

CHURCH OF SCOTLAND INVESTORS TRUST MAY 2023**Proposed Deliverance****The General Assembly:**

1. Receive the Report.
2. Approve the re-appointments of Mr R Black and Mr G A Young as members of the Investors Trust from 1 June 2023.
3. Receive the Annual Report and Financial Statements of the Investors Trust for 2022.

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-eighth 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 2022 an online webinar was organised which attracted an encouraging 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 2023.

1.4 Following a review of investment strategy commissioned by the General Trustees (the largest investor in the three COSIT funds), the trustees have begun a process of discussing the outcome of that review with the General Trustees, in conjunction with the COSIT trustees' ongoing review of its investment management arrangements.

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 any company substantially involved (generating more than 15% of turnover) in gambling, tobacco products, alcohol, armaments, thermal coal and tar sands. 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 is represented on the Board of CIG by its past Chairman, Mr Brian Duffin.

2.3 Following the establishment by the 2021 General Assembly of a Special Committee to consider the best framework for future recommendations about the ethics of investment practice, the Chairman and some of the COSIT trustees have continued to interact with the Chair and members of the Special Committee. They have also met representatives of FaithInvest, an organisation with which it is recommended that the Church works on ethical matters. Although unable to endorse the whole commentary section of the report which has been produced by the Special Committee, the COSIT trustees support the recommendations contained in the Special Committee's report.

3. INVESTMENT PERFORMANCE AND OUTLOOK

3.1 In 2022, worldwide investment markets experienced highly unusual conditions which could not have been predicted at the beginning of the year. Although some price inflation was expected after the Covid lockdowns (as consumers began to spend more), the Russian invasion of Ukraine in February 2022 led to greater inflation as supplies of certain products became restricted. This also led to the current energy crisis and significant rises in the price of gas and electricity. As inflation rose (to levels not seen since 1982) central banks, including the Bank of England, tried to control inflation by increasing base interest rates. In the UK, the Truss Government's "mini-budget" in September led to further market uncertainty which had a significant impact on bond markets. The combined effects of these events led to negative returns in almost all global markets for 2022, with longer-dated UK Government bonds, in particular, producing returns of around -40%.

3.2 The net total value of funds due to investors decreased from £519.8 million at 31 December 2021 to £474.5 million at 31 December 2022. While capital values fell in the Growth and Income funds due to the very unusual market conditions, both funds were able to increase the level of income distributed to investors.

3.3 Growth Fund (£294.6 million (2021 - £330.2 million))

The Growth fund is mainly invested in UK and overseas company shares (equities) and is managed by Newton Investment Management. In 2022, the Growth Fund delivered a total return of -9.2% against the composite benchmark (adjusted to mirror the ethical guidelines of this fund) of -6.7%. A significant part of this underperformance is explained by the fact that the Fund has no holdings in oil and gas companies (which are a component of the benchmark and which performed strongly in 2022).

3.4 After reductions in income distributed from the Growth Fund (due both to a reduction in dividends paid by companies during the Covid pandemic and a change in the investment strategy of the Fund implemented in February 2021), investors in the Fund will receive a total distribution of 12.00p per unit for 2022 (2021: 11.00p per unit) (a 9% increase).

3.5 Income Fund (£77.4 million (2021 - £88.7 million))

The Income Fund continues to be invested in pooled funds investing in underlying bonds and equities offered by the managers, Royal London Asset Management and in a small direct holding in the Savills Charity Property Fund. In challenging market conditions for fixed-interest investments, the Income Fund's total return for the year was -12.16% (2021: 0.88%) against the composite benchmark return of -17.72% (2021: -3.55%). This outperformance in one year continues a good record by our managers.

3.6 After several years of declining distributions from the Income Fund due to low bond yields, the situation was reversed in 2022 with total income increasing to 48.07p per unit (2021: 40.87p per unit). The total income distribution to investors for 2022 has therefore increased by 18.75% to 47.5p per unit (2021: 40.0p per unit).

3.7 Deposit Fund (£ 102.5 million (2021 - £100.9 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. Interest rates rose as the year progressed (after a prolonged period when rates were close to zero) and the Fund managers, Thomas Miller, were able to invest at higher rates which will be reflected in the rate of interest which the Fund will be able to pay during 2023.

3.8 The average annual rate of interest paid for 2022 was 1.16% (2021: 0.08%).

3.9 As the year ended, uncertainty remained about how much further interest rates were likely to rise, although there was a further increase in the Bank of England base rate in February 2023.

4. MEMBERSHIP

4.1 In accordance with the terms of the Constitution, the following members are due to retire by rotation at 31 May 2023: Mr R Black and Mr G A Young.

4.2 Mr Black and Mr Young have indicated that they wish to seek re-election. It is recommended to the General Assembly that Mr Black and Mr Young should be reappointed as from 1 June 2023.

4.3 Following several years of service, Mr D D Campbell has indicated his wish to retire. Mr Campbell has made a significant contribution to the work of COSIT and his wise counsel will be missed.

5. ANNUAL REPORT AND FINANCIAL STATEMENTS FOR 2022

5.1 Copies of the 2022 Annual Review and the Annual Report and Financial Statements for the year to 31 December 2022 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, *Chairman*
E CRICHTON, *Vice-Chairman*
J LEE, *Executive Officer*