Church House Investment Management

Quarterly Review

Summer 2023

Issue No. 93

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

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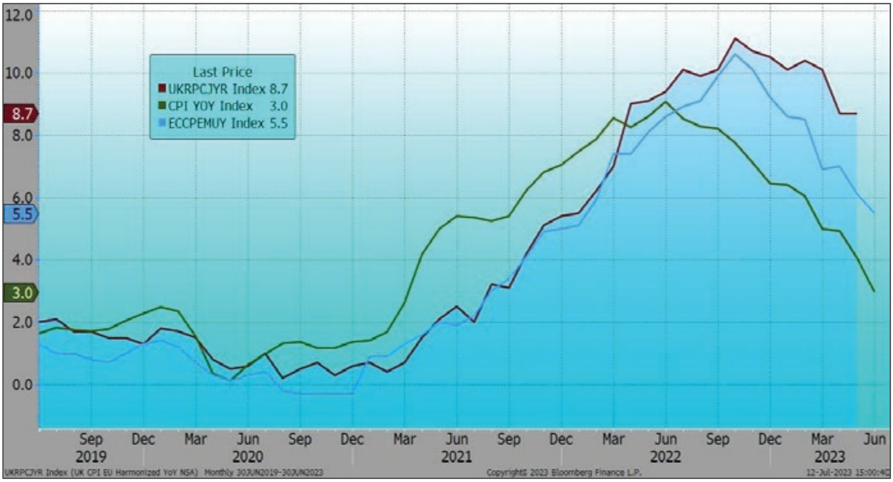
Unfortunately, UK inflation has proved to be a lot 'stickier' than elsewhere and is taking longer to respond to treatment:

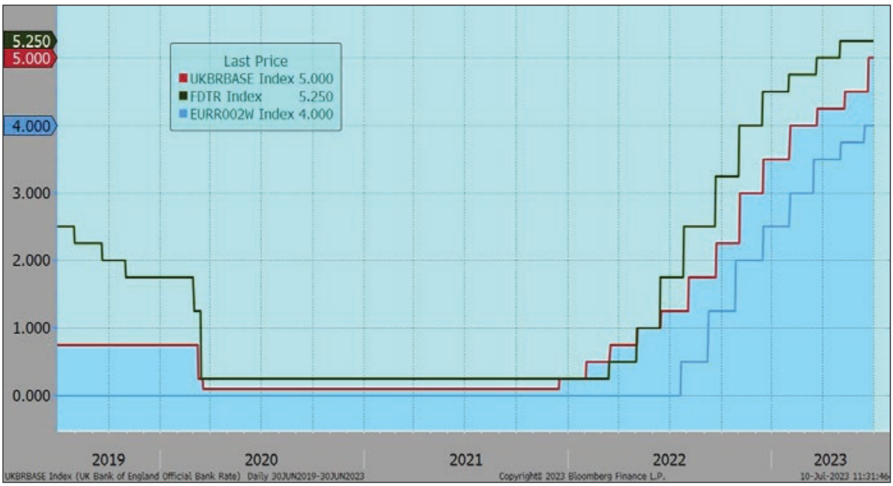
UK Inflation (red) **with US** (green) **and Eurozone** (blue) **– Three years**



Source: Bloomberg

So the Bank of England has been playing 'catch up' again, reverting to ½% increases in the Base Rate while America has remained on hold. In all cases, the steep moves up in these rates is going to create problems for a lot of people, mortgage holders and corporate borrowers alike. Savers, of course, are delighted…

UK (red) **with US** (green) **and Eurozone** (blue) **Base Interest Rates – Three years**



Source: Bloomberg

THE ECONOMIC & MARKET BACKGROUND

Halfway through 2023 and we have moved on from worrying about small Californian banks to the rather more homespun problem of mortgage rates over 6%. The Bank of England is giving the unfortunate impression of being in a muddle and still following events rather than being on top of them.

As the chart opposite illustrates only too well, it is still really all about inflation. The UK inflation rate (on the CPI measure, RPI is too appalling to contemplate) is still close to 9%, while we have just had the latest US consumer prices figure at 3%, oh dear. The Gilt and fixed interest markets have taken fright with the inflation figures and interest rates have gone up for all time periods (i.e., capital values have fallen). In turn, this has undermined the UK equity market.

We are now into one of those unusual periods when short-term interest rates are higher than long-term rates. These periods are normally followed by an economic slowdown as the high level of mortgage and other borrowing costs deters activity, not necessarily a recession but this is quite likely. The better news is that these periods tend not to last for long.

With the Bank of England on the defensive and seemingly adopting a bunker mentality, base rates appear likely to go higher yet, and this is what the Bank has been warning. The better news for investors is that this is now reflected in market prices, though I can readily see that that is cold comfort to those facing ever higher mortgage payments.

The other side of the rather depressing backdrop, not to mention its presentation in the news, is that the investment landscape has been transformed over the past six months, most noticeably for those seeking income. The move in the Gilt market has taken interest rates back to levels not seen for a long time. I think it is not too strong to call it a generational shift, with the Gilt and fixed interest markets looking so much more attractive now.

