

PROPOSED DELIVERANCE

The General Assembly

1. Receive the Report.
2. Appoint Mr A W T Gibb as Vice-Chairman of the Investors Trust from 1 June 2009.
3. Approve the re-appointment of Mr S R Auld as a member of the Investors Trust from 1 June 2009.
4. Ratify the co-option on 3 March 2009 of Mr B J Duffin, Mr R H Nisbet and Mr G R Young and approve their appointments as members of the Investors Trust from 1 June 2009.
5. Receive the Annual Report and Financial Statements of the Investors Trust for 2008.

REPORT

The Church of Scotland Investors Trust, which was established by the Church of Scotland (Properties and Investments) Order Confirmation Act 1994, submits its fifteenth Report to the General Assembly.

1. Introduction

The function of the Investors Trust is to provide investment services to the Church of Scotland and to bodies and trusts within or connected with the Church. The Investors Trust offers simple and economical facilities for investment in its three Funds: (a) Growth Fund; (b) Income Fund; (c) Deposit Fund. Investors receive the benefits of professional management, continuous portfolio supervision, spread of investment risk and economies of scale.

The bulk of the Church of Scotland's investments are held on a long term basis, for the purpose of generating recurring income to support the Church's work. An increase or decline in the capital value of investments does not necessarily have a corresponding effect on income receivable.

Ethical considerations form an integral part of the investment management process and the Trustees have given guidance to the investment managers, taking into account views expressed by the General Assembly. At their

own meetings, the Trustees regularly review and consider matters arising in respect of ethical investment. Investment is avoided in any company whose management practices are judged by the trustees to be unacceptable. In particular, investment is avoided in any company substantially involved in gambling, tobacco products, alcohol, armaments and other activities which are felt to harm society more than they benefit it. In general, investment is sought in companies that demonstrate responsible employment and good corporate governance practices, have regard to environmental performance and human rights and act with sensitivity to the communities in which they operate.

2. Investment Performance in 2008

The total value funds invested through the Church of Scotland Investors Trust decreased from £363.0 million at 31 December 2007 to £296.7 million at 31 December 2008. The decrease is the result of adverse market movement.

After three positive years, investment returns were negative in 2008, where the major market for the Growth Fund, the UK, as measured by the FTSE All Share Index,

fell by 29.9%. The negative performance of the equity and property markets was to the detriment of the Fund. Total Return was -22.9% against the benchmark of -21.7%.

The Income Fund does not have an overall benchmark and the poor performance of the equity and corporate bond markets resulted in a return of -18.2%.

The market outlook for 2009 can be characterised as one of continuing volatility and illiquidity. However, opportunities are likely to exist for investors able and willing to take a longer term perspective.

3. Income Distributions

The Growth Fund's distribution rate was targeted to be maintained at not less than 16.0p per unit for 2008. The distribution rate for 2007 was 16.0p per unit and in addition, a special and non-recurring distribution for 2007 of 2.5p per unit was paid in May 2008. Income from the equity portfolio has for the third consecutive year exceeded expectations as a result of the Managers investing the Fund in companies capable of supporting sustainable dividend growth from strong cash flow. This has enabled the Trustees to declare a total distribution of 16.5p per unit for 2008. A target distribution of not less than 16.5p per unit has been set for 2009 but this will be dependant upon there being no further unforeseen deterioration in financial markets.

Lower interest rates had made it difficult for the Income Fund managers to maintain past income levels and the Trustees concluded in 2002 that the Income Fund's target distribution should be reduced gradually to 67p per unit. The distribution in 2008 was 67.0p per unit, the same as 2007. The target distribution of the Income Fund in 2009 is 67.0p per unit but this will not be achievable if there are material defaults in the bond holdings.

The average rate for 2008 declared by the Deposit Fund was 5.6% whilst base rate averaged 4.7%. This was as a result of the Fund Managers, within investment

parameters set, having followed a strategy of placing funds out for longer periods to take advantage of the higher prevailing yields at the longer end of the market. Now that base rate has fallen, this strategy has delayed the adverse impact on the level of revenue earned by the Deposit Fund. The rate payable in 2009 will, as usual, depend on movements in the money market but will decline steadily from the 2008 levels.

4. Office Bearers

Mr D M Simpson demits office as Vice-Chairman and it is recommended that Mr A W T Gibb be appointed Vice-Chairman as from 1 June 2009.

5. Membership

In accordance with the terms of the Constitution, the following three members retire by rotation at 31 May 2009: Mr S R Auld, Mr P J Burnet and Mr J Skinner, the latter two having indicated they did not seek re-election. It is recommended to the General Assembly that Mr S R Auld be re-appointed as a member as from 1 June 2009.

Mr B J Duffin, Mr R Nisbet and Mr G R Young were co-opted as members of the Investors Trust on 3 March 2009. It is recommended to the General Assembly that this co-option be ratified and that they be appointed members of the Investors Trust as from 1 June 2009.

6. Annual Report and Financial Statements for 2008

Copies of the Annual Report and Financial Statements for the year to 31 December 2008 are available to download from The Church of Scotland website or can be obtained from the Secretary.

*In the name and by the authority of
The Church of Scotland Investors Trust*

I J HUNTER, *Chairman*
D M SIMPSON, *Vice-Chairman*
F E MARSH, *Secretary*