Church of Scotland Investors' Trust speech—General Assembly 2022

Moderator,

It is my privilege as Chairman to report to the General Assembly and to present the Annual Report and Financial Statements of the Investors Trust for the year ended 31st December 2021.

Structure of Investors Trust and Services to Investors

Investors Trust was established by Act of Parliament in 1994. It is a registered charity and accordingly observes the regulations set by OSCR but it is not regulated under the Financial Services Act as it is not offering services to the general public. Nevertheless, Investors Trust operates to the accepted standards of good practice in the investment industry.

We know that a wide range of church investors place money with Investors Trust, from parish church treasurers and trustees of local trusts right up to our largest investor, the General Trustees. We offer three funds – the Growth Fund, aiming to provide good long term total returns but which is subject to short term volatility in prices; the Income Fund, aiming to provide a reliable level of income but whose unit prices will fluctuate as long-term yields vary; and the Deposit Fund which provides a high level of capital protection but pays interest linked to short term rates in the money markets. Specific advice is not provided to investors, but general guidance is published to help treasurers and other investors to understand how they should link the purpose for which their funds are held against the characteristics of the three funds offered.

Recent Performance and Events

Our total funds at the end of 2021 were £520 million. This was an increase of 11% over the total funds held at the end of the previous year – and this was mainly due to a strong recovery in equity investments after the weakness caused by the Covid pandemic. At the start of 2021 developed economies were beginning to bounce back because of the availability of effective vaccines, even though less developed countries were not so well placed. Furthermore, interest rates continued to be at low levels for most of the year, only rising in the closing months as price inflation became a growing concern. Equity markets rose over the year in anticipation of more profitable corporate activity.

Turning to 2022, two factors have dominated events: the first of which is the fear of surging price inflation. Initially this anticipated surge was seen as the consequence of the disruption of global production and supply chains by Covid lockdown policies. But another factor is the full employment enjoyed by many countries, forcing wage rates to rise and pushing consumer prices higher as well.

In February developments in Russia and Ukraine quickly became the dominating issue, culminating in the invasion of Ukraine on 24th February. Western countries responded quickly by imposing economic sanctions on Russia and these had an immediate impact on energy and food markets. Inflation forecasts were pushed higher still, while economic growth estimates were reduced creating a negative combination for financial markets. Bond markets reflected the anticipated strains on public borrowing by offering higher yields which meant that bond prices fell, but equity markets recovered from initial price falls. Since these initial reactions equities have been uncertain what to expect and how corporate profits will perform while military activity is uncertain and what longer term consequences will follow from so much human suffering in a modern European country.

Fund Specifics

In 2020 the trustees explored changes in strategy with our external managers. These were driven by a few factors, principally a recognition of changing financial markets but also to provide an appropriate choice for investors so that different investor needs could be met from the three funds offered.

For our Growth Fund the Trustees agreed a new Investment Strategy with our managers, Newton. This took effect from February 2021, and an immediate switch of assets was implemented at negligible cost. The biggest change was to remove a distinction between UK and overseas equity investment, which was consistent with the small proportion of global equities listed in the UK but the change also offered greater exposure to industrial sectors which are in short supply in this country. We also set a new performance target based on total returns (by which we mean the combination of capital and income growth) rather than setting separate income targets. New sectors were introduced under the heading of Alternatives, encouraging greater investment in such matters as infrastructure and sustainable energy. Newton also decided to sell the remaining Oil and Gas holdings at this time. These had been reducing steadily in any event, as the managers regarded the financial prospects for the sector as difficult. Under the new global strategy the energy sector represented a small proportion of Global Equities and removing all exposure to the sector was consistent with targeting industries enjoying a better growth outlook. Of course, the impact on energy prices of the war in Ukraine means the timing of this decision was somewhat unfortunate.

The total return provided by the Growth Fund in 2021 was 14.9% compared to the benchmark return of 16.2%. Although this was somewhat disappointing, the underperformance was all under the old strategy – for the rest of the year there was a small outperformance.

The Growth Fund paid 11 pence per unit to investors in comparison with 12 pence in 2020. In the absence of any economic shocks, we expect to be able to continue this level of income and expect modest annual growth year by year, although the main focus will be on total returns as already mentioned.

A new strategy was also agreed with Royal London for the Income Fund and took effect at the end of September 2021. The principal change was to introduce Global Bonds as a category, hedged against foreign exchange risks. At the same time, British Government bonds (gilts) were removed from the benchmark where they had been a small part. The changes as a whole increase the income we expect to pay. A larger proportion of the portfolio in corporate bonds increases the Fund's inherent credit risk, but this is offset to some extent by the diversification achieved by investing in pooled funds, which hold a wide variety of bonds.

