Investment Committee

Report to Standing Committee on Pooled Funds held in the UTP as at 30 September 2023 and 31 December 2023

In June 2021 General Synod approved the policy on the use of pooled funds in the 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 EIAG. The SEC restricted categories are companies deriving >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/

Timing of reports

Previous reports have detailed compliance as at 30 September in both 2021 and 2022. Future reports will consider compliance as at 31 December each year in line with other reporting timetables. To ensure that the Investment Committee complies with the requirement to undertake an annual review this report considers compliance at at 30 September 2023 and 31 December 2023.

Statement of Compliance as at 30 September 2023 and 31 December 2023

As at both 30 September 2023 and 31 December 2023 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 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 continues to hold stocks that make a positive contribution to combatting climate change including Tesla and NIO (electric vehicles) and CATL (batteries).

Sustainable 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 addressed the Investment Committee's objective of increasing diversification of asset classes and reducing the risk of volatility in the UTP.

Baillie Gifford changed the name of MAI to Sustainable Income Fund (SIF) on 31 March 2023 to better reflect the main aim of the fund which is to deliver a sustainable income stream that is protected against inflation over time. At the same time as the name change a number of responsible investment restrictions also came into effect. All asset types in SIF, with the exception of cash and cash-like instruments, are now subject to an assessment of their sustainability and a consistent scoring framework is applied across the asset classes. In addition, new revenue-based exclusions have been introduced: fossil fuel extraction and production, thermal coal distribution, tobacco production, and armaments norms-based exclusions (UN Global Compact non-compliant).

Baillie Gifford had been evolving their approach to responsible investment over time and much of the assessment process was already in place before the name change. Consequently, it was not necessary for Baillie Gifford to make any changes to the holdings in SIF when the new restrictions and methodology were formally implemented at the end of March. The new restrictions and methodology bring SIF into closer alignment with the SEC's ethical investment policy for the UTP. Whilst MAI/SIF has complied with the pooled funds policy since it was introduced in 2021, the introduction of formal exclusions gives additional comfort that it will continue to comply in the future.

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, and it recognises the importance of backing this up with analysis on a periodic basis and considering alternatives as appropriate. The Investment Committee anticipates that EIAG 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
February 2024