There is no doubt that these markets require patience, the returns on offer are not likely to show through in portfolios until we can see some improvement in our inflation outlook. But much of this is anticipated in current prices and it will be too late by the time the media catches up. I wish that the Bank of England could also exercise some patience and check to see how much damage they have done already before pushing rates to extremes, but I rather doubt they will.

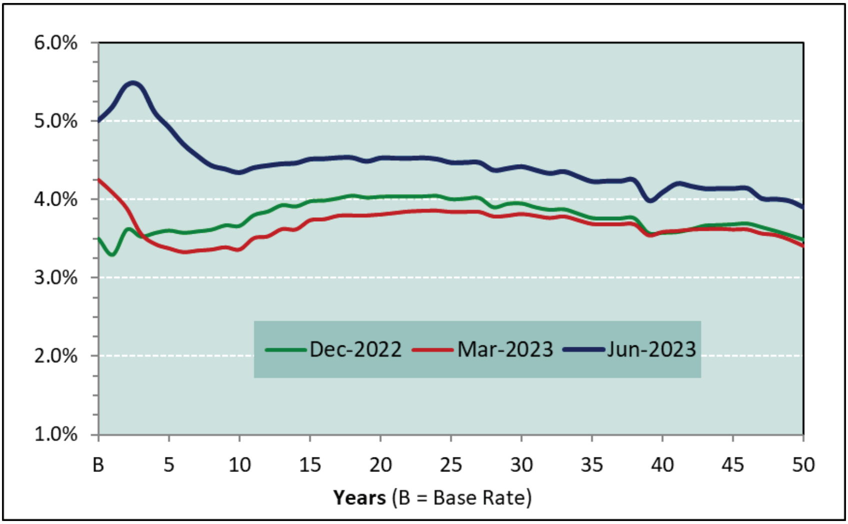
James Mahon *July 2023*

The UK Economy and Interest Rates

Our economy continues to neither shrink nor grow overall, it would not be a surprise to see us get to the end of the year with Gross Domestic Product (GDP) at the same level as it started the year. The number of people in work is steady and, while unemployment has edged up over the past few months, it remains close to the bottom of the range for the past forty years.

But inflation is taking its time to fall back and this remains the dominant concern for the time being. In response, the Monetary Policy Committee of the Bank of England has moved the Base Rate up to 5% (a level we haven't seen since 2008) and is threatening more. Short-term rates in the money markets have priced-in (i.e., are prepared for) a move to 6% or more. Having moved too late last year, the Bank has suffered a knock to its credibility. Now they (we) risk a policy overdose as a consequence. These sharp moves in rates take a while to work through to (lagging) indicators like CPI inflation, what they need now is patience and not too many more turns of the screw. Our chart of the 'yield curve' of interest rates from the Base Rate out to fifty years illustrates the recent moves.

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



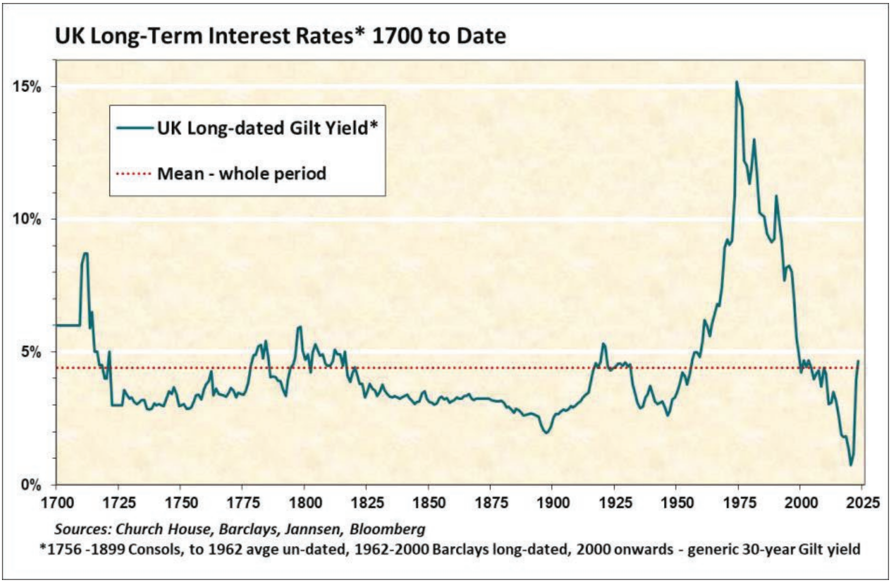
Source: Church House, Bloomberg

Short-Term	Base Rate	SONIA*	2 years	5 years
Interest Rate	5.00%	4.9%	5.4%	4.7%
Longer-Term	10 years	20 years	30 years	50 years
Interest Rate	4.4%	4.5%	4.4%	3.9%

*Source: Bloomberg *Sterling overnight index average.*

CREDIT MARKET COMMENTARY – JEREMY WHARTON

Markets remain in thrall of Central Bank action and volatility in bond markets has jumped. Bankers are dropping hints that interest rates may be 'higher for longer', some not so subtly, and, as the cost of borrowing returns to long-term normality (see below and back cover), many people are still getting used to interest rates that they have not experienced before.



