



# The Church of Scotland Investors Trust

Constituted by Act of Parliament 1994

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## Bulletin for Investors – August 2021

This Bulletin is published for investors in the Church of Scotland Investors Trust. It describes a change in investment strategy for the Income Fund and a change in dealing dates for the Deposit Fund.

### Income Fund

As investors in the Income Fund will be aware, the income earned and distributed has reduced in recent years, due entirely to the fall in bond yields available from financial markets. The Bank of England, along with other central banks has set its Base Rate at a minimal level of 0.10 % since March 2020, and it has been below 1.00 % since March 2009. Alongside the process of quantitative easing which has been in force over this period, the low levels of deposit interest rates has depressed yields available for all bonds, particularly so in the case of UK Government bonds (known as Gilts).

The Income Fund invests mainly in UK corporate bonds, but also invests in Gilts and Property to lesser extents. The average duration of the bond portfolios is kept fairly constant, which means that bonds are continually refreshed by selling shorter durations and purchasing longer durations. As market yields fall, this inevitably means that the bonds which are purchased offer lower redemption yields than those which are being sold and the average yield of the Fund as a whole gradually reduces.

In case this sounds gloomy, it should be emphasised that the price of bonds rises as yields fall, so there is a capital return which is reflected in the rising price of Income Fund units. Indeed, the total returns (calculated by combining capital returns and income received) have been strong over this ten year period and our managers have comfortably outperformed the bond markets on this basis (Royal London have been the managers of the Income Fund since February 2012 and up to end June 2021 the average annual total rate of return to investors over this period is 7.03% compared to the benchmark return of 5.01%).

In recent months the Trustees have discussed with Royal London whether changes in the current investment strategy would be appropriate, not least because of the current financial circumstances. As a result we have agreed to adjust the current strategy to recognise two factors – that Gilt returns are expected to remain low for the medium term future and that exposure to global bond markets throws up opportunities to improve returns and to add some diversification.

Consequently, Gilts will no longer form part of the benchmark (they are currently 10%) and a new category of investment, Global Bonds, will replace them. This inevitably means that the Income Fund credit risk rises, but we take the view that the additional returns generated provide good compensation for the increase in credit risk for this small section of the Fund. The Fund does not hold bonds directly, but invests in fund portfolios managed by Royal London, thereby gaining diversification and liquidity compared to holding securities directly.

Secretary: Nicola Robertson  
Treasurer: Mrs Anne F Macintosh BA CA  
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The change in strategy will be implemented during the current quarter and is expected to increase the income earned and distributed in 2022. An increase in income distributed to investors of between 10% and 15% is anticipated.

## **Deposit Fund**

The Deposit Fund currently offers investors the opportunity to make deposits and withdrawals on any business day, subject to some restrictions for larger amounts. This facility requires administrative resource which imposes costs on all investors and has been reviewed as a result. (Investors Trust must look for economies like all other parts of our church!)

We do not think this frequency of deposits and withdrawals is needed, judging by the pattern of requests being received. Accordingly, we will move to a basis of setting a transaction day each week (Wednesday) and also offer transactions as appropriate to tie in with the dealing dates for the Growth and Income Funds.

This change will be implemented shortly with the appropriate documents for completion by treasurers and office-bearers available from the Investors Trust section of the Church of Scotland website. Please refer to this section in advance of any planned transactions – although our administration team will be as willing to offer assistance as ever, processing dealing requests run more smoothly if the current forms and documents are submitted.

Sadly, there is little we can do to improve the interest payable to investors using our Deposit Fund. It is likely to continue at a negligible level for some time to come.

Brian Duffin  
Chairman  
11 August 2021