In recent years a steady decline in bond yields has depressed the income payable each year from a high of 50 pence per unit to 40 pence per unit in 2021. The change in strategy is expected to produce a higher level of income immediately in 2022 but there is also the prospect of steadily rising yields thereafter if inflationary pressures push up bond yields. Sadly, of course, if inflation is significant it also means that rising nominal income distributions may struggle to keep pace with rising prices.

For most of 2021 bank interest rates were very low, as the Bank of England maintained its rate at ¼ %. In fact, negative interest rates were seen in some countries. The Deposit Fund provided an interest rate of 0.08% over the year, but the increase in base rates already seen this year should produce higher interest payments in due course.

Communications and ESG

In recent years it has been important to communicate regularly with investors. In changing market conditions investors need to know how their funds are affected, particularly to such matters as any changes in income prospects, allowing treasurers to assess the impact on their own budgets. We also provide comment on such matters as ethical and environmental considerations in our investment policy.

In 2021 the General Assembly established a Special Committee on Ethics and Investment Practice, in response to a Deliverance supported by Investors Trust. We have assisted the Committee in its work and look forward to receiving its Report in 2023.

Investors Trust has operated within a framework of specific exclusions for many years but has also developed a wider range of considerations which affect the selection of investments, particularly in the Growth Fund. Many of the issues involved take account of both positive and negative arguments and are rarely capable of measurement or calibration. The importance of each issue can also change as the world changes. Recent events in Ukraine throw up new questions in respect of military security, energy security and food security – affecting the lives of people in our own country as well as across the world. It also brings into question how we deal with different political regimes, even if that means reducing the financial prospects for our funds. Yet a practical and pragmatic policy formulation process is needed, and we continue to assist this the Special Committee in making proposals which meet this test.

Other churches have the same challenge as ourselves when it comes to managing funds responsibly, while also optimising investment returns. Our membership of the Church Investors Group gives us access to the approaches taken by other Christian denominations and provides us with valuable information on key issues. Investors Trust has access to information from other agencies as well, many of which are developing tools to monitor Climate Change performance by companies. This information allows us to challenge our managers and to agree aspects of investment policy which are not captured by a simple policy of exclusions, but it’s a big task to keep abreast of changing considerations and priorities on many fronts – as events in Ukraine have demonstrated.

Office Bearers

Retirement and appointment of trustees

Following 17 years of service Mr Tom Walker has indicated his wish to retire. Mr Walker has contributed a lot to our deliberations as an experienced fund manager and his wise guidance will be missed.

In accordance with the terms of the Constitution, the following two members are due to retire by rotation at 31 May 2022: Mr Michael Yuille and Mr Grant Wilson. I am pleased to report that both trustees are willing to serve a further term of three years and we recommend that they be re-appointed accordingly.

In March 2022, following an advertisement appealing for candidates, the Trustees appointed Mr Ivan Blair and Mr Andrew Richmond as trustees subject to confirmation by the General Assembly. Accordingly, we seek the consent of the Assembly to appoint Mr Blair and Mr Richmond, both of whom are very able and experienced, as trustees for a period of three years from 1st June 2022.

Moderator, this General Assembly marks the end of my time as Chair of Investors Trust and I have great pleasure in asking the General Assembly to appoint the current Vice-Chair, Mr Robert Burgon, as the new Chair with effect from 1 June 2022. Mr Burgon has long experience of overseeing investment management and is a most able chairman in other contexts, so I have no hesitation in joining the trustees in recommending that the Assembly should agree his appointment.

Ms Elaine Crichton also enjoys a long involvement with the world of investment management in addition to good experience of communications and the implementation of social policy. Along with the trustees, I recommend that the General Assembly should agree the appointment of Ms Crichton as Vice Chair of Investors Trust with effect from 1 June 2022.

Investors trust team and trustees

I want to record my thanks to the Treasurer, Investment Executive, and staff of Investors Trust who ensure the smooth day-to-day operations of the trust and are the front-line point of contact for both our investors and our investment managers.
Finally, I acknowledge with gratitude the time and effort freely given by all our expert Trustees.

Moderator, I submit the Report and Accounts of the Investors Trust. Although Mr Michael Yuille, who is a Commissioner, has joined me on the platform he is unable to move the deliverances as he is the subject of one of them! And as I am not a Commissioner, I ask that one of the Clerks moves the Deliverances as a whole.