018

### Proposed Deliverance

#### The General Assembly:

1. Receive the Report.
2. Approve the re-appointments of Mr R Nisbet, Mr G Young and Mr A Aitchison as members of the Investors Trust from 1 June 2018.
3. Receive the Annual Report and Financial Statements of the Investors Trust for 2017.

### 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 fourth 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 to the Church. The Investors Trust offers simple and economical facilities for investment in its three Funds - Growth Fund, Income Fund and Deposit Fund. Investors receive the benefits of active professional investment management, regular portfolio supervision, combined with spread of investment risk and economies of scale in pooling monies via collective investment vehicles.

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

**1.3** Ethical considerations form an integral part of the investment management process and the Trustees have given instructions 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 any company substantially involved in gambling, tobacco products, alcohol, armaments and in other activities which are felt to harm society more than they benefit it. In addition to the foregoing exclusions, in 2016 the Trustees agreed to avoid investment in companies which derive more than 15% of their turnover from extraction and/or sale of thermal coal and/or oil extracted from tar sands. In general, investment is sought in companies that demonstrate responsible employment and good corporate governance practices, have regard to environmental performance and 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 Churches and other charitable investors which lobbies companies and investment managers to encourage them to pursue more ethical policies. The Vice Chairman of the Trust is a member of the CIG Steering Committee. Research by Edinburgh University and other bodies has shown that this policy of shareholder engagement is effective in influencing the behaviours of the leadership of companies.

**1.5** Representatives of the Trust have engaged with the Church and Society Council in a short life working group on fossil fuel investment, although only investments in Oil and Gas sector companies formed the output from the consultations. The proposed action forms part of the Church and Society Council's report and deliverances.

As noted in the Trust's report last year, the discussions on fossil fuels have highlighted the need for a wider review of the Church of Scotland investment policy to take account of developing thinking on ethical, social and governance issues arising from the investment of funds and during 2017 the Council of Assembly further developed and approved an Investment Policy for the Unincorporated Councils and Committees. A paper was prepared by the Chairman and Vice Chairman of the Trust and submitted to Council of Assembly Finance Group recommending that the Church puts in place resource to focus on Environmental, Social and Governance (ESG) matters for all investing bodies within the Church and to inform relevant committees and councils on ESG developments. This resource would be accountable for setting up and maintaining a Church of Scotland Statement of Investment Principles so that the Church can be engaged actively in ESG developments in future, rather than on a reactive basis as at present. The Council of Assembly Finance Group has agreed to consider this recommendation and make proposals in due course to the Council of Assembly. In the meantime, Investors Trust will report on how alignment with ESG matters, including the Paris Agreement is considered to be progressing, both in its published reports and in its briefings to investors.

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## **2. INVESTMENT PERFORMANCE AND OUTLOOK**

**2.1** The total value of funds invested through the Church of Scotland Investors Trust increased from £416.7 million at 31 December 2016 to £443.4 million at 31 December 2017.

Investment values saw an increase in 2017 due to the generally positive market returns.

**2.2** The Growth Fund invests predominantly in listed company shares (equities) in the UK and overseas stock markets, with smaller exposures to corporate bonds and property. Newton Investment Management has managed the Growth Fund since January 2006. Total Return for the fund in 2017 was 11.3% against the composite benchmark return 11.3%. However, the Growth Fund performance compares well in its peer group with similar charity sector mandates.

**2.3** The Income Fund has been managed by Royal London Asset Management (RLAM) since February 2012 and is invested in a variety of RLAM pooled funds which invest in underlying bonds and equities. In September, following the closure of the Royal London Ethical Equity Fund, and in the absence of any suitable alternative fund at RLAM the Income Fund invested 7.5% of its investment with RLAM into the Charities Property Fund. Investors were notified of this change. The total return for the Income Fund in 2017 was 9.7% against the composite benchmark of 5.5%.

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## **3. INCOME DISTRIBUTIONS**

**3.1** The Growth Fund has earned dividend and interest income of 17.10p per unit against a target of 16.0p. Accordingly, the Trustees have agreed to pay a total distribution of 17.0p per unit for 2017 and add the balance to reserves.

**3.2** The level of income earned on the Income Fund was in line with our forecast and allowed the fund to maintain the targeted distribution of 50.0p per unit while modestly building on reserves.

**3.3** The average rate for 2017 declared by the Deposit Fund was 0.49. The average rate payable in 2018 will, as usual, depend on money market rates but current expectations, are for rates to remain at or around current levels.

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## **4. MEMBERSHIP**

**4.1** In accordance with the terms of the Constitution, the following three members retire by rotation at 31 May 2018: Mr R Nisbet, Mr G Young and Mr A Aitchison. All three have indicated they wish to seek re-election, and it is recommended to the General Assembly that Mr R Nisbet, Mr

G Young and Mr A Aitchison be re-appointed members from 1 June 2018.

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**5. ANNUAL REPORT AND FINANCIAL STATEMENTS FOR 2017**

Copies of the 2017 Annual Review and the Annual Report and Financial Statements for the year to 31 December 2017 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*

C Y ALEXANDER, Chairman  
B J DUFFIN, *Vice-Chairman*  
J URQUHART, Acting Secretary