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

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Church of Scotland Investors Trust

Bulletin for Investors – June 2021

This Bulletin is published for investors in the Church of Scotland Investors Trust. It provides an update to the Bulletin published in February 2021, which was intended to help investors understand the likely impact of the COVID-19 pandemic on their holdings in the Growth, Income and Deposit Funds, following turbulent financial markets in 2020.

In this Bulletin we provide a forecast of the income payments which may be made by the Growth and Income Funds, and also report on the outcome of the General Assembly as it affects Investors Trust. We hope this information is of particular assistance to those responsible for investment matters - such as treasurers of parish church finance committees who are monitoring their budgets – but also we would be pleased for this Bulletin to be circulated more widely.

Growth Fund

As previously reported, a new asset strategy was agreed by the trustees and implemented at the end of February by our managers, Newton. The main change was to approach equity investment from a global perspective rather than to hold a disproportionate percentage of UK shares, but we have also allocated a share of the Fund to alternative investments, such as infrastructure securities or sustainable energy companies. Our target is now expressed in terms of total return, in other words the combination of capital growth and income receipts, but we will continue to offer guidance on anticipated income levels to assist treasurers who may rely on income receipts. It is worth noting, however, that many charities have already moved away from a strict policy which depends only on income to fund their expenditures where they are permitted to do so. This recognises that equity investment is expected to provide returns which come from both components (capital and income) and successful shares often provide small dividends but good share price growth.

In the February Bulletin we suggested that total income payments for the Financial Year 2021 may be 11.0 p in total. We still expect this to be the case. As a reminder, in May of this year we made a payment of 8.0 ppu which comprised 5.0 ppu as a final payment from the Growth Fund's Financial Year 2020 and a first payment of 3.0 ppu in respect of the Financial Year 2021. We expect to make a payment of 4.0 ppu in November, which would be the second payment for our Financial Year 2021, and hope to make a final payment of 4.0 ppu in May 2022. In line with our normal practice, we would expect to make a first payment in May 2022 for our Financial Year 2022 but it is too early to estimate what amount might be payable. However, in general terms, we expect that the sustainable level of income will be 11.0 ppu and to grow from this base, albeit only gradually, as this level of income is consistent with the current levels of income being produced by the sectors in which the Fund is now invested.

Income Fund

In the February Bulletin we suggested that distributions in 2021 (paid in March and September) may total 42.5p per unit. The payment made in early March, being the second payment for Financial Year 2020 was 20.0 ppu making the total for that year 42.5 ppu. Our latest forecast predicts the first payment for Financial Year 2021 in September 2021 to be 20.0 ppu, and the second payment to be paid in March 2022 to be 20.0 ppu as well. This brings the total annual income forecast to 40.0 ppu, which is lower than the level of 50.0 ppu seen only a few years ago, but entirely driven by the continually falling bond yields we have seen for many years.
In the first quarter of 2021 an increase in bond yields took place, but this was not enough to suggest an improvement in the income levels payable to investors can be expected.
The trustees are currently reviewing the strategic options for the Income Fund with our managers and will report if this is to change with a description of any impact on investors.

Deposit Fund

The Base Rate remains at a nominal figure of 0.1% and even deposits for longer terms offer very low rates of interest as a result. Until this changes it is unlikely that we will be able to pay meaningful rates of interest to investors. However, at least the prospect of negative interest rates has receded as far as the money markets are concerned.

General Assembly and ESG Matters.

The following text is an extract of the ESG section of my speech which was recorded and presented to the General Assembly last month. As the General Assembly was conducted over the internet, it did not receive a standing ovation….

"I now want to say a little about an acronym which may be new to many – ESG. ESG stands for Environmental, Social and Governance, being three general themes which investors regard as needing increasing scrutiny - financial analysis is still essential, but wider considerations also matter now when choosing shares and other securities.
This is not new territory for the church or for Investors Trust. We have applied exclusions to several industrial activities, such as tobacco, for many years. Furthermore, we have been active members of the Church Investors Group, which co-ordinates activities for British church investment bodies and circulates information and data of common interest. Although Climate Change is one of the dominating topics, there are many other important considerations, such as modern slavery, employment practices, water stewardship, and executive remuneration.
As investors, we have some ability to influence those companies in which we invest, but it's most effective when we are shareholders and act in concert with others. This is mainly relevant to the Growth Fund where our managers, Newton, act within agreed limitations, to avoid investment in certain sectors or companies, but Newton also exercise their own critical analysis when voting in respect of companies held within our portfolio, based on agreed principles.
Newton report to us on their voting decisions and also use tools to calculate quantitative measures, for example to assess the carbon footprint or the carbon intensity of our fund compared to an average fund. This helps to assess both the relative position of our funds against the market, but also whether we continue to be leaders.

I would not want to leave you with the impression that precise measurements of ESG factors are easy or reliable. This is not surprising, particularly when dealing in ethical or environmental matters. For example, what stance should be taken on working conditions in cobalt mining in the Democratic Republic of Congo when cobalt is an essential element in the production of lithium batteries, and lithium batteries are critical to reducing fossil fuel emissions? Or should western companies and banks be trading with countries with poor and deteriorating human rights practices, of which China is becoming the most significant?
For several years we have engaged with, firstly, Church and Society Council and, latterly, with Faith Impact Forum on ethical and environmental matters. During this period, the focus has been largely on investment in Oil and Gas companies and whether or not such investment is compatible with the concern we all share to slow the rate of Climate Change and to meet the more stringent targets set at Paris in 2015. However, a much wider range of issues needs to be addressed as well, and Investors Trust enthusiastically supports the joint Deliverance proposed by the Assembly Trustees, Faith Impact Forum and ourselves to investigate how Environmental, Social and Governance issues can be best integrated into our decision-making. We look forward to working with the new Committee being established, aiming to reach practical and effective ways of tackling complex issues so that our managers can be clearly mandated. Communications are also important, and we want to ensure that our investors and the wider church are kept informed of how the funds are being put to work. The Committee will also investigate the ways in which funds can be used to target positive social benefits, acknowledging that our main focus will be to serve our investors, large and small, so that their own needs and ambitions may be met because of the returns they receive on the money placed with us."

The General Assembly established the Special Committee as described and we will be working closely with them over the next two-year period to assist the creation of a new framework for these tricky issues to be managed successful in future.

Brian Duffin
Chairman
22 June 2021