

# Church of Scotland Investors Trust Speech—General Assembly 2023

## Robert D Burgon, Chair

Moderator,

It is my privilege as Chairman to report to the General Assembly and to present the Annual Report and Financial Statements of the Church of Scotland Investors Trust for the year ended 31<sup>st</sup> December 2022.

## Structure of Investors Trust and services to investors

The Investors Trust was established by Act of Parliament almost 30 years ago. 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.

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. We cannot provide investors with specific advice, 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

2022 was a particularly difficult year for investors, in a way which would have been hard to predict as the year began. Although it had been expected that price inflation would increase after the COVID lockdowns and as consumers began to spend more, the Russian invasion of Ukraine in February led to higher than anticipated inflation as supplies of certain products became restricted and it also led to the energy crisis and significant rises in the price of gas and electricity. One outcome was that inflation in the UK rose to levels not seen for 40 years. This led to central banks, including the Bank of England, trying to control inflation by

raising interest rates, a process that continues as demonstrated by a further interest rate rise earlier this month. The September “mini-budget” led to further market uncertainty and had a significant impact on bond markets. The combined effect of these factors was that almost all global markets experienced negative returns in 2022. Our Growth Fund delivered a total return of -9.2% which was behind the benchmark return of -6.7% and the Income Fund, while still experiencing a negative return of -12.16%, outperformed its benchmark for the year by 5.5%.

Our total funds fell from £520 million at the beginning of 2022 to £474.5 million at 31 December, reversing much, but not all, of the gains which had been experienced in 2021.

The first quarter of 2023 has seen some improvement in capital values, especially in the Growth Fund, partly due to easing inflation and interest rate projections. When we met our investment managers recently, we were told that they continue to exercise caution as there are a number of uncertainties such as the timing of interest rate cuts, how quickly price inflation falls and ongoing geopolitical risks in various parts of the world. By the end of March, the total value of our funds had risen to £491.54 million.

One positive outcome of the market conditions experienced in 2022 was that investors in each of our Funds saw an increase in the level of income distributed to them. Growth Fund investors received 12p per unit for the year, which represents an increase of 9% over the previous year. As bond prices fall, the yield that is available increases and investors in the Income Fund saw their distributions increase to 47.5p per unit, representing an increase of 18.75% over the income distributed in 2021 and bringing the distribution close to our previous high level of 50p per unit. Deposit Fund investors began to see the benefits of rising interest rates after many years when they were close to zero and the average rate of interest paid rose from 0.08% in 2021 to 1.16% in 2022. The most recent distribution from the Deposit Fund for the quarter to 31 March was based on an annual rate of interest of 3.32%.

In 2023, we expect that the income from the Growth Fund will be at a similar level to that in 2022, that we will be able to increase the income distribution from the Income Fund and that investors in the Deposit Fund will see further increases in the rate of interest they receive as deposits placed in the second half of 2022 come to maturity.

## **Environmental, social and governance considerations**

As Commissioners will be aware, at the 2021 General Assembly, COSIT supported the establishment of a Special Committee to develop a framework for consideration of the ethics of investment practice. Over the last two years, we have been pleased to engage with the Chair and members of that Special Committee and to support the recommendations

which have been presented to (and approved by?) the General Assembly this afternoon. We look forward to playing an active and positive part in the operation of the Ethical Oversight Committee.

The Special Committee recognised that the term “ethical investment” is complex and subject to interpretation and it is hoped that the new Committee will enable meaningful dialogue and debate on the ethics of investment as they apply to our Church. This is a subject which the Investors Trust takes seriously. We have a long-established list of excluded sectors including tobacco and armaments in which our managers are not permitted to invest. However, exclusions are only part of the picture. At a recent meeting with the managers of the Growth Fund, they demonstrated that the portfolio which they manage on our behalf has an ESG quality score described as “leader” as measured by the Morgan Stanley Capital Indices as a way of showing the ability of underlying holdings to manage key medium to long-term risks and opportunities arising from environmental, social and governance factors. In another measure, the weighted average carbon density of the portfolio is measured as being “low” and the portfolio also performed well in measures relating to corporate governance, natural resource management and waste management. However, none of these measures provide cause for complacency and there are other elements where further improvements would be desirable. These are the type of issues that we expect to discuss within the framework of the Ethical Oversight Committee.

We are not alone as a faith investor trying to ensure that we invest in the appropriate way to meet the objectives of our church and we continue to benefit from our involvement with other churches which 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. My predecessor as COSIT Chairman continues to serve on the Board of the Church Investors Group. We also have access to information from other agencies, 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.

## **Communications**

During the year we issued two general Bulletins to update our investors on performance and to provide an indication of likely income distributions. We plan to continue to communicate in this way, as well as providing updates on the COSIT section of the Church of Scotland website. Before COVID, we organised annual meetings for investors either during the General Assembly week or shortly thereafter. In September 2022 we organised

our first webinar for investors and found this to be a success. More people participated in that session than the average attendance at our in-person meetings and the arrangement was particularly useful for investors who would otherwise have to make a long journey to Edinburgh. While we appreciate that online events do not lend themselves to conversation between participants, we plan to repeat the webinar approach later this year.

## **Review of investment management arrangements**

The trustees monitor the performance of each of our investment managers at every quarterly trustee meeting. This year we have had useful discussions with the General Trustees who, as the largest investor in the COSIT funds, have been conducting their own review of their investment policies. The trustees decided at their meeting earlier this month that this was an appropriate time to undertake a formal review of all our investment consultancy and management arrangements and this review process has now commenced and will continue over the next few months.

## **Retirement and re-appointment of trustees**

In accordance with the terms of the Constitution, the following two members are due to retire by rotation at 31 May 2023: Mr Robin Black and Mr Gordon Young. 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.

Following 10 years of service Mr David Campbell has indicated his wish to retire. Mr Campbell has made a useful contribution to COSIT discussions over that period and has made a significant and useful contribution to our deliberations over those years. His wise guidance will be missed.

## **Investors trust team and trustees**

I want to record my thanks to the Treasurer, Executive Officer, 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 and lay them on the Clerks' table. As I am not a Commissioner, I ask that one of the Clerks moves the Deliverance as a whole.