However, as the transmission system for higher Base Rates to the economy is seemingly more extended and inefficient now, the delay factor does run the risk of over tightening, something that Central Bankers seem to be willing to accept. Longer-dated Gilts and other fixed interest securities have been struggling again.

In the US, the absurd wranglings over their debt ceiling were resolved in time so we now have two years before they resurface. It remains an uncomfortable prospect that the US Government could have begun to default on its obligations. The rating agency Fitch thinks so and has put their AAA rating on 'credit watch downgrade'.

The US Federal Reserve is rightly taking a brief pause in their hiking cycle, attempting to measure the effects of their ten straight hikes in their base rate. Stresses and strains were to be expected and Fed Chairman Powell has warned of them many times. We saw the regional banking problems in the first quarter, but strains are also visible in the commercial real estate and Collateralised Loan markets where values have plummeted, and credit spreads have ballooned.

The European Central Bank (ECB) remains on course to pile on the pain, remember that it is still less than a year ago that they were (crazily) pursuing a negative interest rate policy. Germany's technical recession is evidence of that pain, but their recent manufacturing numbers were stronger and some cause for optimism that this recession may be short and shallow.

Eurozone core inflation numbers for June were not encouraging though as they showed a re-acceleration to 5.4% as the cost of services increased. On a brighter note, recent ECB stress tests of European banks saw them all 'sail through'. Fitch downgraded France to AA rating - and it is intriguing how the former PIIGS (Portugal, Italy, Ireland, Greece and Spain) have picked up the baton for EU growth, the recovery in the likes of the Greek economy is astonishing.

The Bank of England and its Governor are fighting for their credibility in a way that we have not experienced before. Whilst no one envies them their role, the delay in withdrawing liquidity and starting to normalise interest rates was down to their procrastination and no one else's.

The effects of their last hike to 5% are still reverberating around mortgage markets and yet we still have not seen a moderation in core inflation rates. The market quickly repriced (fell!) after the first rather alarming thirty-year high print in core inflation and money market rates now price in hikes to 6.5% for the Base Rate in December. Recent advocates of buying duration (longer-term assets) were again reminded of their volatility, the thirty-year Gilt is down around 15% over the year to date.

The pattern of issuance of new corporate bonds (in sterling) continues to be skewed to short and medium-term issues, and with two-year Gilts now yielding well over 5% there are some remarkable rates being paid by high grade borrowers. Credit spreads have remained stable, trading in a tight range since recovering from the March banking inspired volatility.

Primary market issuers have continued to offer favourable spreads across all currencies. We saw a $31bn whopper from Pfizer which attracted interest of over $85bn but also some good quality sterling bonds. As issuers cast around for different rate and risk profiles, we have the spectre of **Credit Agricole** issuing an inaugural 'Panda bond' denominated in Yuan into Chinese markets. The proceeds are to be remitted offshore for use in their ongoing operations, but it feels like this has a whole new arena of risk attached to it.

Jeremy Wharton *July 2023*

Foreign Exchange

	Cross Rate:	**30 Jun 2023**	**31 Mar 2023**	**Quarter**
£	US $ / £ sterling	1.271	1.235	+2.9%
	Euro € / £	1.164	1.136	+2.5%
	£ Exchange Rate Index	82.3	79.1	+4.0%
$	US$ / € euro	1.092	1.087	+0.5%
	Yen ¥ / US $	144.5	132.8	+8.8%
	Renminbi / U S$	7.25	6.87	+5.5%
	$ Exchange Rate Index	102.9	102.4	+0.5%

Source: Bloomberg

As interest rates go up practically everywhere except for Japan, the yen has resumed its fall, losing nearly 9% v. the US dollar over the quarter. The pattern is similar for the Chinese yuan/renminbi as their economic recovery is lacklustre at best and their lending rates are being shaved.

Sterling has continued with its gradual recovery v. the US dollar and the euro. Partly distancing itself from the events of last autumn along with some rather more sensible government and the likelihood of a 'centre left' labour administration and reflecting the higher interest rates available. The chart shows overall progress for the US dollar over the past five years on the index of its general international value against major world currencies (the DXY), having come down from the highs of last autumn it is now steady overall. We have included the US dollar to sterling rate for comparison, showing sterling's recent recovery:

The US Dollar Index (DXY) and Sterling – June 2018 to Date

Source: Bloomberg

International Equity Markets

Index:	30 Jun 2023	31 Mar 2023	Quarter*
US - S&P 500	4450.4	4109.3	+8.3%
US - NASDAQ	13788	12222	+12.8%
UK – FTSE All-Share	4096	4158	-1.5%
Germany - DAX	16148	15629	+3.3%
France - CAC 40	7400	7322	+1.1%
Switzerland - SMI	11280	11106	+1.6%
Japan - TOPIX	2289	2004	+14.2%
Brazil - Bovespa	118087	101882	+15.9%
China – Shanghai Comp.	3202	3873	-17.3%
Hong Kong – Hang Seng	18916	20400	-7.3%
Australia – ASX 200	7203	7178	+0.3%

*Source: Bloomberg *Change in local currency*

US technology led the way again, accounting for more than 60% of the gain in the S&P 500 over the quarter. Japanese stocks also had a good quarter, not quite back to the high point for their market in December 1989(!) but a much more convincing performance. London's small negative was quite depressing in this context, though the worst performance came from Chinese stocks as their economic recovery appeared to be deflating fast:

S&P 500 (dark blue) **and NASDAQ Composite** (orange) **Indices – 2023**

Source: Bloomberg

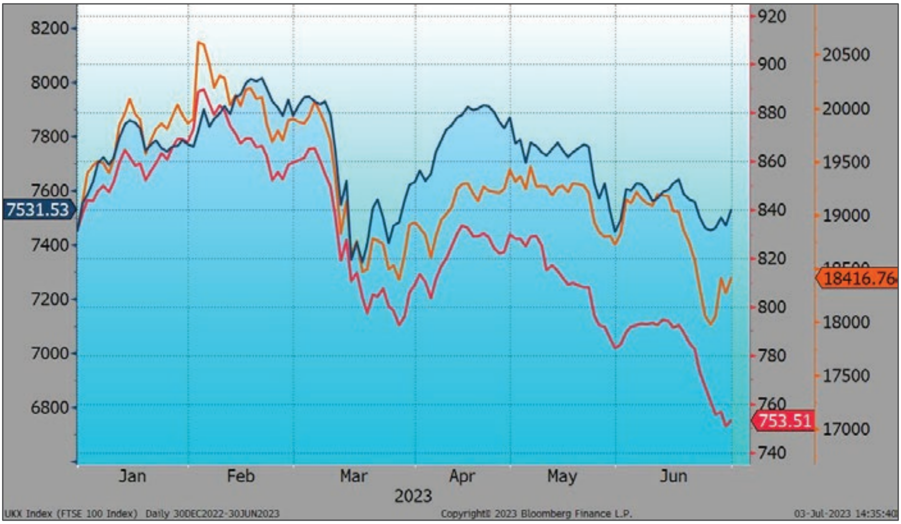
UK Equity Markets

Index:	30 Jun 2023	31 Mar 2023	Quarter
FTSE All-Share	4096	4158	-1.5%
FTSE 100	7532	7632	-1.3%
FTSE 250	18417	18928	-2.7%
FTSE Small Cap	6094	6120	-0.4%
FTSE AIM All-Share	754	809	-6.8%

Source: Bloomberg

London stocks had a dull quarter, drifting down for most of the period as interest rates moved higher. Once again, the major companies fared the best, aided by a good gain for **HSBC**, while further down the scale it got steadily worse. The AIM market had another notably difficult few months and is now down by more than 9% for the year:

FTSE 100 (dark blue), FTSE 250 (orange) and AIM Indices –2023



Source: Bloomberg, FTSE International

Areas of the market that are perceived to be particularly sensitive to higher interest rates were clear casualties over the quarter. The housebuilders **Barratt Developments**, **Persimmon** and **Taylor Wimpey** fell between 10% and 20% while among the property companies, **British Land** fell by more than 20%. Consumer discretionary companies, notably the retailers, also had a rough time with **Burberry** and **JD Sports** falling around 18% and **Kingfisher** (B&Q, Screwfix, Castorama etc.) also particularly weak. It wasn't all one way in this sector though, **B&M European Value Retail** gained as did **3i Group** on the back of excellent figures from its European subsidiary Action (also a 'value' retailer).

The staple goods companies fared somewhat better, though **British America Tobacco** fell 8%, **Coca-Cola Hellenic** gained around 8% and **Associated British Foods** was also positive (it is a good climate for their Primark subsidiary). **Ocado Group** was a bit of an outlier in this area, gaining 15% over the quarter, as rumours circulated of a bid for the company from **Amazon.com** (though their share price is still around 80% below their peak in late 2020).

The mining sector struggled with falling metals prices and slower growth in China while the oil sector featured weakness for **BP** and, lower down the scale, further falls for **Harbour Energy**. The paper and packaging companies, **DS Smith** and **Smurfit Kappa Group**, another bellwether of economic activity, sank by 10% and more. Finally, on this side of the balance, it was a miserable period for the telecoms companies, **BT** and **Vodafone**, along with **ITV** and **WPP** (both worrying about lower advertising revenues) all falling by mid-teens percentages.

There was more cheer to be found in some of the financial sectors. Among the banks, **HSBC** was a feature, along with **Standard Chartered** and a 5% gain for **Barclays**, though **Lloyds** and **NatWest Group** both registered falls. **Intermediate Capital** had a strong quarter and **London Stock Exchange Group** gained after the successful placing of nearly £3bn worth of shares in the company by the Blackstone/Thomson Reuters consortium, which had been something of an 'overhang' for their share price.

The pharmaceutical and healthcare sector also saw some positive movements, **Smith & Nephew** gained around 12% as companies in the medical devices arena (notably Stryker Corp in the US) reported improving trends after the hiatus of the pandemic. **Dechra Pharmaceuticals** gained 39% after their board recommended an offer for the company from the Swedish investment company **EQT.** While we do consider that this offer undervalues Dechra, we retain an interest as EQT AB is part owned by **Investor AB**, a company that features in our UK Equity Growth and Esk Global Equity portfolios.

