Church House Investment Management

Quarterly Review

Summer 2024

Issue No. 97

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Issue no. 97 - Summer 2024

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INVESTMENT RISK

Investing in ordinary shares and other assets that will be included in your investment portfolio entails risks to your capital and the income that it might generate. The paragraph below is an important reminder, please always remember that:

> *The value of investments and the income you get from them may fall as well as rise and there is no certainty that you will get back the amount of your original investment. You should also be aware that past performance may not be a reliable guide to future performance.*

The second half of this Review gives information on the Church House fund portfolios that we manage for clients. Some, or all, of these funds feature in most portfolios and the risk warning above is pertinent to each of them. We use these funds in the construction of clients' portfolios, each has a specific 'building block' role and, specifically, they form part of our risk management process. This approach helps to ensure a proper diversification and that we know in detail the risks that we are undertaking on your behalf - not something that we are happy to delegate to others.

These funds are individually authorised by the Financial Conduct Authority under the Collective Investment Schemes regulations, they are all UCITS Schemes. We are required to point out that the main risks faced by them arise from market price and interest rate risk; that they have no borrowings, or unlisted securities of a material nature (so there is little exposure to liquidity or cash-flow risk) and that we review the policies for managing these risks on a regular basis.

We do not make any specific ESG or other claims for our funds, we find many such claims to be spurious and of dubious value. We do consider that investing in companies with properly sustainable practices and business models and run by people of integrity, is an important part of what we do. We are signatories to the:

UK STEWARDSHIP CODE

Church House Investment Management

Church House Investments Limited is authorised and regulated by:

The Financial Conduct Authority

The Economic & Market Background

So, the 'snap' General Election is over and done (that was quick). Sterling didn't blink, the Gilt market is a shade better and stocks are little changed. Of course, this is because a Labour Party victory was widely expected and Sir Keir Starmer (along with his new Chancellor, Rachel Reeves) had worked hard to reassure (markets) in advance.

The sheer extent of the collapse of the Conservative Party was quite staggering, as can be seen in our 'Seats' chart opposite. I am sure that Keir Starmer was quietly disappointed not to exceed Tony Blair's 1997 'landslide' total of 418 seats, but the real story is the collapse in the Conservative's figures (this was the lowest number of Conservative seats since 1918). They will need to work hard on compromise and sorting their differences if they are to avoid being consigned to a 'third' party role. I liked *The Economist's* observation that the party needed a long lie-down.

In the UK, we can now return to watching for signs that the Bank of England will commence a rate-cutting cycle, looking at the chart opposite, this is probably overdue. The Europeans have started to lower their base interest rates as has Canada, and in America, the Federal Reserve continues to hold their rates but looks likely to move later in the year. Of course, this may well be complicated by the forthcoming Presidential Election, the Fed is unlikely to want to make a move too close to that for fear of appearing to be politically motivated.

European Parliamentary elections and then, particularly, the surprise French General Election have left some muddle in their wake. Now we can move in earnest to worrying about the US Presidential Election in November. I found the recent Supreme Court ruling on Presidential immunity very troubling and fell to wondering whether Richard Nixon could/would have been convicted if it had been in place in 1974 (when the Supreme Court compelled Nixon to surrender the Oval Office tapes).

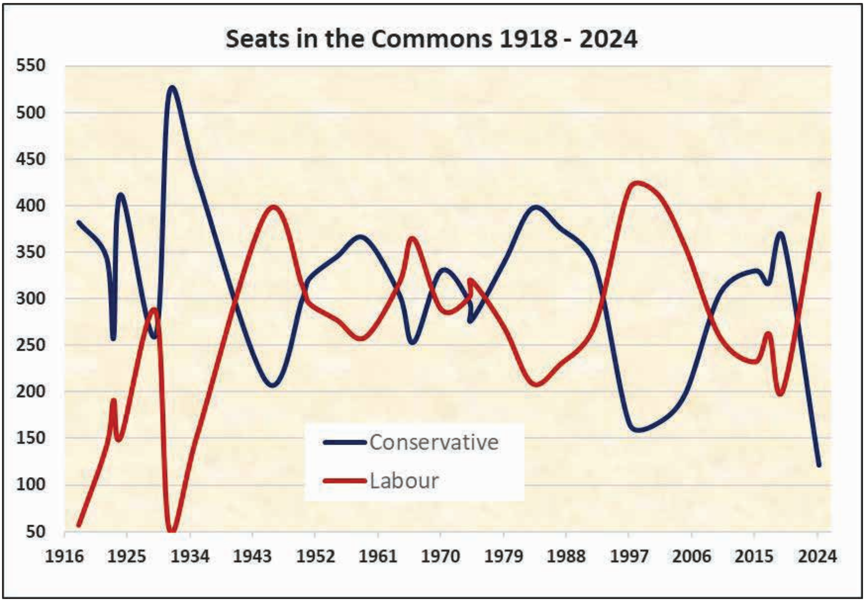
Companies (and markets) crave some stability in government, and it has been clear in our conversations with companies that they welcome the clear result to the Election. The previous administration did not seem able to really grasp some of the trickier decisions, notably those affecting economic productivity and efficient capital markets, we shall see how the new administration fares.

I attended a conference in the City yesterday, which included six chief executives of listed UK companies, and I was impressed by how many had had useful and meaningful contact with the new Government. For now, I shall take this as an optimistic sign that companies will begin to invest again, something that has been sadly lacking since Brexit, and that this just might reinvigorate UK PLC.

James Mahon *July 2024*

Repeating our chart from the back of the Spring Review, now with the latest General Election figures, that is quite a turnaround:

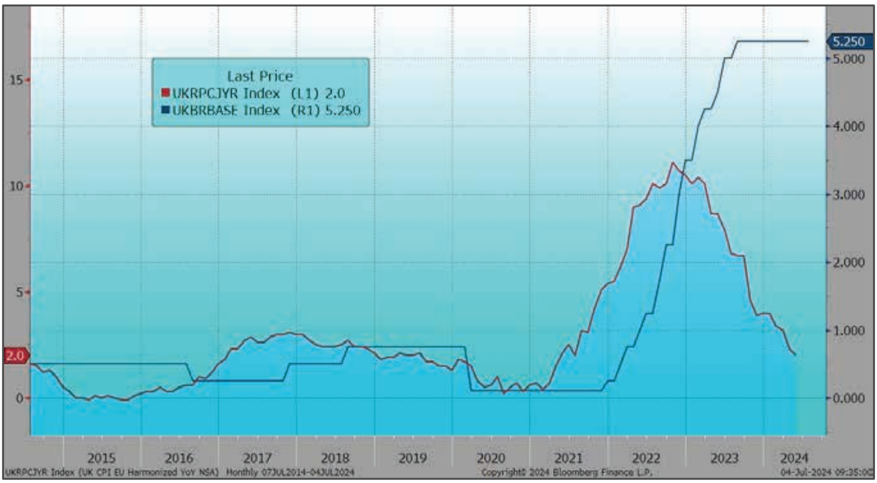
Conservative and Labour Party Seats…



Source: House of Commons Library, UK Election Statistics et al

Meanwhile, inflation has come back down again, for the moment the Bank's Monetary Policy Committee is holding the Base Rate at the peak just to be sure, to be sure…

UK Inflation (red) **and Base Rates** – Ten Years



Source: Bloomberg

The UK Economy and Interest Rates

Our economy is showing some early signs of life. After two dull years of going nowhere, recent figures for GDP (Gross Domestic Product, essentially the value of goods and services produced) are encouraging. What a gift for the new Labour administration. With inflation back at the Bank's 2% target (though it could edge back up over the second half) and (just possibly) a cut in the Base Rate, maybe this could finally mark the beginning of a business investment cycle, something that has been so muted since Brexit.

Assuming a steady hand at the tiller (I hope that is not a big assumption), the Government doesn't really have a problem borrowing money to fund the (huge) budget deficit. The Debt Management Office (DMO), which manages the sale of Gilts for the Treasury (the principal way in which it borrows money), has seen healthy demand for Gilts (see Jerry's piece overleaf).

The DMO is something of an unsung hero, I am indebted to Marcus Ashworth at *Bloomberg Opinion* for putting some numbers together on this point. Under Chief Executive, Sir Robert Stheeman, in place since 2003, the DMO has raised £3.3trn for the Treasury in more than 1,000 primary dealer auctions and nearly 100 syndicated bond sales. Sadly, Sir Robert retired just before the Election.

