The Church of Scotland Investors Trust
Constituted by Act of Parliament 1994

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Church of Scotland – Income Fund Factsheet
Q4 2024

Performance commentary

The final quarter of 2024 was turbulent for fixed income investors amid a series of headwinds coming from rising government bond yields, ongoing political volatility – domestic and abroad – and differences in central bank policies. Credit spreads are at all-time tights, across markets, and gilt yields are at multi-decade highs but we still believe all-in yield from credit is attractive and believe the risk of downgrade or default is still well compensated at current spread levels.

Despite this, the fund was able to achieve strong outperformance in the quarter, driven by the diversification of the portfolio and ability to mitigate risk. Driving the outperformance was our credit allocation and stock selection. Our overweight exposures to insurance and structured, and underweight exposure to supranationals all contributed positively. By stock selection, our bank and insurance bonds were standout performers, led by insurance perpetual bonds from Bupa and Legal & General. Our exposure to subordinated bonds from Direct Line was also helpful, these benefiting from a re-rating following the announcement of the takeover by Aviva.

For the Global Bond Opportunities fund, with investment grade bonds producing negative returns in the US and UK, and very modest gains in euro markets, it was pleasing that the fund again provided a positive return over the quarter. While other credit markets such as high yield, emerging markets and CoCos (contingent capital bonds) did produce positive returns, the fund produced a stronger result than most of these both for the quarter and 2024.

The fund has a high degree of diversification, with material exposure to a range of assets including US dollar, euro and sterling investment grade bonds, high yield and unrated bonds. Within banks, the largest sector exposure in the fund, we have a significant exposure to AT1 bonds: these performed well during the period, as did our non-financial hybrid bonds.

The Sterling Extra Yield fund posted positive returns over the quarter. Income generation was a significant aspect of the robust performance, which was able to significantly or wholly offset, in an environment of rising yields, the decline in price of many holdings in the fund. Structured bonds helped performance, with bonds of property group Canary Wharf rising in November on news of a new equity commitment to the business and potential refinancing of the company's shorter-dated bonds. We sold the short-dated bonds in November, reinvesting the proceeds in the company's 2028 bonds, bringing this holding to one of the fund's ten largest investments and increasing sensitivity to the revaluation of the company's debt. In addition, there were a few notably strong performances; holdings of utility Southern Water were up some 6% in price on a better-than-expected regulatory final determination for the upcoming five-year pricing period.

__Risk Warning__: - Investors should bear in mind that values fluctuate and, as past performance is no guarantee of future returns, investors may not get back the original amount invested. The Growth Fund and Income Fund units are only realisable on the monthly dealing dates. The distributions paid by the Deposit, Growth and Income Funds are all liable to fluctuation.

Extracted from Royal London Asset Management's Investment Report for The Church of Scotland Investors Trust Income Fund as at 31 December 2024 and Savills Charities Property Fund @ cpfund.co.uk

RLAM Performance Summary:

	Church of Scotland (%)	Benchmark (%)	Relative (%)
Q3 2024	0.86	-0.49	1.35
12 months	6.81	1.71	5.10
3 Years	1.01	-3.14	4.15
since migration (01/02/2012)	5.35	2.79	2.56

Investment Outlook

Perhaps the most unexpected aspect of fixed income markets in 2024 was the rise in yields. Markets started the year expecting that falling inflation would lead to a number of rate cuts that would drag government bond yields lower. In the event, although we got rate cuts, these really only impacted the short end – with longer yields pushed higher because inflation did not come down as expected and Trump presidency is widely seen as more inflationary.

Investment grade markets partially mitigated the negative impact of higher underlying yields with higher carry and tightening credit spreads. As this point, with these back towards pre-GFC levels, it is reasonable to ask whether spreads have moved too far. In our view, given current expectations for the global economy, we continue to believe that current spread levels more than compensate investors for default risk as evidenced by historic default rates in investment grade markets. However, the compression seen in credit markets over the last two years has shifted the relative attraction of higher beta exposure compared to lower risk government related exposure. We are conscious of the significant nature of moves and continue to be mindful of this within stock selection.

We believe that investment grade all-in yields remain attractive but the relative attraction between government bond yield and credit spread has changed, with a larger component of the yield being sought from government bonds. We retain a focus on high levels of diversification and our view remains that over the medium term, our focus on delivering attractive income will generate strong returns for investors.

Savills Charities Property Fund Performance Summary

Performance to 31 December 2024

	3 months	1 Year	3 Years (per annum)	5 Years (per annum)	10 Years (per annum)	Since launch (per annum)
CPF	2.1%	5.5%	0.3%	3.3%	5.4%	6.4%
AREF All Balanced Open Ended Property Fund Index	2.4%	5.4%	-2.0%	2.1%	4.3%	5.2%

Source: AREF/MSCI UK All Balanced Open Ended Property Fund Index 31 December 2024. NB past performance is not a reliable indicator of future performance. Total return is net of fees and expenses.

Whilst the Fund posted a marginal underperformance for the quarter, it has outperformed the Index by +0.1% over the last 12 months, and by an average of +2.3% per annum over the last 3 years, +1.2% per annum over the last 5 years and +1.1% per annum over 10 years.