Fundamental Valuation Indicators

Estimates of corporate earnings for the year ahead have slipped back to where they started the year. Dividend estimates have increased so the yield on the market still looks attractive with cover still over two times:

FTSE All-Share Estimates*	30 Jun 2023	31 Mar 2023	30 Dec 2022
Earnings (per Share)	416.3	433.3	415.4
Price / Earnings Ratio	9.8X	9.6X	9.8X
Earnings Yield	10.1%	10.4%	10.2%
Dividends (per Share)	188	180	169
Dividend Yield	4.5%	4.3%	4.1%
Dividend Cover	2.2X	2.5X	2.5X

**Bloomberg aggregate earnings estimates for the year ahead*

Commodities

	30 Jun 2023	31 Mar 2023	Quarter
Oil – Brent (barrel)	$74.9	$79.8	-6.1%
Gold (troy ounce)	$1918	$1975	-2.9%
Copper* (25 metric tons)	$8316	$8993	-7.5%
Aluminium (25 metric tons)	$2152	$2413	-10.8%

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

Further increases in interest rates in Europe and America combined with a faltering recovery in China to depress prices for oil and metals, notably copper, which has a reputation for forecasting economic activity. The impact of this was felt in the mining sector of world markets. In the UK, **Anglo American** and **Fresnillo** sank by around 16% and **Rio Tinto** by 9% while in America, **Barrick Gold** and **Newmont** sank as did **BHP Group** in Australia. There would appear to be good value emerging in some of these stocks now.

Sentiment has remained weak in the oil markets with subdued manufacturing activity and slower growth in China, despite a further cut in supply from Saudi Arabia. It appears that supply will be tighter in the second half of the year, so we may have seen the bulk of the retracement in the price for now. **BP** was the weakest of the major oil companies this quarter, falling by 10%, after some disappointment with their first quarter figures.

The Price of Oil – Past Five Years

Source: Bloomberg

CURRENT THOUGHTS *FROM JAMES EDGEDALE*

Two years ago, we were coming to the end of a long period of falling interest rates and a strange economic environment as politicians ran scared of COVID, financial turmoil and central banks printed money excessively. As I wrote many times in similar pieces in the past, inevitably 'the chickens will come home to roost' and inflation was bound to become a problem. You cannot just print money!

This has happened and we are finding it difficult to turn the clock back without creating the economic problems we were trying to avoid in the past. Interest rates have gone up and inflation remains stubbornly high as workers of all types look for higher wages. Government finances are under pressure as their cost of borrowing has trebled as yields have risen significantly.

As I stated in the past, if we were lending money to a Conservative government at 1% what would be the cost to lend money to Mr Corbyn? At the time, I did not expect a Conservative government to be facing the same pressures a few years later as we would have had if Mr Corbyn had become Prime Minister. Base interest rates at 5% mean the real cost of borrowing is higher, putting considerable pressure on households with mortgages, indebted companies and indebted private equity (even those owning utilities). If the situation is not brought under control, we can expect a recession (at least two quarters of negative growth).

Emerging markets and smaller companies appear undervalued, but if we face problems in the West, real pressure is always felt further down the 'food chain' in emerging markets, etc. Having said all this, valuations are not high generally, and I believe and hope we might be close to a turning point for inflation and interest rates.

Many property owners will have forgotten what happened to residential property prices in the US and UK in the late 1980's and early 1990's, but until such time as prices have fallen to levels where rental yields justify owning property, we are likely to have stagnant markets at best in both residential and commercial.

Stock market performances have been dominated by a few very large companies which by their size distort indices, but private client portfolios and funds should not replicate those indices. **Apple** is now a $3 trillion company and **LVMH** in France is not far behind. Apple is incredible but it will face increasing competition, just as in decades past when the then world-beaters looked unstoppable, remembering **IBM**, **Nokia**, **Vodafone**, etc

The hugely successful Nokia 3310

Even **Amazon** faces huge competition and is cutting back on distribution centres at the same time as some traditional retailers, such as **Marks & Spencer** are coming back. **Walmart** is proving strong competition in the US along with many far eastern companies, such as **Tencent** and **Temu** (part of **Pinduoduo**, a Chinese on-line retailer)

The world is frequently challenging in geopolitical terms and what is happening in Ukraine and China/Taiwan are today's examples, hence the need for strong foreign policies and defence. The big difference today compared to a century ago is that information flow is instant, and we are all aware of what is going on.

I believe today we must remain invested on an international basis, concentrating on high quality companies and fixed interest and continue to watch things carefully. As I look at portfolios I have developed over many years for clients who have kindly transferred to us at Church House, many of the blue-chip stocks should not be disturbed, though it is a pity that more profits were not taken two years ago.

In fixed interest markets it is a different situation as a lot of money has been lost in chasing longer-dated fixed interest funds. In the current market, significant value can be found in up to ten-year Gilts for the first time in two decades. Even if income is not important to clients, it has represented two thirds of investors' total returns over the last century, and we can readily achieve decent income returns today.

In the tax-free environment of pensions and ISAs, this is of enormous value, and if we invest in a good bond fund or a high-quality blue-chip company offering a good dividend, we know where we stand compared to following some of the latest fads. 'Green-washing' springs to mind whereby managers attempted to cloak their offerings in an ESG cover. This is not to say that we should not be environmentally conscious, but as we are learning today, electric cars are not necessarily as environmentally friendly as thought two years ago.