Given the fall in inflation, it is quite hard to see how much longer the Bank of England (the Bank) can really justify maintaining the Base Rate at the current level. At their meeting in June, the Bank's Monetary Policy Committee held the rate at 5.25%, as expected, though two members of the nine-person committee are now voting to reduce the rate. Quoting from the Bank's (rather wordy) summary of the minutes:

> "Twelve-month CPI inflation fell to 2.0% in May from 3.2% in March, close to the May Monetary Policy Report projection. Indicators of short-term inflation expectations have also continued to moderate, particularly for households. CPI inflation is expected to rise slightly in the second half of this year, as declines in energy prices last year fall out of the annual comparison."

But then come the *Buts*:

> "The MPC's remit is clear that the inflation target applies at all times, reflecting the primacy of price stability in the UK monetary policy framework. The framework recognises that there will be occasions when inflation will depart from the target as a result of shocks and disturbances." Though:

> "Headline CPI inflation has fallen back to the 2% target. The restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures. Key indicators of inflation persistence have continued to moderate, although they remain elevated."

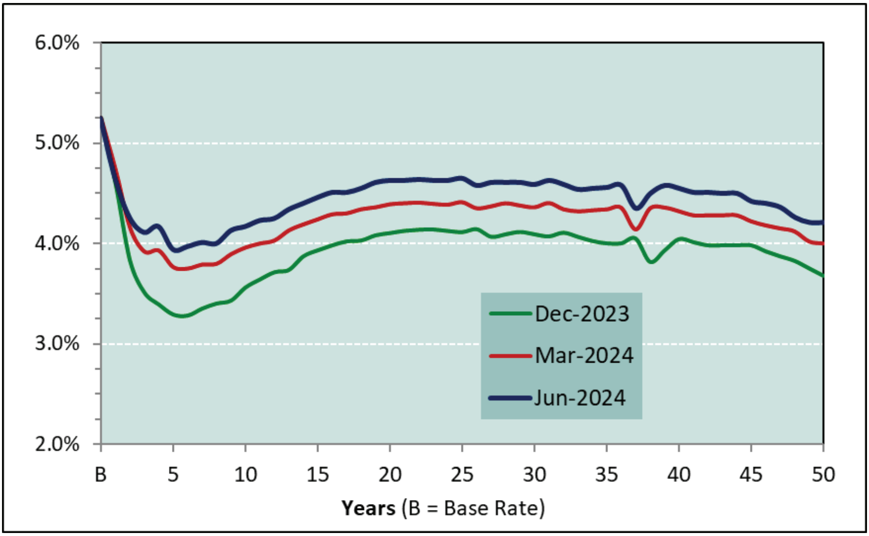
And, in case we missed the first *But*:

> "Monetary policy will need to remain restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term in line with the MPC's remit. The Committee has judged since last autumn that monetary policy needs to be restrictive for an extended period of time until the risk of inflation becoming embedded above the 2% target dissipates."

So, suitably admonished, we will all have to wait a bit longer for a cut in rates.

Our chart of the 'yield curve', the pattern of interest rates from the Base Rate out to fifty years, shows that rates edged higher again over the quarter. The blue line of rates at the end of June shows them to be around one half of one per cent higher for almost all periods compared to the turn of the year. The Base Rate is unchanged, but the curve still points to lower levels soon:

UK Interest Rates – The Yield Curve (Base Rate and the income yield from Gilts)



Source: Church House, Bloomberg

Short-Term	Base Rate	SONIA*	2 years	5 years
Interest Rate	5.25%	5.2%	4.2%	4.0%
Longer-Term	10 years	20 years	30 years	50 years
Interest Rate	4.2%	4.6%	4.7%	4.2%

*Source: Bloomberg *Sterling overnight index average.*

Credit Market Commentary – Jeremy Wharton

Elections dominated the quarter across the developed world. Rishi Sunak's surprise snap election announcement was followed by some lacklustre campaigning punctuated by some hapless moments. There then followed the predictable path of voter dissatisfaction unceremoniously wiping-out the Conservative Party in favour of Labour, although their share of the vote was still less than Tony Blair's. No adverse market reaction was apparent and sterling strengthened.

Rachel Reeves, new Chancellor of the Exchequer, addressed business leaders at the Treasury and in a solid performance managed to inspire more confidence than expected. She again reiterated that she would not be raising headline taxes although CGT appears to be in the firing line still. Her plan to produce much needed growth seems to be based mostly on residential construction, but either way her plans and the political stability we appear to have can potentially rekindle interest in UK assets.

This would be a good thing as around a third of our Gilt stock is owned by overseas investors and the funding profile of Gilt issuance is around £280bn this year amidst a £100bn of BoE balance sheet reduction. Sir Robert Stheeman, head of the Debt Management Office, has successfully overseen Gilt issuance for over twenty years and is now retiring, but we can be confident that he will have chosen a successor as competent as he has been. A recent Gilt auction illustrated the demand for our debt as an £11bn ten-year auction attracted a book of £110bn, both records. With the Election behind us, the Bank of England is free to act, potentially cutting in August or September, but we wait to see as recent GDP numbers confirmed that the UK economy is growing again regardless.

The fallout from Joe Biden's disastrous performance in the Presidential debate, and now some rather embarrassing confusion with names, continues and it does look as though he is on very thin ice as more Democrats form up against his candidacy. Finally, the US labour market is showing signs of weakening and US inflation saw two lower CPI prints following three upside surprises in a row. Fed Funds futures now price in 50bps of easing by year end, but the first cut is not expected until November. Persistent inflationary pressure has prompted several Fed officials to caution that rates may need to be higher for longer; 'an extended period of time' and Chairman Powell repeated this after the last Fed meeting. He looks to be out of a job anyway if Trump succeeds, so maybe he won't get the chance to cut rates. On that note, if we do get a Trump victory at least he will have more of a clue how the government machine works this time.

An ongoing US current account deficit (last in surplus at the Millenium) of near to 7% reawakens the analogy that the US continues to spend like a 'drunken sailor'. The last deal that passed through Congress on the US debt ceiling did not set a limit at a particular level but suspended it completely until 2025.

Sweden became the second major Central Bank to lower rates as the Riksbank followed the SNB in cutting rates for the first time in eight years. Then the Canadian Central Bank just beat the ECB to be the first G7 nation to cut. Lagarde and her team did move as expected, but apparently this was a 'hawkish cut', whatever that means. The ECB stood ready to redeploy their bazookas, which are still live, if the French situation deteriorates significantly and contaminates wider eurozone stability.

The European elections saw the rise of the far right and President Macron's subsequent call for a snap French election sent tremors through the euro system. Some impressive political manoeuvring kept the far right in third place and unexpectedly delivered the left the most seats, but no majority, meaning gridlock in their system. However, the spotlight shone on France's finances, and they are in a parlous state, even worse than ours. This has led some to speculate that their debt to GDP levels could reach 200%.

The yield spreads between German Bunds and French OAT's ballooned out to 2017 levels, causing some to speculate they could reach the heights of Italian bonds, what a brutal come down that would be. French cockiness towards other EU members past and present has evaporated, and they could be heading for the periphery. The FTSE regained its symbolic market capitalisation edge over the CAC. French banks came under pressure, but the majors are well capitalised. **Credit Agricole**, for instance, has already raised 85% of its 2024 funding requirements. Germany's coalition have managed to produce the outlines of a fiscal deal, but this does not disguise that it is growth that is needed to get their economy back on track.

Over the quarter, the primary market continued to deliver strong levels of corporate issuance. The second week of April saw a record and the fourth busiest week in years. 'Reverse Yankees' (American companies issuing debt in currencies other than dollars) continue to be a big contributor as cross currency rates between Europe and the US continues to favour American companies issuing in euros (and to an extent, sterling).

European credit spreads suffered some electoral volatility but then rallied back to where they were before. Sterling spreads saw little movement and the primary market has chuntered through it albeit at lower volumes. Sterling issuance had a two-week drought, strongly supporting spreads. Demand for high quality credit remains high, leading one respected commentator to describe the support for A rated paper as 'insatiable'. The car crash that is **Thames Water** was not helped by the Ofwat determinations, their bonds have tumbled and are now on watch to be downgraded to junk status. We have no exposure.

