

CHURCH OF SCOTLAND INVESTORS TRUST MAY 2021**Proposed Deliverance****The General Assembly:**

1. Receive the Report.
2. Approve the reappointment of Mr R H Nisbet as a member of the Investors Trust from 1 June 2021.
3. Approve the appointment of Mr J G L Millar and Mrs J McKeown from 1 June 2021.
4. Receive the Annual Report and Financial Statements of the Investors Trust for 2019 and 2020.

Report**1. INTRODUCTION**

1.1 The function of the Investors Trust is to provide investment services to the Church of Scotland and to bodies and trusts within or connected with the Church. The Investors Trust offers simple and economical facilities for investment in its three Funds: Growth Fund; Income Fund; Deposit Fund. Investors receive the benefits of professional investment management, regular portfolio supervision, spread of investment risk, and economies of scale through the pooling of monies in collective investment vehicles.

1.2 The bulk of the Church of Scotland's investments are held on a long-term basis, for the purpose of generating recurring income and growth in capital to support the work of the Church. An increase or decrease in the capital value of investments does not necessarily have a corresponding effect on income distributed to investors.

1.3. Ethical considerations form an integral part of the investment management process and the Trustees have given instructions to the investment managers, taking full account of views expressed by the General Assembly. At their own meetings, the Trustees regularly review and consider matters arising in respect of ethical investment. Investment is avoided in any company which engages in management practices which are judged by the Trustees to be unacceptable. In particular, investment is avoided in any company substantially involved (generating more than 15% of turnover) in gambling, tobacco products, alcohol, armaments, thermal coal and tar sands. Furthermore, the screening service used alerts us to any turnover above 10% from unacceptable activities so that we can be confident that the 15% limit is observed in dynamic circumstances. In general, investment is sought in companies which demonstrate responsible employment, good corporate governance practices, have proper regard to environmental performance (particularly Climate Change), recognise human rights and act with sensitivity to the communities in which they operate.

1.4 The Trust is a member of the Church Investors Group (CIG), an ecumenical grouping of investment bodies charged with investing funds for UK churches and other church-linked organisations, and with links to a growing number of international churches. CIG lobbies companies and investment managers to encourage them to pursue policies aligned with our Christian faith, as well as conducting research on companies' behaviour and collating such research from several agencies. Through its co-operation with other ESG (environmental, social and governance) organisations and on its own, CIG is able to exert significant influence on corporate behaviour. The Investors Trust Chairman is a member of the CIG Board.

2. DELIVERANCE

2.1 In 2018 and 2019 debates were held at the General Assemblies on the issue of whether the Church of Scotland Investors Trust should be urged to disinvest indiscriminately from Oil and Gas companies. These debates were initiated by recommendations made in the Reports from the Church and Society Council. In the event, the votes taken showed that opinion was divided but on both occasions the majority were in favour of no change. The minutes of the 2019 GA noted the following:

Caring for Creation

8. Note with concern that progress towards implementing the Paris climate agreement is falling far short of expectations and call upon the Scottish and UK governments to make the rapid transition to a low carbon economy a priority.

9. Urge all congregations to become eco-congregations and to consider what transformative actions they can take to help the transition to a low carbon economy in their lives, their finances, communities and worship.

10. Note the engagement to date with oil and gas companies and instruct the Council to report on the outcome to the Assembly of 2020.

11. Urge the Council of Assembly and Investors Trust to further prioritise work agreed in 2018 to 'welcome the proposal from the Investors Trust to promote stronger Environmental, Social and Corporate Governance in the Church's investments.

The 2020 General Assembly was deferred to October due to the lockdown situation caused by the Covid-19 pandemic and due to the limited time available the General Assembly did not receive the 2020 report of the Church and Society Council or Church of Scotland Investors Trust. However, following the appointment of the Faith Impact Forum in early 2020, which assumed the responsibilities of the Church and Society Council, Investors Trust continued discussions on Oil and Gas investment with it. In the meantime, our investment managers were reducing the exposure to Oil and Gas companies for financial reasons to the point that no shares in the sector are held as at February 2021.

With the support of the Assembly Trustees, a Deliverance was agreed between Investors Trust and the Faith Impact Forum which is published in the Forum's Report to the 2021 General Assembly, and is as follows:

2.2 Welcome the agreement with the Church of Scotland Investors Trust that, as a matter of principle, the portfolios of investments managed should align with the UN Paris Agreement in pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognising that this would significantly reduce the risks and impacts of climate change.

2.3 Welcome the fact that no oil and gas company shares are currently held and note that any future investment in oil and gas would only follow agreement between the Church of Scotland Investors Trust and the Faith Impact Forum that there was good evidence that its strategy and implementation was aligned with the stringent targets set by the Paris Agreement.

2.4 a. Appoint a Special Committee of five persons to consult with the Faith Impact Forum, the Church of Scotland Investors Trust, and the Assembly Trustees to consider the best framework for future recommendations about the ethics of investment practice being brought before the General Assembly, and report to the General Assembly in 2023.

b. Instruct the Selection Committee to consider carefully the range of skills and diversity of backgrounds required for this task and present the names for this Special Committee on ethical investment practice to a later session of this General Assembly.