For new investors we will be looking to build up portfolios gradually to suit clients' objectives and the current situation, but I do believe we can find plenty of good opportunities today. For those transferring existing portfolios, we are looking to gradually restructure after an initial review. Whether large or small, I believe we have investment solutions at Church House that are significantly more sensible for investors than a lot of our competition, particularly ones I might know well.

James Edgedale *July 2023*

CHURCH HOUSE INVESTMENT GRADE FIXED INTEREST

	30 Jun 2023	31 Mar 2023	Quarter
CH Investment Grade* - Inc.	101.8	104.7	-2.8%
iBoxx AA Corporate 5-15 year	73.1	77.6	-5.8%
CH Investment Grade - Accum.	167.0	169.5	-1.5%
iBoxx £ ABS 5-10 year TR**	300.7	312.7	-3.8%

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

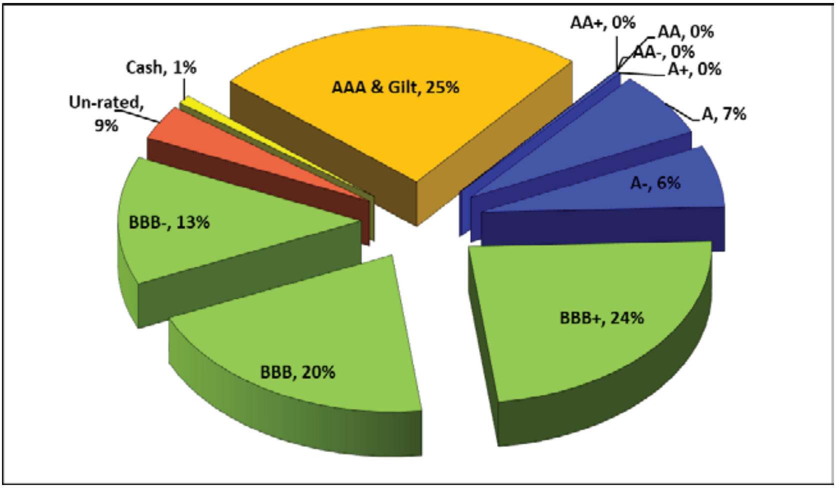
As with the first quarter, these broad statistics for the Investment Grade Fixed Interest portfolio shows a marginal shift from short to medium-dated securities as we take advantage of new higher interest paying issues coming to market:

CH Investment Grade Fixed Interest	Jun 2023	Mar 2023
Short-dated Securities (less than 7 years)	72%	81%
Medium-dated Securities (7 to 15 years)	23%	14%
Long-dated Securities* (over 15 years)	5%	5%
Duration of Portfolio	3.0	2.9
Volatility** (past year)	6.5%	6.9%
Number of Holdings	90	88
Yield (historic)	4.0%	3.0%
Portfolio Value	£237m	£241m

**Long-dated includes infrastructure holdings*

***Volatility is annual standard deviation expressed as a percentage*

CH Investment Grade Fixed Interest – by Credit Rating – 30 June 2023



Source: Church House

Top 15 Holdings - 30 June 2023	
Deutsche Pfandbriefbank 7.625% 12/2025	2.8%
Bank of America 7.0% 07/2028	2.7%
Goldman Sachs Group Inc 7.25% 04/2028	2.6%
SSE Hybrid 01/14/49 3.74% 01/2026	2.5%
EIB (SONIA) 5.313% 01/2027	2.1%
CPPIBC Float 5.465% 06/2026	2.1%
M&G Plc 33nc7 5.625% 10/2031	2.1%
Virgin Money 4.0% 09/2026	1.9%
BP Pnc 4.25% 2027	1.8%
Lloyds 6.625% 06/2033	1.8%
Canadian Imperial Bank (SONIA) 5.881%	1.7%
United Overseas Bank Covered 5.914%	1.7%
Soc Gen 6.250% 06/2033	1.7%
Nationwide B/S Covered (SONIA) 4.970%	1.6%
Santander UK 7.098% 11/2027	1.6%

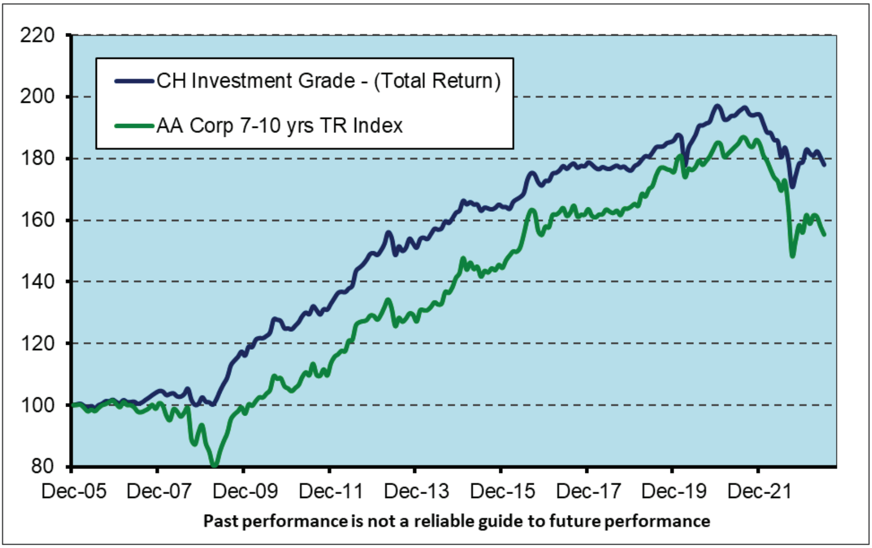
The prospective interest yield on the portfolio is now around 5.3%, something we have not seen for a long time. This reflects the high rates that borrowers are having to pay at the moment. Examples in the portfolio include **Yorkshire Building Society** 6.375% stock due in 2028, **Rothesay Life** 7.73% due in 2033 and, on this list, the **Lloyds** 6.625% due in 2033.