Jeremy Wharton, *July 2024*

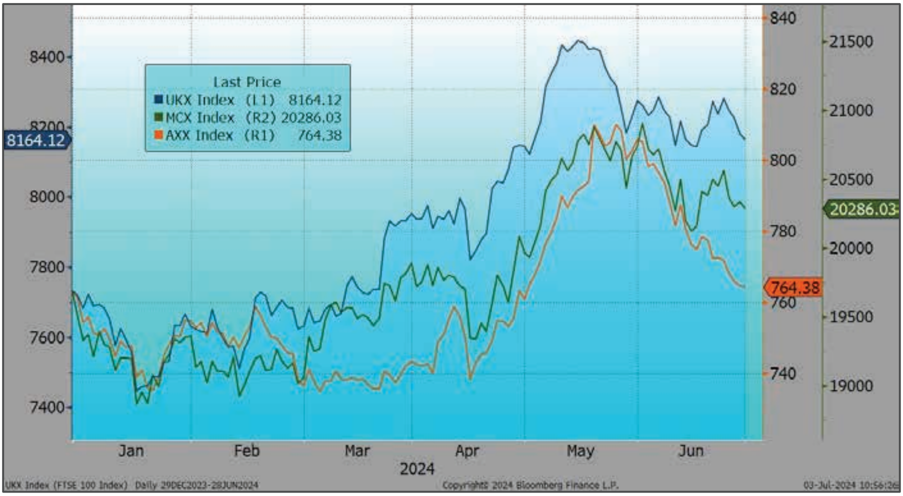
UK Equity Markets

Index:	28 Jun 2024	28 Mar 2024	Quarter
FTSE All-Share	4452	4338	+2.6%
FTSE 100	8164	7953	+2.7%
FTSE 250	20286	19885	+2.0%
FTSE Small Cap	6728	6389	+5.3%
FTSE AIM All-Share	764	743	+2.8%

Source: Bloomberg

The quarter saw further gains for UK stocks to reach new high levels around the middle of May. After that it was not such plain sailing as interest rates edged higher again. The pattern of performance remains the same with smaller companies not doing as well as the bigger companies that make up the FTSE 100 Index:

FTSE 100 (dark blue), **FTSE 250** (green) and **AIM Indices –2024**



Source: Bloomberg, FTSE International

Looking around the sectors, in telecommunications, **BT Group** finally had something better to say to shake their shares out of the torpor that has persisted for so many years. New Chief Executive, Allison Kirkby, announced a surprise boost to the dividend, forecast higher cash flow and a new cost reduction programme. There is a long way to go, their share price is still below the 1990s level, but this is encouraging. There was little cheer to be found in the consumer discretionary sectors, at one end of the retail spectrum, **Burberry Group** sank a further 27% continuing a dreadful run for their shares, while at the other end **B&M European Value Retail** fell 20%. **JD Sports Fashion** were down 11%, worrying about the poor performance of **Nike** in America. The betting and gambling companies continued their poor form, **Entain** sank 21% while **Flutter Entertainment** fell 8%.

The staple goods sectors were distinctly mixed. Shares in **Ocado Group** slumped again, they are now down more than 60% this year, while the recovery in **Diageo** over the first quarter did not hold and they fell again. Positive contributions to the sector came from **Imperial Brands** and **Coca-Cola HBC** along with an overdue revival for **Unilever**. Of the big two oil companies, **BP** closed the quarter 4% lower, seemingly the most bothered by lower oil prices in May and early June, while **Shell** gained 8%.

Stocks in the industrial sectors were mostly lower over the quarter. **Melrose** fell around 18%, but they had had a good first quarter, while **Spirax Group** fell 16%. **International Consolidated Airlines** (British Airways) fell around 8%, **Easyjet** and **Ryanair** also fell back. Bucking the trend was **Rolls-Royce** with a gain of 7%, **Experian** and **RELX** also gained but it is hard to see these two as 'industrials'.

In the financial sectors, the banks continued on from the good first quarter with strong gains all round. **Lloyds** was a bit of a laggard only putting on 6%, **Barclays**, **HSBC** and **NatWest** were all up by mid-teens percentages. In contrast, all the insurance companies weakened, notably **Legal & General** whose 'strategy day' in early June did not go down well and their shares have fallen around 11%. The wealth and investment management companies were enlivened by a bid for **Hargreaves Lansdown** from a consortium led by private equity company, **CVC Capital Partners**. The initial bid was rejected by the Hargreaves board but a subsequent higher bid has been accepted. **St James' Place** has been recovering after the disastrous period at the end of February when they had to announce a £426mn provision for potential client refunds and reduced their dividend.

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Fundamental Valuation Indicators

Corporate earnings forecasts for the FTSE All-Share as a whole, have edged back down to where they started the year, while dividend forecasts have improved. This leaves the overall dividend cover[1] steady at 2.1 times. With the earnings yield still close to 9%, UK shares still look inexpensive in an international context.

[1]*Company earnings as a multiple of the dividend paid out to shareholders*

FTSE All-Share Estimates*	28 Jun 2024	28 Mar 2024	29 Dec 2023
Earnings (per Share)	395	403	397
Price / Earnings Ratio	11.3X	10.8X	10.7X
Earnings Yield	8.9%	9.3%	9.4%
Dividends (per Share)	184	180	190
Dividend Yield	4.1%	4.1%	4.5%
Dividend Cover	2.1X	2.2X	2.1X

**Bloomberg aggregate earnings estimates for the year ahead*

INTERNATIONAL EQUITY MARKETS

Index:	28 Jun 2024	28 Mar 2024	Quarter*
US - S&P 500	5461	5254	+3.9%
US - NASDAQ	17733	16380	+8.3%
UK – FTSE All-Share	4452	4338	+2.6%
Germany - DAX	18236	18493	-1.4%
France - CAC 40	7479	8206	-8.9%
Switzerland - SMI	11994	11730	+2.3%
Japan - TOPIX	2810	2751	+2.1%
Brazil - Bovespa	123907	128106	-3.3%
China – Shanghai Comp.	2967	3011	-1.5%
Hong Kong – Hang Seng	17719	16541	+7.1%
Australia – ASX 200	7768	7897	-1.6%

*Source: Bloomberg *Change in local currency*

In the international context, it is still all about a small number of US technology companies, led by **Apple**, **Amazon**, **Microsoft** and **Nvidia**, which have once again led the American markets higher. Elsewhere, France got a nasty shock from the polls and dragged most European markets lower. For a change, our chart shows the leading US index alongside the Euro Stoxx Index (50 leading European companies) to illustrate the divergence:

S&P 500 (green) and Euro Stoxx 50 (orange) Indices – 2024

Source: Bloomberg

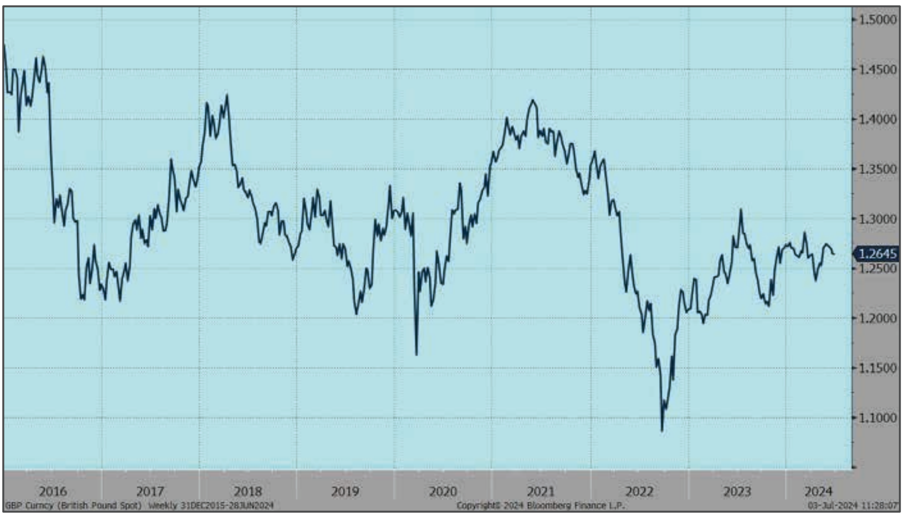
FOREIGN EXCHANGE

	Cross Rate:	**28 Jun 2024**	**28 Mar 2024**	**Quarter**
£	US $ / £ sterling	1.265	1.263	+0.2%
	Euro € / £	1.180	1.169	+0.9%
	£ Exchange Rate Index	83.3	82.8	+0.6%
$	US$ / € euro	1.070	1.080	+0.9%
	Yen ¥ / US $	160.8	151.4	+6.2%
	Renminbi / U S$	7.30	7.23	+1.0%
	$ Exchange Rate Index	105.9	104.5	+1.3%