2.5 The importance of ethical considerations in investment management has been increasingly recognised in recent years, not just for church investments. While Climate Change is one of the most important considerations, other issues need to be taken into account as well. The Trustees do not select companies for investment, but appoint fund managers for this purpose and agree mandates with them which are contractual. Consequently, the terms under which fund managers operate need to be clear in respect of ethical matters and a close working relationship between the Trustees and the managers is needed to ensure the practical application of general requirements in a way which is fully

acceptable and verifiable. The Trustees strongly welcome a review of how ethical considerations should be applied in future for church investments, recognising that the issues have become more complex and that practical ways of working are needed. The Trustees also appreciate that investments which have a positive impact on social or environmental issues may be important components of the Funds, provided they also meet the requirements of the investors whose interests are being served.

The Trustees have issued more frequent communications to investors in recent years, to inform on both financial and ethical developments. They recognise their obligation to investors in this respect, not least for income forecasts as budgets have become more difficult to manage for both church treasurers and our larger investors.

The 2019 General Assembly also requested a list of Growth Fund holdings to be provided in the annual report. The Trustees are pleased to confirm this was made available in a downloadable annual review for 2019. In addition the Annual Report and Financial Statements, quarterly factsheets, ESG updates and 2020 Annual Review are available to download from the Church of Scotland website.

3. INVESTMENT PERFORMANCE AND OUTLOOK

3.1 The total value of funds invested through the Church of Scotland Investors Trust decreased from £478.4 million at 31 December 2019 to £468.9 million at 31 December 2020. On a global basis, the year 2020 was dominated by Covid-19 and, from a UK perspective, Covid-19 and Brexit. The effect of the lockdowns was fully felt by western countries going into Q2, leading to an unprecedented collapse in GDP growth for Q2 2020. Later in the year, as western countries eased their pandemic restrictions, economies rebounded. Sadly, Q4 saw Covid-19 infection rates rise again sharply leading to a renewal of restrictions by the end of 2020 and in the early months of 2021. Not surprisingly, financial market volatility was seen throughout the year. Despite such turbulence, all major equity markets, excluding UK equities, posted positive returns over the year to 31 December 2020.

3.2 As the result of poor UK equity returns and low exposure to the technology sector, the Growth Fund underperformed its benchmark. The Income Fund marginally underperformed, achieving returns almost in line with its benchmark but still enjoys a strong record over longer periods.

Total return for the Growth fund in 2020 was -0.62% against the composite benchmark (adjusted to mirror the ethical guidelines of this fund) of 3.06%.

In February 2021 the Strategic Allocation of the Growth Fund was changed, mainly to remove the distinction between UK and Overseas investment in equities. After this date, the benchmark includes 75% allocation to Global Equities and no specific allocation to UK Equities, recognising the relatively small size of the UK market and its low proportion of key growth sectors.

3.3 The Income Fund achieved a total return for 2020 of 6.90% against a benchmark of 7.20%.

4. INCOME DISTRIBUTIONS

4.1 The 17.0p per unit target initially set for the managers was removed in May 2020 following the cancellation of many UK dividends. This was communicated to Growth Fund investors in a statement from the Chairman in May following the reduction of the first distribution for 2020 from 8.0p per unit to 4.0p. A further update circulated to investors in November advised that the Trustees were forecasting a further distribution of 4.0p per unit, bringing the total distribution for 2020 to an estimated 12.0p per unit. This represents a yield of 2.23% based on the unit price as at 31 December 2020.

4.2 Income Fund distributions were reduced in September 2020 from 25.0p to 22.5p. Total income earned during the year was 43.1p per unit (2019 – 48.5p per unit) and in line with the Chairman’s November statement, the Trustees agreed to distribute a further 20.0p for the period 1 July to 31 December 2020. The total distribution from revenue earned in 2020 is therefore 42.5p per unit which represents a yield of 3.34% based on the unit price as at 31 December 2020.

4.3 The average interest rate for 2020 declared by the Deposit Fund was 0.54%. This compares favourably with the Bank of England base rate of 0.10% for most of the year. However, as longer-term deposits matured and were reinvested at lower rates of interest the rates paid to investors in each quarter declined. Unless the base rate is increased, only very modest levels of income can be expected by investors in 2021.

5. MEMBERSHIP

5.1 In accordance with the terms of the Constitution, the following three members are due to retire by rotation at 31 May 2021: Mr R Nisbet, Mr G R Young and Mr A A Aitchison.

Mr Nisbet has indicated that he does wish to seek re-election. It is recommended to the General Assembly that Mr Nisbet should be reappointed as from 1 June 2021.

Two of our Trustees are standing down this year and we thank them for their long service and expertise. Alan Aitchison joined the church’s investment arm in 1985, and so predates the current Investors Trust structure - and is our longest serving trustee. Gordon Young became a Trustee in 2009 and is also stepping down as the Chair of our Audit Committee.

5.2 In accordance with good practice the Investors Trust welcomed nominations for Trusteeship. From the nomination process and in accordance with the terms of the Constitution, it is recommended that Mr J G L Millar and Mrs J McKeown be appointed members from 1 June 2021.

6. ANNUAL REPORT AND FINANCIAL STATEMENTS 2019 AND 2020

6.1 Copies of the 2019 and 2020 Annual Review and the Annual Report and Financial Statements for the years to 31 December 2019 and to 31 December 2020 are available to download from The Church of Scotland website or can be obtained from the Secretary.

*In the name and by the authority of the
Church of Scotland Investors Trust*

B J DUFFIN *Chairman*
R D BURGON *Vice-Chairman*
N ROBERTSON *Secretary*