Calendar Year Performance:

YTD	2022	2021	2020	2019	2018
-0.4%	-7.9%	-1.5%	6.0%	5.6%	-1.5%

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

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



Source: Bloomberg, Church House

CHURCH HOUSE INVESTMENT GRADE FIXED INTEREST PORTFOLIO -

Security	Weight	Security	Weight
Floating Rate Notes		***Short-Dated Bonds (cont.)***	
Nationwide B/S 2024	0.8%	Thames Water 4% 2025	0.6%
Santander 2024	0.4%	VW Finance 4.25% 2025	1.6%
TSB Cvd 2024	0.8%	BG Energy Cap. 5.125% 2025	0.3%
Virgin Money Cvd 2024	1.3%	Deutsche PBF 7.625% 2025	2.8%
Santander Cvd 2024	1.3%	SSE Hybrid 3.74% 2026/49	2.5%
NAB Covered 2025	0.8%	Blackstone 4.875% 2026	0.7%
Bk Nova Scotia 2025	0.8%	Virgin Money 2.625% 2026	0.5%
EIB 2025	0.9%	Clydesdale 4.625% 2026	0.5%
DBS Bank Cvd 2025	1.3%	Virgin 4% 2026	1.9%
CIBC 2025	1.7%	National Grid 3.5% 2026	0.4%
Nat Australia 2025	0.4%	BAA 6.75% 2026	1.1%
Clydesdale 2026	1.3%	Scotland Gas 3.25% 2027	0.5%
CPPIBC 2026	2.1%	BP Capital 4.25% 2027	1.8%
Utd Overseas Bk 2026	1.7%	Whitbread 2.375% 2027	1.0%
EIB 2027	2.1%	RBC 3.625% 2027	1.5%
Clydesdale 2027	1.2%	Hiscox 6% 2027	0.6%
BMO 2027	0.8%	Credit Suisse 7% 2027	1.2%
HSBC 2027	0.6%	Natwest 6.375% 2027	0.9%
Nationwide 2031	1.6%	Santander 7.098% 2027	1.6%
		Credit Ag. 5.75% 2027	1.6%
Short-Dated Bonds		Nationwide 6.178% 2027	1.2%
LV Friendly 6.5% 2023	0.7%	RBC 5% 2028	1.2%
Fidelity 7.125% 2024	1.3%	Goldman Sachs 7.25% 2028	2.7%
Lloyds Covered 4.875% 2024	0.6%	Bank of America 7% 2028	2.9%
Digital Stout 4.25% 2025	0.4%	Yorkshire B/S 3.375% 2028	0.8%
Central Networks 5.5% 2025	0.2%	Inchcape 6.5% 2028	1.0%

Security	Weight	Security	Weight
***Short-Dated Bonds** (cont.)*		***Medium-Dated** (cont.)*	
IHG 3.375% 2028	0.9%	Direct Line 4% 2032	0.5%
Tesco Sustain 1.875% 2028	0.7%	Pension Ins 3.625% 2032	0.6%
KBC Group 5.5% 2028	1.2%	Investec 9.125% 2033	1.5%
Yorkshire B/S 6.375% 2028	0.8%	Rothesay Life 7.734% 2033	1.4%
SSE 8.375% 2028	0.1%	ING Groep 6.25% 2033	1.6%
NatWest 3.619% 2029	1.1%	Lloyds 6.625% 2033	1.8%
Leeds B/S 3.75% 2029	0.7%	Soc. Gen 6.25% 2033	1.7%
Goldman 3.125% 2029	1.1%	Standard Chart. 5.125% ‘34	0.6%
Aviva 4.375% 2029	1.1%	National Gas 5.75% 2035	0.6%
Segro 2.375% 2029	1.4%		
Rio Tinto 4% 2029	1.0%	***Long-Dated Bonds***	
TP ICAP 7.875% 2030	0.6%	III Group 3.75% 2040	0.9%
Medium-Dated Bonds			
Aviva 5.125% 2030	0.7%	***UK Treasury Stock***	
Barclays 6.369% 2031	1.4%	Long-Gilt Future - short	1.3%
Northumbrian 4.5% 2031	1.1%		
Legal & General 5.625% ‘31	1.5%	***Infrastructure Holdings***	
Whitbread Green 3% 2031	0.7%	International Public Part.	0.5%
M&G 5.625% 2031	2.1%	GCP Infrastructure	1.1%
Phoenix Group 5.625% 2031	1.1%	HICL Infrastructure Co.	0.6%
Pension Ins. 4.625% 2031	0.5%		
Berkeley 2.5% 2031	1.0%	***Cash deposits***	***0.9%***
Rothesay Life 5% 2031	1.1%		
Prudential 6.125% 2031	1.0%		