Source: Bloomberg

Foreign exchange markets have been notable for the continuing weakness in the Japanese yen, which has moved to a thirty-year low against the US dollar. Movements in Japanese interest rates are glacially slow, despite a lot of talk the Bank of Japan (BoJ) base rate still sits at 0.1%. The expectation is that the BoJ will, finally, move rates up in July, which would take the Japanese economy away from (effectively) zero interest rates back to a world of positive rates for the first time in nearly twenty years. Japanese savers might be seen to be relieved at last. The US dollar has remained firm as the Federal Reserve holds rates at their peak and their economy remains solid. Surprising to some, but sterling has remained steady throughout the pre-Election period, it has gained modestly on the Bank of England's £ Exchange Rate Index. This chart shows sterling v. the dollar since the end of 2015, Brexit knocked the pound back as did COVID and then the slump for Liz Truss' premiership and its disastrous economic policies. The lead into a (likely) new administration has been much calmer:

Sterling v.US Dollar Index – Pre-Brexit to Date



Source: ***Bloomberg***

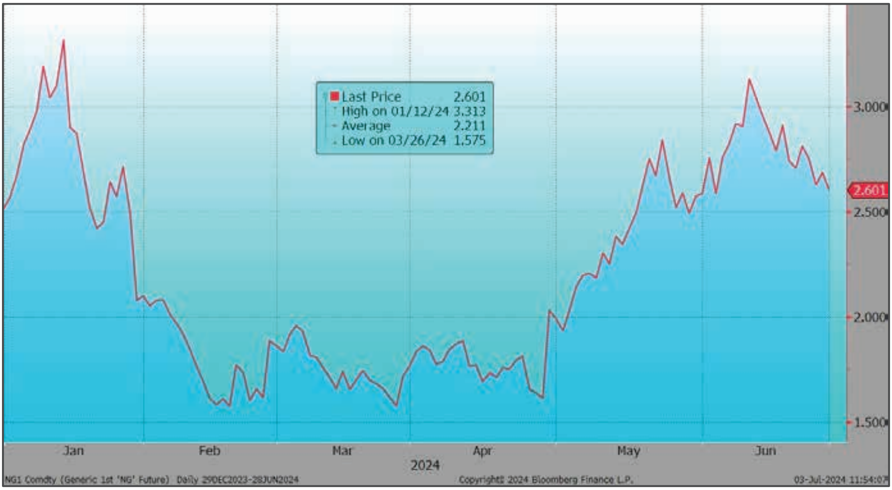
COMMODITIES

	28 Jun 2024	28 Mar 2024	Quarter
Oil – Brent (barrel)	$86.4	$87.5	-1.3%
Natural Gas (10/- MMBtu)	$2.6	$1.76	+47.7%
Gold (troy ounce)	$2326	$2222	+4.7%
Copper* (25 tons)	$9599	$8867	+8.3%
Milling Wheat (50 tons)	€225	€204	+10.3%

*Source: Bloomberg *3-month forward contract on the London Metal Exchange*

The price of oil fell back over the course of April and May before picking-up again in June to leave it a shade lower over the quarter. In our table, it is the price of natural gas that really stands out, but this needs to be put into the context of the falls earlier this year. Overall, the price at the end of June was just 3% higher than the beginning of the year:

Natural Gas



*Source: Bloomberg. *US$ per MMBtu*

The price of gold has moved ahead again, and it reached record levels during May, but the real story has been around the price of copper. Copper prices have been notably strong, also hitting all-time high levels during May, as supply constraints sparked talk of shortages at a time when the long-term case for demand for copper from electrification gathers pace. There is no doubt that the world will need a lot of copper if the pace of the switch to electricity from fossil fuels is maintained. Usually, a strong copper price can be viewed as a signal of strength to come in the world economy, this time it feels that this 'Dr Copper' role is a shade distorted by environmental factors.

Thoughts from *Cranley Macfarlane and James Edgedale*

In a year when 50% of the global population will be going to the polls, the second quarter was when the impact of politics started to be felt in financial markets. The shift to the right in the Election for the European parliament was expected. What was not expected was the decision of President Macron to call a snap election to try to outflank the hard right National Rally. The French stock market responded by falling 5% in a week. While Marine le Pen has been denied a majority, the prominence of the hard left in her defeat could still cause serious headaches for the President.

In the UK, the timing of the Election was a surprise to most (including to the Cabinet it would seem), but the result was not. Labour's landslide was met with mildly positive indifference by the market, which had priced-in the result some time ago. A much closer election still to call is that of the United States. After a poor debate President Biden is behind in the polls and under pressure, although polls are not always correct, as President Modi in India can attest, having lost his outright majority.

However, it is interest rates and not elections that continue to be the primary factor in financial markets. Yields in the US moved higher again as its resilient economy continued to give the Federal Reserve cause to delay their first interest rate cut. The Bank of England also delayed their anticipated first cut due to the calling of the election, causing yields to move higher, and bond prices lower.

Equity markets took these developments in their stride, even if the second quarter was not quite a repeat of the first. While US indices continue to be skewed by the outperformance of the AI theme, the 'higher for longer' rate environment was the main determinant of performance outside of the technology sector. Banks, such as **JPMorgan** and **Royal Bank of Canada**, were obvious beneficiaries, while consumer-facing stocks, **Disney** and **Deere** for example, sold-off on concern that their customers will soon feel the pinch.

In the UK, **BHP**'s bid for **Anglo American** was eventually rejected. But their proposal highlighted the hidden value in the Anglo's shares, and with their board committing to unlock value for shareholders by spinning off parts of the business, we were quite happy with the end result. In healthcare, **AstraZeneca** continued their strong run following good first quarter results, however, **GSK**'s shares dropped after a setback in their ongoing Zantac class action in the US.

Cranley Macfarlane, *July 2024*

Church House Human Capital Fund

For the first time in many years (seventeen years actually) we are introducing a new fund to our range. This is the Church House Human Capital Fund, which we started to invest in June following receipt of approval from the FCA.

Fred Mahon writes:

We are delighted to announce the recent launch of the Church House Human Capital Fund. The idea for this fund came to us through years of being admirers of businesses such as **Halma**, **Diploma** and **Judges Scientific** in London, **Investor AB** in Stockholm, **Constellation Software** in Toronto and a certain **Berkshire Hathaway** in Omaha. Many of these companies have long been mainstays of our existing funds and have generated exceptional returns for clients.

At first look, this list is a collection of, mostly, industrial holding companies specialising in a wide range of unglamorous sectors, from fire sprinklers (Halma), to medical devices (Investor AB), to See's Candies (Berkshire Hathaway). However, as we got to know these companies and the people involved rather better (sadly we never got to meet Charlie Munger in person), we began to see shared characteristics emerging – these companies do not behave like most businesses that we meet, they are passionately decentralised, believing in the power of decisions made *at the coal face* by appropriately incentivised and entrepreneurial individuals. "*Corporate*" is seen as a dirty word and the inevitable creep of bureaucracy is fought with a passion. To bend one of Ronald Reagan's sayings, the nine most dreaded words in the English language are: *"I'm from [central office], and I'm here to help."*

We identified five key characteristics that these companies shared and that allowed them to consistently punch above their weight:

1. **Decentralised culture**
2. **Organic growth**
3. **Impressive financials (CASH IS KING)**
4. **Acquisitive behaviour**
5. **Exceptional leadership**

Of these five pillars, it is **leadership** that truly sets these businesses apart. Leaders who see their role as being to create the best conditions for the individuals within their companies to perform at their best. Leaders who understand that nothing kills entrepreneurial spirit like interference from above, and nothing focuses the mind like setting clear and generous incentives. The *Human* angle is so often overlooked in business and in investment, allowing those who do appreciate it to succeed, just as Warren Buffett and Charlie Munger have shown with such aplomb.

In his study of corporate successes and failures, ‘*Great by Choice*’, Jim Collins states:

> *“Environment doesn’t determine why some companies thrive in chaos and why others don’t.* ***People do****. People are disciplined fanatics. People are empirical. People are creative. People are productively paranoid. People lead. People build teams. People build organisations. People build cultures. People exemplify values, pursue purpose, and achieve big hairy audacious goals. Of all the luck we can get, people luck – the luck of finding the right mentor, partner, teammate, leader, friend – is the most important.”*

What we are looking to do with the Human Capital Fund is invest in the Halmas, the Berkshire Hathaways, the Constellation Softwares of the future. We have identified a list of twenty international businesses at the outset (with a backup watch list of more in research). These twenty are at a proven, yet still relatively early stage in their compounding journey, businesses led by CEOs and supported by long-term shareholders who, like us, believe in the power of steadily acquiring niche, cash generative businesses within a decentralised structure.

If these companies come close to achieving what their predecessors have done, then the results for shareholders should be excellent.

