

## Investors Trust speech – General Assembly 2019

Moderator,

It is my privilege as Chairman to report to the General Assembly and I lay on the table the Annual Report and Financial Statements of the Investors Trust for the year ended 31st December 2018.

### Market background

2018 saw most major share markets post negative returns for the first time in the ten years since the financial crisis and that decline in asset values happened in the final quarter of the year. US economic expansion continued, although concerns on President Trump's trade wars and tariffs persisted. Other major economies including the UK saw more muted economic growth and there were worries about slowing Chinese growth. The overriding concern about Brexit was at the forefront of investors' minds particularly the economic impact of a, so called, "No Deal" Brexit. Sterling weakness on the back of Brexit uncertainty was also a feature.

The total value of funds invested through the Church of Scotland Investors Trust was £435.1 million at 31 December 2018 and total income in excess of £12.9million was generated to support the work of the Congregations, Councils and Committees of the Church which invest with us.

### Fund performance

In a time of such uncertainty it is very pleasing to report that the Growth Fund held its value in falling markets and recorded a marginal increase, while the Income Fund recorded only a marginal decline. This is a very good result from our managers in what was a challenging year for investors.

The Growth Fund, managed by Newton Investment Management achieved a positive total return of 0.2% outperforming its benchmark which recorded a decline of -3.4% and the Income Fund, managed by Royal London Asset Management recorded a total return of -0.1%, also outperforming its benchmark which fell by -1.2%. The Trustees were pleased to receive confirmation from our advisors that the performance of both funds remains in the top 25% of similar charitable investment mandates measured by independent fund performance reporting organisations.

The Deposit Fund has generated interest for investors at an average rate of 0.59% over 2018. Bank of England Base Rate was 0.50% from January until August 2018 when the Monetary Policy Committee raised Base Rates to 0.75%.

## **Income generation**

The Trustees agreed to maintain the income distribution in the Growth fund at 17.0p per unit. In discussion with the managers, we have agreed a target of 17p per unit for 2019 and will try to hold the distribution once again. However, if companies announce cuts to dividends, or Sterling strengthens we may have to review this target over the course of the year.

The Income Fund distribution has been held at 50.0 pence per unit. As I reported last year, maintaining the level of income generated by corporate bonds in the collective investment funds which we hold remains challenging. New issues of corporate bonds currently offer lower fixed interest (known as coupon) payments than those older bonds in the portfolio which are maturing (or being repaid) and leaving the portfolio. This situation is likely to continue until there is an established trend of increases in long term market interest rates.

We will, of course, seek to maintain the income level without adding to the portfolio risk. However, reductions in the income generated may mean reductions in distributions to our investors, although this is not certain and we continue to monitor the position closely.

## **Ethical, Social and Governance (ESG) issues**

Through our membership of the Church Investors Group (CIG) we have been able to join with like-minded Christian activist investors in engagement on a number of issues over 2018, not least on climate change. For example, as part of the Church Investors Group and shareholder action coordinated by Climate Change 100+, BP agreed to put a resolution to its AGM, with a recommendation that it be approved, to ensure its strategy is consistent with the goals of the Paris climate change agreement. As a result of similar engagement activity Shell has linked its Executives' long term remuneration packages to progress against goals on carbon emissions reduction. The Investors Trust also signed up to a campaign via Church Investors Group and Stewart Investors Sustainable Funds Group engaging with companies to tackle plastic pellet loss throughout supply chains, with a view to reducing the leakage of small pieces of plastic into ecosystems.

While climate change continues, quite correctly, to dominate ESG thinking, many other issues including modern slavery, the impact of artificial intelligence and water conservation

are all of concern for Christian investors. The Church Investors Group facilitated an excellent conference last November on the topic of “Stranded Humans” and there were a series of discussions considering not only the negative impact of climate change on human beings in terms of more extreme weather events, but also the impact on the human beings who are currently employed in carbon intensive industries which will have to be replaced in order to tackle climate change. The Church Investors Group has undertaken good engagement work with UK listed companies on Modern Slavery in supply chains, raising that difficult issue on the companies’ agendas, and bringing about changes in thinking. Artificial intelligence and data security were talked about as emerging areas of concern and there were interesting discussions on how investors could engage with these issues. Through our participation in the Church Investors Group we are able to receive up to date research and news on engagement on these matters, such as our signing up to the Transition Pathway Initiative on fossil fuel investment, which informs the views and decisions of the Trustees.

