

Investment Committee

Report to Standing Committee on Pooled Funds held in the UTP as at 30 September 2022

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

In June 2022 General Synod approved the revised ethical investment policy statement presented by the Ethical Investment Advisory Group (EIAG). The SEC restricted categories are companies deriving more than 10% of their revenue from oil & gas extraction, armaments, gambling, pornography, tobacco. The full policy is publicly available at:

<https://www.scotland.anglican.org/vestry-resources/general-information/ethical-investment-policy/>

Statement of Compliance as at 30 September 2022

As at 30 September 2022 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 (GIG) strategy. The investments are screened by Baillie Gifford in accordance with the revised 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 could 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 had been a significant contributor to the exceptional performance of the UTP in 2020 and 2021. The Investment Committee was aware that there could be a downturn in performance as market conditions changed, and LTGG has seen significant volatility during 2022. By August 2022 the value of LTGG in the UTP had fallen below the minimum asset allocation of 30% (35% +/- 5%) and the sale of assets to fund the distribution would not have rebalanced the level of LTGG to within the permitted parameters. The Committee approved additional rebalancing to bring LTGG up to 30% and to retain GIG at 5% overweight.

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 held stocks in the restricted categories in the three years since inception, but these never exceeded the 1% limit and were sold prior to the 2021 compliance report.

Discussions with Baillie Gifford about the possibility of an 'ethical' version of MAI began in 2018. In October 2021 Baillie Gifford outlined 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. Since last year Baillie Gifford has been enhancing the process to consider every MAI investment in the context of the framework. Currently MAI holds no investments Baillie Gifford considers to be unsustainable, and around 20% is invested in companies and countries that Baillie Gifford consider to be making a meaningful positive contribution.

Baillie Gifford is unable to provide specific data at this stage of implementing the new framework, but in due course will be reporting on the progression of scores over time and the output of engagement with lower scoring holdings.

Next steps

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

The Investment Committee is of the view that the current investment strategy for the UTP is appropriate, but it recognises the importance of backing this up with analysis and considering alternatives on a regular basis. The Investment Committee anticipates that when EIAG reconvenes, it will continue to develop the SEC's thinking on impact investment and other ethical questions and that this will inform future investment strategy.

Investment Committee
31 October 2022