The Church of Scotland Investors Trust

Constituted by Act of Parliament 1994

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Church of Scotland – Income Fund Factsheet
Q2 2024

Performance commentary

Despite the slight negative returns for the wider sterling investment grade market, the RL Ethical Bond fund saw a positive return in the period and therefore outperformed the benchmark. The main driver of positive performance was stock positioning – notably in the bank and structured sectors. This stock selection impact more than offset the negative effect of our underweight in supranationals, which performed well over the quarter. The additional carry built into the portfolio over the benchmark index was also helpful.

For the Global Bond Opportunities fund, we saw a positive return over the quarter. While investment grade returns were essentially flat, we saw positive returns from a number of different areas including global high yield, corporate hybrids and contingent capital bonds (cocos) over the period. Within banks, the largest sector exposure in the fund, we have a significant exposure to AT1 bonds: these performed well during the period, albeit with gains tempered in June when subordinated financials underperformed. Ongoing restructuring from companies also helped, with bonds being called at attractive levels and refinanced at lower levels, an example during the quarter being DNO, the Norwegian oil and gas operator, which called existing bonds at a premium ahead of a new bond issue.

The Sterling Extra Yield fund also posted strong positive returns in the quarter, with high income continuing to support returns, as did strong stock selection, with examples including Santander UK perpetual bonds, one of the largest individual holdings in the fund, which rose 6% in price partly in response to the news that insurer RSA were tendering for their preference shares at a level well above their prevailing market price, and highlighting the attractive yields and positive potential for such issues. Sainsbury Bank bonds rose strongly on news that the banking business was to be sold to NatWest – the bonds which paid a coupon of 10.5% since issue in September 2022 rose to a price of to 112½ at end June, and up from 106½ at the start of 2024. Meanwhile insurer M&G tendered for a portion of its outstanding 'lower tier 2' bonds across a series of individual issues – a substantial part of the fund's holding of the 5.56% 2035/55 were repaid at a level 2.5% above their end May value.

RLAM Performance Summary:

	Church of Scotland (%)	Benchmark (%)	Relative (%)
Q2 2024	0.83	-0.13	0.96
12 months	12.08	9.72	2.36
3 Years	-0.08	-3.94	3.87
since migration (01/02/2012)	5.26	2.76	2.50

Investment Outlook

Last quarter we highlighted that we expected yields to remain sensitive to economic data, and unless there was a significant deterioration in underlying trends, we expected this to lead to range-bound yields. This is the scenario that unfolded over the quarter, with markets seeming to mark time until central banks – notably the Federal Reserve – start to cut rates. We expect a small fall in government bond yields in Q3.

Extracted from Royal London Asset Management's Investment Report for The Church of Scotland Investors Trust Income Fund as at 30 June 2024 and Savills Charities Property Fund @ cpfund.co.uk

Headline inflation is now significantly lower in the US, euro zone and UK compared to 2023. Base effects account for a material part of these falls. Beyond the headline figures, the likes of services inflation and wage growth remain higher than most central bankers would prefer. That said, we do expect to see more movement from central banks in the second half of the year, even if the quantum of those moves is less than many were forecasting earlier in the year.

Sterling investment grade yields are higher than they were at the start of the year, reflecting higher gilt yields and a small reduction in credit spread. We believe that the all-in yield on the market (using iBoxx), near 5.3% at the end of June, is attractive both in absolute terms but also relative to government bonds. Despite the contraction in credit spreads they continue to compensate investors for the risk of default.

We target – and achieve – a material yield premium over the market level in our sterling credit strategies. We mitigate the risks by maintaining highly diversified portfolios, with a bias towards bonds that offer greater security and downside protection. Our view remains that over the medium term our focus on delivering greater income than the benchmark will generate outperformance.

Savills Charities Property Fund Performance Summary

The Charities Property Fund posted a positive total return for Q2 2024 of +1.2% and a total return of +0.6% for the last 12 months. This compares well to the AREF UK All Balanced Open-Ended Property Fund Index which registered a return of +1.1% for Q1 and +0.1% for the last 12 months.

Performance to 30 June 2024

	3 months	1 Year	3 Years	5 Years	10 Years	Since launch
CPF	+1.2%	+0.6%	+2.5% pa	+2.6% pa	+5.8% pa	+6.4% pa
AREF All Balanced Funds Index	+1.1%	+0.1%	+0.6% pa	+1.5% pa	+4.8% pa	+5.2% pa

Source: AREF/MSCI UK All Balanced Property Fund Index 30 June 2024. NB past performance is not a reliable indicator of future performance. Total return is net of fees and expenses.