

## **Investment Committee**

### **Report to Standing Committee on Pooled Funds held in the UTP as at 30 September 2021**

In June 2021 General Synod approved the policy on the use of pooled funds in the Unit Trust Pool (UTP) which requires the Investment Committee to report to Standing Committee:

#### **Policy on the use of Pooled Funds in the UTP (extract)**

*The Investment Committee should review pooled funds held by the UTP on an annual basis so as to consider the continued appropriateness of the UTP investing in each pooled fund, and whether this policy framework is being complied with overall.*

*If the Investment Committee is of the view, on such a review, that the holding of a particular pooled fund within the UTP has come to jeopardise compliance with the 1% limit set out above [holdings of the restricted categories to be less than 1% of the total UTP funds], it should so report forthwith to Standing Committee along with their explanation as to how that situation has arisen and their recommendation as to the appropriate way to proceed, bearing in mind Standing Committee's fiduciary duties in relation to the UTP and the need for efficiency and economy in management thereof. Standing Committee may then approve that recommendation or require its amendment. The Investment Committee will then forthwith implement the recommendation as approved (with or without amendment) by Standing Committee.*

#### **Restricted categories**

The restrictions on direct holdings currently applied to the UTP are:

- Companies deriving >15% of their revenue from armaments, gambling, pornography, tobacco
- Companies deriving >10% of their revenue from oil & gas extraction

The current ethical investment policy for the UTP refers only to thermal coal and tar sands. In July 2020 the Investment Committee added oil and gas companies to the list of excluded categories following the sale of the direct holding (Total). It is anticipated that the Ethical Investment Advisory Group (EIAG) will present a revised ethical investment policy for the UTP with updated restrictions at General Synod 2022.

#### **Statement of compliance as at 30 September 2021**

**As at 30 September 2021 the UTP held no investments in the restricted categories, either directly or in pooled funds.**

The Investment Committee has considered the 'continued appropriateness of the UTP investing in each pooled fund' and reports as follows.

#### **UTP Holdings**

The UTP holds 30% in direct investments in Baillie Gifford's Global Income Growth strategy. The investments are screened by Baillie Gifford in accordance with the restrictions listed above. There are no direct holdings in the restricted categories.

The UTP has holdings in two pooled funds:

#### **Long Term Global Growth Fund (35%)**

Baillie Gifford's Long Term Global Growth Fund (LTGG) is not a screened fund, but it has not held any companies in the restricted categories (including fossil fuel extractors) since around 2012. The Fund's focus on companies that have potential to grow their business in the long term and other factors make it unlikely that Baillie Gifford would reintroduce holdings in any of the excluded categories. LTGG is a

concentrated fund holding a relatively small number of stocks (30-60), so a single holding in the excluded category would be likely to breach the 1% limit, however the Investment Committee considers there is a low risk of this happening and will continue to monitor the direction in which the fund is evolving.

The Committee notes that LTGG holds stocks that make a positive contribution to combatting climate change including Tesla and NIO (electric vehicles) and CATL (batteries).

LTGG has been a significant contributor to the recent exceptional performance of the UTP. The Investment Committee is aware that there may be a downturn in performance as market conditions change, but considers it appropriate to continue to hold LTGG in the UTP.

### **Multi Asset Income Fund (35%)**

The SEC was a seed investor in Baillie Gifford's Multi Asset Income Fund (MAI) when it was launched in 2018. MAI addresses the Investment Committee's objective of increasing diversification of asset classes and reducing the risk of volatility in the UTP.

Whilst recognising that MAI was not a screened fund, the Investment Committee expressed concerns from the outset about holdings in tobacco, sovereign debt of oppressive regimes, and fossil fuel companies. MAI has held stocks in the restricted categories in the three years since inception, but these never exceeded the 1% limit and have now been sold. It holds around 20% in renewables and infrastructure, providing exposure to positive contributors to combatting climate change.

Discussions with Baillie Gifford about the possibility of an 'ethical' version of MAI have been ongoing since 2018. At the meeting on 28 October Baillie Gifford's report to the Committee focused on plans to screen assets in MAI to enhance the fund's sustainability. The scoring system developed by Baillie Gifford is based on the Sustainability Accounting Standards Board framework for companies and the UN's Sustainable Development Goals for sovereign debt. It has already resulted in the sale of all stocks in the restricted categories, and has identified other holdings that do not meet the criteria for retention which will be sold within the next few months. The Committee was encouraged by Baillie Gifford's approach.

#### **Next steps**

As the UTP complies with the policy on pooled funds no action is required.

Discussions with Baillie Gifford indicate that their sustainable approach to screening MAI will exclude most investments in the restricted categories on an ongoing basis. In the coming months the Investment Committee will consult with EIAG on developing the ethical investment policy for the UTP.

*Investment Committee*  
*28 October 2021*