As I reported last year, a paper was submitted to the Council of Assembly Finance Group recommending that the Church employ a dedicated resource focused on Ethical Social and Governance (ESG) matters for the Church as a whole, as well as the investing bodies. However, the Council of Assembly Finance Group decided not to put that role in place. While the decision of Council of Assembly disappointed the Trustees, as an interim measure, and to provide a source of information on current ESG matters, the Secretary has set up a newsletter with links to relevant organisations, including the Church Investors Group, on the Investor’s Trust website for investors and other interested parties within the Church. We also post bulletins on behalf of Investors Trust which contain ESG information and links to other relevant sources of information on other websites - and we certainly encourage all church members to check out the information provided on the big issues of the day and how our choice of investments is helping to produce positive changes and suppress negative problems.

The General Assembly commissioners may be interested to know that we monitor the ESG ratings given by our investment advisor for our Growth Fund managers and we are satisfied that ESG matters are embedded effectively in their investment process. Furthermore, the Growth Fund portfolio has a carbon intensity score calculated, by our Investment Managers on the basis of tonnes of carbon dioxide for each \$million of revenue, of 76.96 tonnes compared to the equivalent figure for world stockmarkets of 194.41 tonnes. While this is a high level estimate it lends weight to our view that climate change issues are reflected in the choice of our investments in the fund.

## **Investors information**

In addition to the ESG newsletters and updates, quarterly reports from the managers are posted on our website and the Investors Trust team is very happy to answer any questions as required. We will continue to offer an annual forum for investors to meet with and question the Investment Managers and this is scheduled to be held at 121 George St on XXth June. Invitations to Congregational Treasurers and Convenors of Councils and Committees have already been sent out.

Guidance notes for treasurers on the three investment funds and how they work are also available on the website.

## **Office Bearers**

Under the terms of the constitution of the Investors Trust, I am due to retire as Chairman. It is recommended that the Vice-Chairman, Mr Brian J Duffin, be appointed Chairman and Mr Robert D Burgon be appointed Vice-Chairman.

## **Rotation and appointment of trustees**

In accordance with the terms of the Constitution, the following three members are due to retire by rotation at 31 May 2019: Ms Elaine Crichton, Mr J Grant Wilson and Mr Michael G S Yuille. All three have indicated that they wish to seek re-election. It is recommended to the General Assembly that Ms Crichton, Mr Wilson and Mr Yuille be re-appointed members for 3 years as from 1 June 2019.

The Trustees have sought to replace some of their number who have retired or stepped down in the last couple of years. It is recommended to the General Assembly that Mr Robin Black and Mr Gordon Young be elected to be members of the Trustee Board as from 1st June 2019.

## **Investors trust team and trustees**

I must record my thanks to the Treasurer, Secretary, Acting Secretary and staff of the Investors Trust who ensure smooth day to day operations of the trust and are the front line point of contact for both our investors and investment managers.

The Church is fortunate indeed to be able to call upon a group of Trustees who are experienced, diligent and expert in the field of finance and investment and who are prepared to give generously of their time to oversee the management of the investments

that the congregations and committees of the Church entrust to us. I put on record my sincere thanks to the trustees for their support and wise counsel in my time as Chairman.

My successor as Chairman, Brian Duffin, has an outstanding track record in the insurance and investment industry and the new Vice Chairman, Robert Burgon, has a wealth of experience and expertise in overseeing investments in the institutional pension's arena. I know that the future of the Investors Trust is in the most secure and capable hands and I wish Brian and Robert well in their new roles.

Moderator, I submit the Report and Accounts of the Investors Trust and, as I am not a Commissioner, I ask that one of the Clerks move the Deliverances.