We are building the portfolio at present, early entrants include:

- **Vitec Software (Swedish-listed)**: an acquisitive company focusing on the SaaS sector in the Nordic region. Vitec develops and delivers standardised software for various niches, such as pharmacies, banks, churches, car workshops, real estate, healthcare and education. It was founded in 1990 by the current Chairman.
- **Brown & Brown (US-listed):** specialises in acquiring small insurance brokerages, predominantly in America, but more recently also in the UK. Since foundation in 1939, B&B has made and integrated hundreds of acquisitions, recently completing 33x deals in FY23.
- **Brenntag (German-listed)**: chemical and ingredients distribution business. Split into two sectors: Life Science (food and nutrition, beauty and care, pharmaceuticals), and Material Science (electronics, construction, polymers, rubber, lubes and fluids). Founded in 1874 and listed in 2010, they distribute worldwide.
- **Lumine (Canadian-listed)**: Spun-out of Constellation Software in 2023. It is a decentralised and acquisitive business in the vertical market software space, broadly focusing on the Communications and Media industries.

CHURCH HOUSE INVESTMENT GRADE FIXED INTEREST

	28 Jun 2024	28 Mar 2024	Quarter
CH Investment Grade* - Inc.	106.7	107.2	-0.5%
iBoxx AA Corporate 5-15 year	77.1	78.4	-1.7%
CH Investment Grade - Accum.	183.4	182.1	+0.7%
iBoxx £ ABS 5-10 year TR**	336.3	336.7	-0.1%

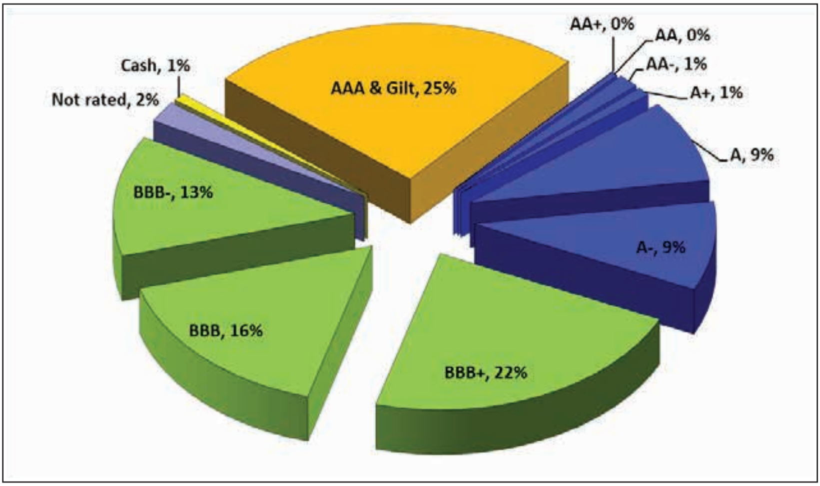
*Source: Bloomberg *bid price to bid price, excluding income. **Total Return Index.*

The Investment Grade Fixed Interest portfolio remained steady over a quarter that, at times, was anything but steady. We have retained the short-dated profile of the portfolio over the period with an unchanged duration (*there is a definition of 'duration' at the foot of page 35*):

CH Investment Grade Fixed Interest	Jun 2024	Mar 2024
Short-dated Securities (less than 7 years)	71%	73%
Medium-dated Securities (7 to 15 years)	25%	23%
Long-dated Securities* (over 15 years)	4%	4%
Duration of Portfolio	3.4	3.4
Volatility** (past year)	4.7%	4.7%
Number of Holdings	105	105
Yield (historic)	4.6%	4.7%
Portfolio Value	£359m	£321m

**Long-dated includes infrastructure holdings*
***Volatility is annual standard deviation expressed as a percentage*

CH Investment Grade Fixed Interest – by Credit Rating – 28 June 2024



Source: Church House

Top 15 Holdings - 28 June 2024	
Standard Chartered LTII 5.125% 06/2034	2.0%
M&G 5.625% 10/2031	2.0%
Bank of America 7.000% 07/2028	1.9%
Lloyds Covered 4.875% 12/2024	1.8%
Goldman Sachs Group Inc 7.250% 04/2028	1.8%
SSE Hybrid 01/14/49 3.740% 01/2026	1.7%
IFC 4.500% 10/2028	1.7%
EIB (SONIA) 6.214% 09/2025	1.6%
EIB 4.000% 02/2029	1.5%
John Deere 5.125% 10/2028	1.5%
Societe Generale 5.750% 01/2032	1.5%
Segro 2.375% 10/2029	1.5%
EIB (SONIA) 6.228% 01/2027	1.4%
Pacific Life 5.375% 11/2028	1.4%
Bayerische Landesbank Covered 5.125%	1.4%

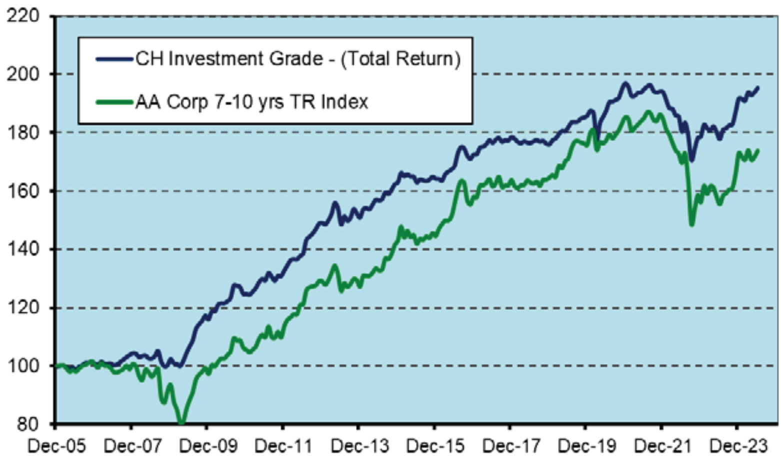
The **Standard Chartered** 5.125% 2034 bonds have moved up this list after good performance, and we added to the **M&G** 5.625% 2031 bonds, hence their move. We also added substantially to the **Lloyds** Covered 4.875% 2024 bonds; as the name suggests, these bonds are secured on a defined pool of assets and rank as AAA with the credit rating agencies. Otherwise, the list will largely be familiar. Around 14% of the portfolio is still invested in floating rate notes while short-term interest yields remain as high as they are.

Calendar Year Performance:

YTD	2023	2022	2021	2020	2019
+1.9%	+7.4%	-7.9%	-1.5%	6.0%	5.6%

Source: Church House, bid price to bid price, accumulation units.

CH Investment Grade Fixed Interest vs AA rated Corporate Securities (Total Return)



Past performance is not a reliable guide to future performance

Source: Bloomberg, Church House

Church House UK Equity Growth

	28 Jun 2024	28 Mar 2024	Quarter
CH UK Equity Growth*	209.4	204.6	+2.3%
FTSE All-Share Index	4452	4338	+2.6%
FTSE 250 Index	20286	19885	+2.0%

*Source: Bloomberg * Bid to bid price, excluding distributions of income (capital performance)*

Rory Campbell-Lamerton writes: Our UK Equity Growth portfolio maintained its momentum from the first quarter of the year. UK markets broke new ground in April, as the FTSE 100 moved decisively above the 8,000 level. This was thanks to the strong performance of index heavyweights in the Mining, Oil & Gas, Pharmaceuticals and Banking sectors. Aside from Pharmaceuticals, these are sectors where we have little or no direct exposure, so we lagged the wider market recovery over the start of the quarter. Our general aversion to these capital-intensive sectors is because we do not see the companies as sufficiently high quality for the portfolio. While this stance has served us well over the long-term, from time-to-time we get a cyclicals rally (as we did in April) that largely passes us by. Citigroup research shows that UK equities tend to trade flat to down in the six months after Conservative victories, but up around 6% following victories by the Labour party. Let's hope this persists this year.

We did not make many changes to the portfolio over the quarter, but it was certainly busy, with most of our companies reporting results. We were particularly encouraged to see **AstraZeneca** shoot the lights out with their Q1 statement. We backed Astras during the depths of their COVID vaccine unpopularity in 2021, building a position in the early part of that year on the conviction that they had a unique pipeline of drugs that would be at the cutting-edge of oncology for the foreseeable future. Our holdings in **Croda** and **Spirax Group** remain somewhat unloved. In both cases, the businesses have struggled to convince investors that they can move on from exceptional trading during the COVID years and that the future will see a return to steady growth. We expect them to surprise the naysayers but will remain vigilant on analysing the situation and holding management teams to account. Amongst other stalwarts of the portfolio, **Judges Scientific**, who have performed exceptionally well over the recent past, saw a negative reaction to their trading update, triggering a fall in their share price. We felt this was overdone and added to the holding at the end of June.

