

Church of Scotland Investors Trust- General Assembly Speech – 22 May 2024

Moderator,

It is my privilege as Chair of COSIT 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 31st December 2023.

Structure of Investors Trust and Services to Investors

COSIT was established by Act of Parliament 30 years ago in 1994 to provide Church of Scotland congregations and organisations with a cost-effective and uncomplicated way in which they can invest money which they don't need now with the aim that their investment will benefit from either or both capital appreciation and the payment of regular income.

COSIT is a registered charity and it observes the regulations set by OSCR as well as operating to accepted standards of good practice in the investment industry.

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 are not permitted to provide investors with advice on which funds suit them best, 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

After a period of challenging times in investment markets, I am pleased to report that 2023 was a more favourable year for each of our funds. Almost all investment markets delivered positive returns in sterling terms and the Growth and Income Funds both saw increases in their unit prices. The themes which dominated markets last year and which continue to have an impact in the first part of 2024 included price inflation, interest rates and the question about recession or no recession. The Growth Fund delivered a total return after expenses of 10.6% which was behind the benchmark return of 13.2% but was 3.3% ahead of the average performance of a large number of other charities and similar funds. The Income Fund delivered a net return of 9.44% which was once again ahead of its benchmark return of 8.60%.

Our total funds increased in value from £474.5 million at the beginning of 2023 to £508.9 million at 31 December.

The first quarter of 2024 has seen further 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, while they are pleased with the way markets have improved, they continue to exercise caution as there are still a number of uncertainties about the future 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 almost £432 million.

After the increases in income distributed in 2022, we were again able to increase the level of income distributed for 2023. Growth Fund investors received 13.5p per unit for the year, which represents an increase of 12.5% over the previous year. Investors in the Income Fund saw their distributions increase to 55.0p per unit, representing an increase of 15.8% over the income distributed in 2022. Deposit Fund investors continued to see the benefits of higher interest rates and the average rate of interest paid rose from 1.16% in 2022 to 4.26%

in 2023. The most recent distribution from the Deposit Fund for the quarter to 31 March was based on an annual rate of interest of 5.23%.

In 2024, we expect that the income from the Growth and Income Funds might be at a similar level to that in 2023 and that if anticipated reductions in interest rates materialise in the coming months, there will be a gradual reduction in the rate of interest which the Deposit Fund is able to pay.

Review of managers

Although the COSIT trustees review the performance of their external investment managers at each of our quarterly meetings, it has been a number of years since we undertook a comprehensive review of the managers and, as I reported last year, we started by conducting a review of the investment consultants who provide us with strategic advice. As a result of that review, we appointed Barnett Waddingham in September 2023 and after working with them on a review of our overall investment strategy, we asked them to begin a process of reviewing the managers of each of the three funds, commencing with the Growth Fund. Such reviews take time and I am grateful to my fellow trustees for the additional time which has been spent on this process in recent months. As part of the review process, we have decided to set a new investment target for this fund which will be expressed in terms of increases over and above increases in the Consumer Prices Index. We hope that this will help our investors to understand better what they might receive if they invest in the Growth Fund. As the fund had grown significantly since the existing managers were appointed, we have also decided to split the Fund by allocating a portion of the assets to an additional manager. This process continues and we will report details to our investors when the review has been completed. Reviews of the managers of the Deposit and Income Funds will follow.

Ethical Investment/Environmental, Social and Governance Considerations

Three of the COSIT trustees have participated as members of the Ethical Oversight Committee which was established at last year's General Assembly. I will leave the Chair of that Committee, Val Brown, to report on the work which that Committee has undertaken during the past year. However, I would like to remind the Assembly that all of the investment purchases and sales within our three funds are made at the discretion of the professional investment managers whom we have appointed to manage the investments. We provide them guidance on our expectations regarding ethical investments including the exclusions such as armaments and tobacco which have been agreed over the years. As part of their regular reporting to us, the investment managers give us regular updates on environmental, social and governance issues, including information about the way in which they have been engaging with particular companies and how they have voted at company general meetings. However, the complexity of these issues cannot be underestimated and we look forward to continuing the dialogue which has commenced in the Ethical Oversight Committee and to continue participating as an active member of the Church Investors Group where we hear about the approaches taken by other Christian denominations and are provided with valuable information on key issues.

Communications

During the year we continued to issue general Bulletins to update our investors on performance and to provide an indication of likely income distributions. We also organised another well-attended webinar for our investors in September and plan to continue with these in the year ahead.

Retirement and re-appointment of trustees

In accordance with the terms of the Constitution, three of our trustees are due to retire by rotation at 31 May 2024: Mrs Jean McKeown, Mr John Millar, and Mr Rodger Nisbet. I am pleased to report that all three trustees are willing to serve a further term of three years and we recommend that they be re-appointed accordingly. In addition, we are pleased to recommend the appointment for an initial three-year term of a new trustee, Mr Scott Anderson, who responded to advertisements which we placed seeking new trustees. Following 15 years of service, our previous Chair, Mr Brian Duffin, has indicated his wish to retire. Brian has been an excellent trustee and led the trust during a particularly busy and challenging time. He has also represented COSIT on the Church Investors Group. We are most grateful to Brian for his faithful service to COSIT and wish him well in all of his other endeavours.

Investors trust team and trustees

I want to record our thanks to Anne McIntosh who retired as General Treasurer in March and to her successor, Jenny Simpson, who has already shown good support to COSIT since her appointment. We appreciate the work of our Executive Officer, June Lee, and other 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 so 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 Commissioner this year, I now have pleasure in proposing the Deliverance as a whole.