The market remained cheerful as the General Election was called, with the inevitable result and hopeful not-too-distant cutting of rates by the Bank of England fuelling a growing optimism. Some stocks concerned with a Labour victory, such as **Trainline**, have been weaker, but we had a good meeting with the Director of IR there who reassured us that Labour's potential nationalisation of the UK railway network would actually be more akin to the French and Spanish model and should be beneficial to their business.

Top 15 Holdings - 28 June 2024	
Diploma	7.2%
RELX	7.1%
Halma	4.8%
Judges Scientific	4.1%
Spirax Group	4.1%
Greggs	3.9%
Unilever	3.9%
Diageo	3.7%
AstraZeneca	3.7%
Microsoft	3.6%
Auto Trader	3.5%
Investor AB	3.4%
Croda International	3.2%
Experian	3.1%
Ashtead Group	3.0%

Our largest investment, **Diploma**, announced the acquisition of Peerless Aerospace Fastener, a market-leading distributor of specialty fasteners into the US and European aerospace markets for $300m. On the basis of Diploma's exceptional past acquisition record, this is exciting news for shareholders. **RELX** demonstrated their quality with their April trading update. We had a good meeting with the RELX Finance Director, the business goes from strength-to-strength with their new AI-empowered products particularly looking to be gaining traction.

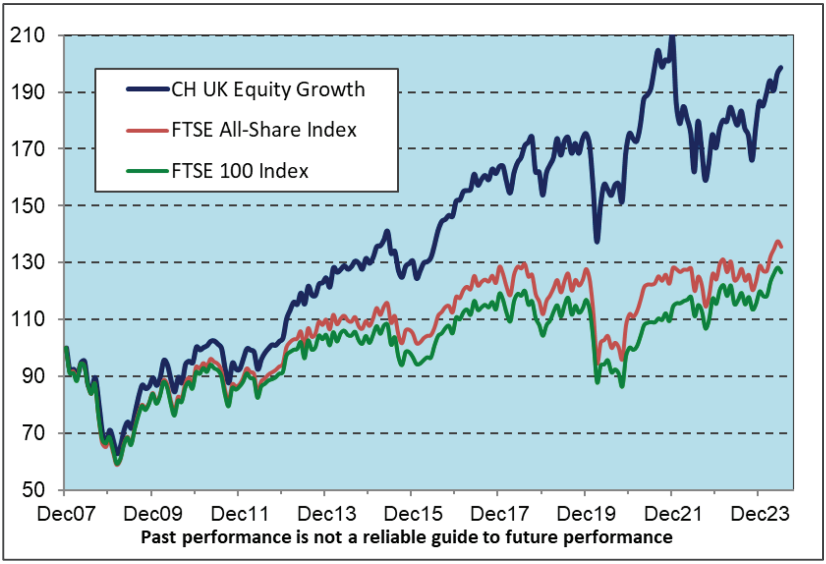
Calendar Year Performance:

YTD	2023	2022	2021	2020	2019
+6.4%	+10.0%	-18.6%	19.7%	0.4%	15.7%

Source: Church House - bid price to bid price, accumulation units.

CH UK Equity Growth vs FTSE Equity Indices

Bid Prices, excluding income – Capital Performance



Source: Church House, Bloomberg

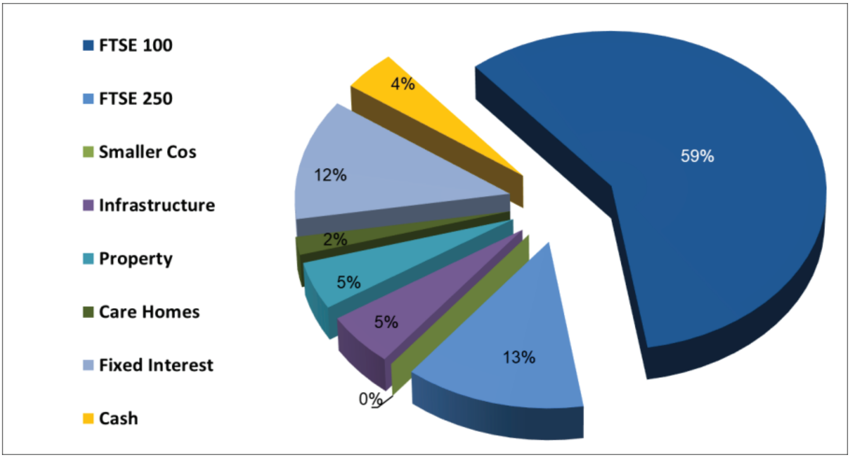
Church House Balanced Equity Income

	28 Jun 2024	28 Mar 2024	Quarter
CH Balanced Equity Income*	179.5	176.8	+1.5%
FTSE All-Share Index	4452	4338	+2.6%
FTSE Higher Yield Index	3814	3661	+4.2%
FTSE Index-Linked All Stocks	493.9	505.2	-2.2%
Composite Benchmark**	118.3	115.3	+2.6%

*Source: Bloomberg *Bid-to-bid price, excluding income payments (capital performance)*
***46% FTSE All-Share, 41% FTSE Higher Yield, 13% FTSE Index-Linked All-Stocks Indices.*
The management fee in CHBE is split 50/50 between capital and income.

More activity than usual in the Balanced Equity Income portfolio over the last couple of weeks has reduced the FTSE 100 exposure (see pie chart below) and increased the cash balance. This will not be the case for long…

CH Balanced Equity Income – Disposition – 28 June 2024



Source: Church House

As we noted in April, **D S Smith** had received a take-over offer from **International Paper (IP)** of the US (following an earlier 'indication of interest' from **Mondi**). This was then complicated by a mooted bid for IP from the Brazilian company **Suzano.** This latter bid, which was dependent on IP dropping its bid for D S Smith, was withdrawn in late June leaving the way open for IP to proceed. We have sold our holding in D S Smith, not wishing to end up with IP stock, and it's a shame to see them go (and another UK company disappear). A new holding in the portfolio is **IG Group**, a 'fintech' company headquartered in London, but their revenues are international (across nineteen countries). Their business generates strong cash flows and is well capitalised, with a long history of technological innovation and a good dividend yield.

Top 15 Holdings - 28 June 2024	
AstraZeneca	6.4%
RELX	5.1%
BAE Systems	4.9%
Unilever	4.4%
GSK	3.8%
Barclays	3.3%
Aviva	3.0%
Sage Group	3.0%
Rio Tinto	2.8%
Britvic	2.8%
National Grid	2.8%
Bunzl	2.6%
Halma	2.5%
Diageo	2.5%
Berkeley Group	2.3%

The list of top holdings has lost **3i Group**, which we sold at the end of the period after a tremendous run in their share price, taking it to a distinctly stretched valuation. **Halma** reappears after recent strength in their shares but **Diageo** continues to slip down the ranking. **Britvic** appears in the list now after their recent move on the back of two bids from **Carlsberg**. **Britvic**'s shares have jumped on the back of this, but their board is resisting the approach, correctly in our view. Both companies are bottlers for **PepsiCo**, **Britvic** having the UK contract, and **Carlsberg** has secured **PepsiCo**'s agreement to their bid. One to watch.

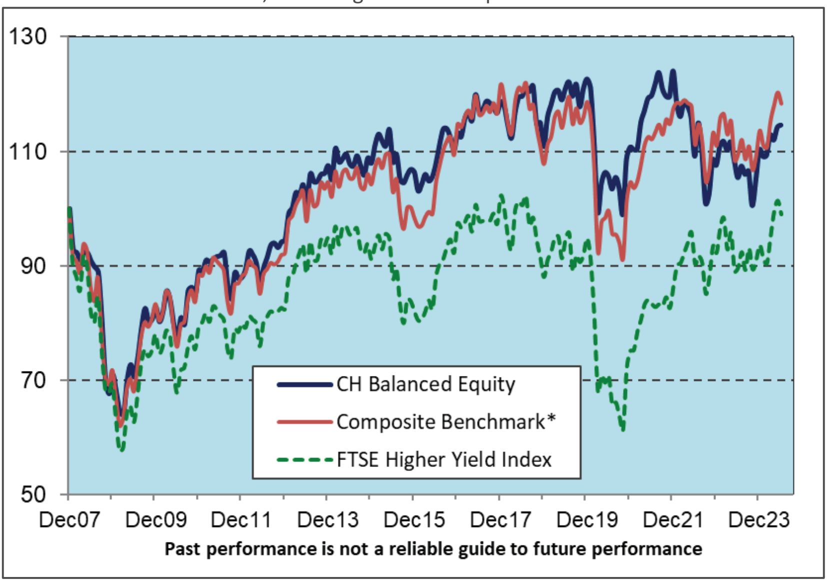
Calendar Year Performance:

YTD	2023	2022	2021	2020	2019
+5.3%	+6.4%	-10.6%	14.9%	-7.0%	14.2%

Source: Church House, bid price to bid price, accumulation units

CH Balanced Equity Income vs Composite Index* & Higher Yield

Bid Prices, excluding Income – Capital Performance



*Source: Church House *46% All-Share, 41% FTSE Higher Yield, 13% Index-Linked All-Stocks*

CHURCH HOUSE UK SMALLER COMPANIES

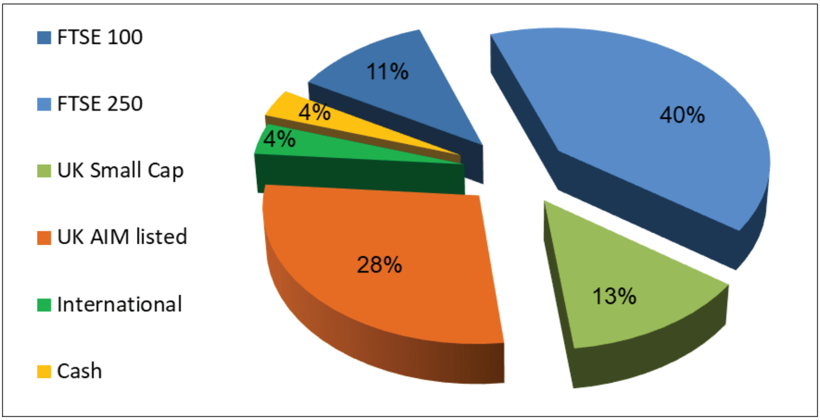
	28 Jun 2024	28 Mar 2024	Quarter
CH UK Smaller Companies*	151.1	142.1	+6.3%
FTSE All-Share Index TR	9729	9379	+3.7%
FTSE AIM All-Share TR	925	894	+3.5%

*Source: Bloomberg *Bid-to-Bid 'A' Accumulation Shares, all Indices are Total Return*

Fred Mahon writes: After a long time stuck in the doldrums, UK smaller company markets are at last regaining some momentum. Our Smaller Companies portfolio has moved ahead again and there appears to be every reason to hope for more of the same in the second half of the year. First and foremost, global investors have woken up to the fact that UK assets are trading CHEAP. Without wanting to be *that guy*… we have been saying this for a while now (see previous Quarterlies).

We have seen a flurry of bids for London-listed businesses as predominantly international buyers have looked to pounce on bargains. Within this portfolio we have seen Swedish private equity investors EQT successfully bid for **Keywords Studios** (despite our protesting to the Board of Keywords that the price was too low) and housebuilder **Redrow** being taken over by their peer **Barratt Developments**. Elsewhere in the market (not owned in this fund) we have seen **Britvic** (owner of Robinson's squashes) being swallowed up by **Carlsberg** (with a nod from **PepsiCo**), **Anglo American** narrowly avoid being taken over by **BHP Group** and now it looks like **Hiscox** is in the crosshairs of a large Japanese suitor. We would much rather remain shareholders in businesses such as Keywords and Redrow for the long term rather than be forced sellers at these levels, but if UK markets will not see the value, then somebody else will.

CH UK Smaller Companies – Disposition – 28 June 2024



Source: Church House

There are few changes to this list, or indeed to the portfolio. We added modestly to **Ashtead Technology** early in the quarter and latterly to **Young & Co's Brewery** and to **Judges Scientific**. We have been heartened to see a recovery in the share prices of names such as **Fuller's** (London pubs) and **Pets at Home** (needs no introduction) – in both cases we felt that shares were unjustifiably beaten-up due to short-term worries about the UK economy and had added to our holdings earlier in the year. Otherwise, regular readers will be familiar with our top holdings that are largely consistent with the last quarter and, indeed, have been stable for a sustained period now, reflecting our conviction in these businesses over the long-term.

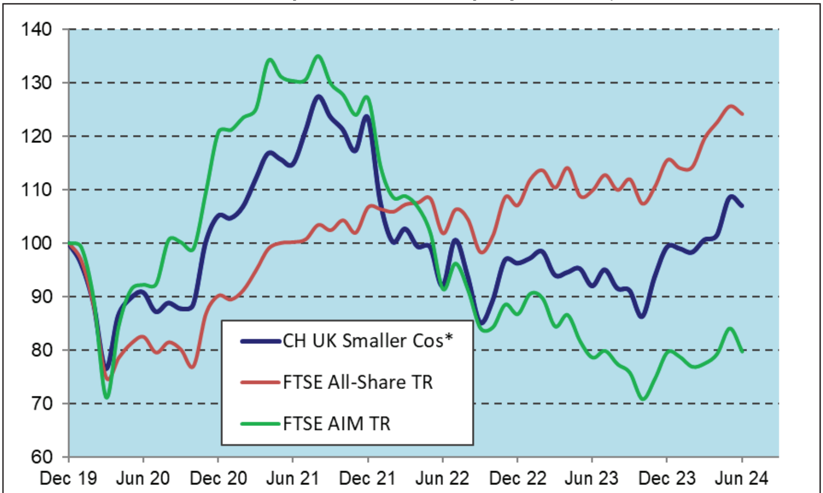
Top 15 Holdings - 28 June 2024	
Diploma	6.2%
Judges Scientific	6.2%
Beazley	5.0%
Greggs	5.0%
Porvair	4.3%
Ashtead Technology	4.3%
Cranswick	4.0%
Keywords Studios	3.9%
Somero Enterprises	3.7%
Trainline	3.7%
Softcat	3.7%
Big Yellow Group	3.7%
Young & Co's Brewery	3.7%
Bioventix	3.2%
Fuller, Smith & Turner	3.1%

Calendar Year Performance:

YTD	2023	2022	2021	2020
+7.8%	+3.2%	-22.1%	17.5%	5.1%

Source: Church House - bid price to bid price, 'A' accumulation shares

CH UK Smaller Companies vs FTSE Equity Indices (Total Return)



Past performance is not a reliable guide to future performance

Source: Church House, Bloomberg *Shows the performance of the Deep Value Investment portfolio initially, changes commenced in Feb 2020, the new policy was adopted in Aug. 2020.

Church House Esk Global Equity

	28 Jun 2024	28 Mar 2024	Quarter
CH Esk Global Equity*	468.0	469.6	-0.3%
CH Global Index in £	1571	1539	+2.1%
MSCI World in $	3512	3437	+2.2%
FTSE 100 Index	8164	7953	+2.7%

*Source: Bloomberg *Bid-to-bid price, excluding distributions of income (capital performance)*

It was a more difficult quarter for our Esk Global Equity portfolio as market (and stock) performance polarised even more and many European markets struggled. The gainers were mostly among the US technology holdings while the detractors were surprisingly widespread, underlining that polarisation point. US exposure edged up to 54% of the portfolio at the expense of Europe.

Top 15 Holdings - 28 June 2024	
Alphabet	5.7%
Microsoft Corp	5.4%
Amazon.com	4.1%
Mastercard	3.6%
RELX	3.6%
Apple	3.6%
Stryker Corp	3.5%
Oracle Corp	3.3%
LVMH	3.2%
Investor AB	3.0%
Intuit	2.9%
Ferrari	2.7%
Hermès	2.5%
Johnson & Johnson	2.5%
Sumitomo Mitsui	2.4%

There is little change to the constituents of the top 15 holdings. **L'Oréal** has dropped out after a dull period and warning of slower growth, to be replaced by the Japanese **Sumitomo Mitsui Financial Group**, which has been strong all year. **LVMH** slips further down the ranking (a year ago it was the second largest holding), reflecting problems in the French stock market and more difficult times in luxury goods markets. In May, Philippe Blondiaux, CFO of the privately-owned **Chanel**, stated: "After three years of exceptional growth for our industry, we are now entering a more challenging environment". **Alphabet** and **Microsoft** have switched places at the top of the list after a particularly strong quarter for the former, while **Apple** and **Oracle** move up. Holding the line for the non-US holdings in the list, **Investor AB** and **RELX** have both out-performed.

The American stocks in the portfolio were not universally strong though. In the industrial sectors, both **Nordson** and **Paccar** disappointed, Nordson trimmed their sales and earnings outlook while truck manufacturer Paccar produced more good figures but perhaps they were not as buoyant as had been hoped for, both stocks fell around 16% over the quarter. US Healthcare stocks slipped with **Stryker**, **Johnson & Johnson** and **Cencora** all lower. **McDonald's** was also a weak feature, down by around 10% as they reported their customers were reining in their spending.

Unilever was the exception in a generally dull staple goods sector, gaining around 10% after sales jumped more than expected in the first quarter and Hein Schumacher, Chief Executive, pushes ahead with his 'turnaround plan'. **Coca-Cola** moved up but otherwise the sector was dull, and **Remy Cointreau** continues to disappoint. **Roche Holding** was a positive feature among the European pharmaceuticals though this was overdue after a poor 2023.

Mastercard was the weak exception among the US technology names as they reduced their revenue growth forecast while **Ansys** continues to be quite dull despite being the subject of a bid from **Synopsys**, which amounts to a significantly higher price. Otherwise, **Apple** and **Alphabet** both gained more than 20%, the former set out their 'unified AI strategy' while the latter gained on the back of more excellent figures. **Sumitomo Mitsui Financial** was the feature among the banks, gaining 21%, though this performance was dulled by the continuing weakness in the Japanese yen.

Portfolio Statistics

Number of holdings	43	Volatility*	9.4%
Portfolio Value	£71.7m	Income yield	0.3%

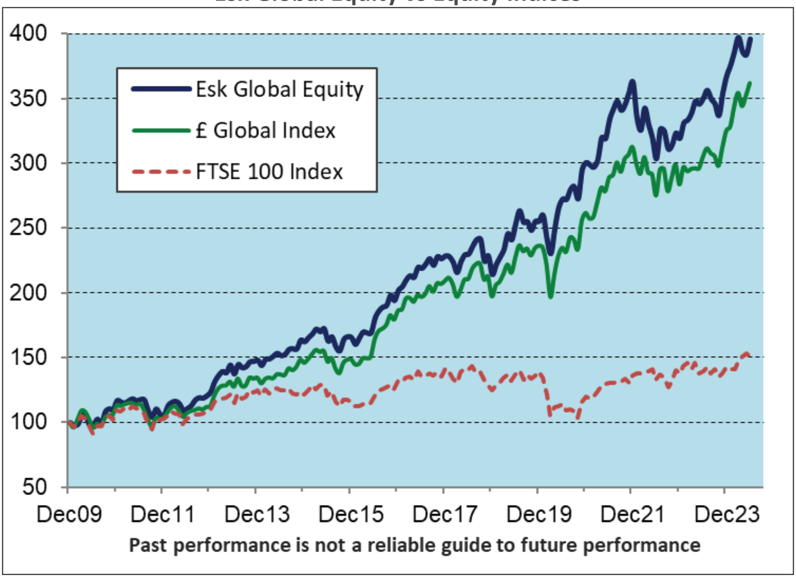
**Annual standard deviation of monthly capital returns expressed as a percentage, past year*

Calendar Year Performance:

YTD	2023	2022	2021	2020	2019
+7.7%	+15.6%	-11.7%	20.9%	18.1%	20.2%

Source: Church House - bid price to bid price, accumulation units

Esk Global Equity vs Equity Indices



Source: Church House Bid prices of income units (i.e. capital return, excluding income)

Church House Tenax Absolute Return Strategies

	28 Jun 2024	28 Mar 2024	Quarter
CH Tenax Absolute Return*	165.9	162.7	+2.0%
Cash Return (SONIA)**	110.40	109.0	+1.3%

*Source: Bloomberg *Bid-to-bid, Tenax 'A' accumulation shares **Compounded SONIA (BoE)*

UK inflation has moderated and is now close to the Bank of England's 'target', but the Bank continued to hold the Base Rate at 5.25%. As shown in our piece on the pattern of interest rates (the 'yield curve') on page 7, this means that rates of interest for shorter periods remain higher than rates for longer periods, so short-term interest rates are still the attractive area for investment.

Naturally, this view is reflected in the Tenax portfolio's asset mix, which has not changed significantly from the position at the end of March. The table does show a (temporary) jump in the cash proportion and equivalent fall in the 'Convert / ZDP' line as the last of our zero dividend preference shares reached maturity at the end of June:

CH Tenax Fund - Allocation to Asset Classes – 2024

2024	29-Dec-23	28-Mar-24	30-Apr-24	31-May-24	28-Jun-24	YTD
Cash	0.2%	1.1%	0.9%	0.7%	3.7%	3.5%
Gilt / AAA Fixed	2.1%	1.4%	1.5%	1.6%	1.6%	-0.5%
FRN (AAA)	12.6%	11.8%	10.7%	10.7%	10.3%	-2.3%
Floating Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fixed Interest	51.6%	54.7%	56.6%	55.6%	56.3%	4.6%
Index-Linked	0.6%	0.6%	0.7%	0.7%	0.7%	0.1%
Infrastructure	5.9%	4.5%	5.2%	5.3%	5.6%	-0.3%
Convert / ZDP	10.2%	7.4%	5.9%	6.0%	3.9%	-6.3%
Alternative / Hedge	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Property / Real	5.0%	5.3%	5.5%	5.8%	4.3%	-0.7%
Equity	11.8%	13.1%	13.1%	13.6%	13.8%	2.0%

Source: Church House

The greater proportion of the Fund's portfolio continues to be invested at the short-dated end of the sterling bond markets, although much of the recent activity has been in other areas. We have not been idle in Fixed Interest, gone from the portfolio are the **John Lewis** 6.125% bonds, which were close to maturity, while we acquired an attractive new issue from **Pensions Insurance Corporation** of 6.875% stock due in 2034 and one from **Schroders** of 6.346% stock due in 2034 (though there is a call in 2029), both providing us with handsome interest over the next five to ten years. At the same time, we have edged down the proportion in floating rate notes (FRN) in anticipation of a time soon when their rates will 'float' lower.

The Infrastructure holdings have been recovering well and we have not made any changes. The proportion in commercial property has fallen as we took the profit from our holding in **Segro**, still a good company but their share price was rapidly catching up with their asset value. The Equity portion has seen more activity. The acquisition of the **Schroders** bond (as above) assisted in the decision to sell our Schroders equity holding, which has made no headway this year. We trimmed the bank holdings in **Barclays** and **Standard Chartered** after a strong run, but only in a minor way as recent figures from both do justify their revival. We have also added a new equity holding in **National Grid**. National Grid announced a rights issue to raise around £7bn in late May to underpin their expansion programme. This was the largest rights issue in the UK for quite a while and it really felt that the market did not quite know what to do as the stock moved ex-rights - a steep fall in their share price ensued. We felt that this presented a great opportunity to build a new holding.

This final table below shows the duration* and redemption yield** figures for the FRN and Fixed Interest portions (around 68% of the portfolio at present), as they have developed over the year. That 'duration' figure is confusing, the average time to maturity of this portfolio of bonds is 5 years, the duration of 3.1 reflects the high coupon (interest) stream that the Tenax portfolio will be receiving in the meantime.

2024	29-Dec-23	28-Mar-24	30-Apr-24	31-May-24	28-Jun-24
Overall Duration*	3.2	3.1	3.2	3.2	3.1
Redemption Yield	6.2%	6.0%	6.2%	6.1%	6.0%
Fixed Interest Duration*	3.9	3.8	3.7	3.7	3.7
Portfolio Running Yield	4.4%	4.4%	4.4%	4.4%	4.4%

Source: Church House

Calendar Year Performance:

YTD	2023	2022	2021	2020	2019
+2.3%	+6.2%	-7.5%	1.4%	3.8%	3.4%

Source: Church House, NAV to NAV, 'A' accumulation shares

**Duration represents the number of 'periods' that it will take to repay an initial investment in a fixed interest security. It is not the same as the life of the bond or time to maturity, which will be longer. It can also be viewed as a measure of the sensitivity of the price of a bond to a change in interest rates.*

***Redemption Yield represents the total return expected from the bond(s) taking into account interest received and capital gain as the bond(s) move to 'par value' (100p) at maturity. The 'Running Yield' shown is the current expected annual income for the whole portfolio, as a percentage.*

All Change Please…
The Five Conservative Prime Ministers

May 2010 – July 2024

David Cameron	Theresa May	Boris Johnson	Liz Truss	Rishi Sunak
6yrs, 64 days	3yrs, 12 days	3yrs, 45 days	50 days	1yr 255 days

Sources: photo montage: Courtesy of Guardian News & Media Ltd, terms: Wikipedia

David Cameron's first term was in coalition with the Liberal Democrats, Nick Clegg held the office of Deputy Prime Minister. Liz Truss also has the unfortunate accolade of being the shortest-serving Prime Minister ever (Robert Walpole holds the record for the longest term).