Church House UK Equity Growth

	30 Jun 2023	31 Mar 2023	Quarter
CH UK Equity Growth*	188.1	189.4	-0.7%
FTSE All-Share Index	4096	4158	-1.5%
FTSE 250 Index	18417	18928	-2.7%

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

Rory Campbell-Lamerton writes: There's been no hiding from the fact that the UK stock market has probably been at its most unloved and unwanted since the mid-1970s. Market sentiment is poor, and one has to really peer through the fog to find positive catalysts, but there are specks of light starting to shine through. Since 2016 and the Brexit vote there has been chronic underinvestment from UK companies due to the lack of clarity on future Government policy.

Seven years later and 25% of the UK's GDP sits on companies' corporate balance sheets (and 13% is in household cash). The 'dry powder' is there and ready for the spending, we just need some more clarity and benign political and economic conditions. Next year we have a General Election with two, non-populist, front runners. Not something Italy, France, USA, etc are likely to see in the near future. With a clear political mandate (from either side of the political spectrum), we should see longer-term thinking and subsequent investment come to the fore.

Over the course of the quarter, we have seen improving results from consumer businesses. **Greggs** reported strong performance in like-for-like sales in their May trading update, with the baker managing to keep a handle on the inflationary burden. The business opened 63 new shops over the period and they see further opportunities to dispense sausage rolls nationally. **Fever-Tree Drinks**, **Compass Group** and **Trainline** all reported estimate-beating results.

We have equally been active in the Financials sector of the portfolio, where we sold both our banks, **Barclays** and **Close Brothers Group**. Barclays had been in the portfolio for over twenty years, but over the last few years the business has lost its dynamism and its investment banking division is no longer the crown jewel it once was. We sold Close Brothers after a stinker of a profit warning, its profits took a 90% hit after the bank had to set aside an extra £100m for a write-off of the Novitas litigation financing book.

We used the proceeds of both of those sales to add to **Experian,** the consumer credit and data company, who continued to deliver resilient revenue growth despite the challenging economic background. We prefer to hold the stock exchanges, asset managers and financial services businesses in this sector as they have better 'quality growth' prospects while being far less dependent on the political and economic cycle.

Top 15 Holdings - 30 June 2023	
RELX	5.9%
Diploma	5.5%
Halma	5.1%
Spirax-Sarco Engineering	4.6%
Diageo	4.6%
Dechra Pharmaceuticals	4.1%
Unilever	3.9%
Croda International	3.8%
Microsoft	3.6%
Greggs	3.6%
AstraZeneca	3.2%
Judges Scientific	3.1%
Ashtead Group	3.0%
Roche Holding	2.7%
Auto Trader Group	2.7%

Foreign investors have been taking significant stakes in our holdings. A bid for **Dechra Pharmaceuticals** by **EQT Investors** was accepted by their board and will go to shareholders shortly. Warren Buffett's **Berkshire Hathaway** have started building a position in **Diageo** and **London Stock Exchange Group** have entered into a strategic partnership with **Microsoft**, who, in turn, will take a stake in the exchange. All indicating, that if the UK market remains unloved by UK investors, then foreign investors won't need to be asked twice to buy these high-quality assets at attractive prices.

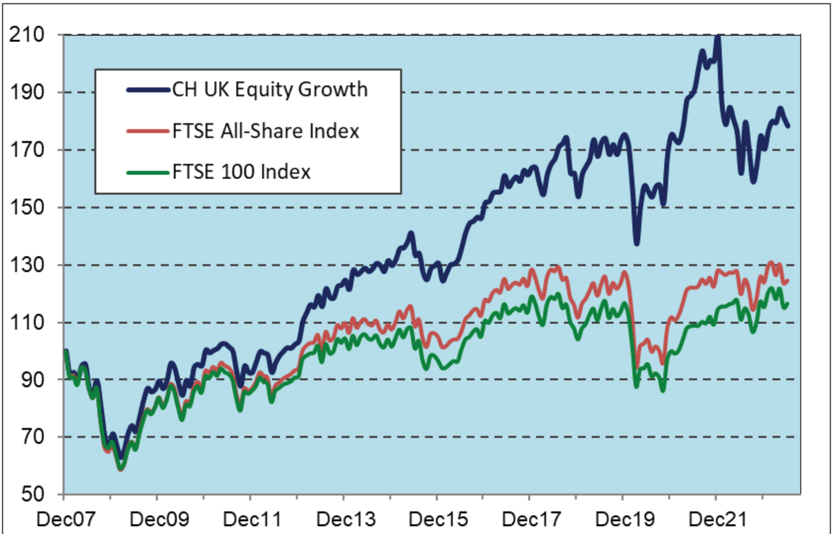
Calendar Year Performance:

YTD	2022	2021	2020	2019	2018
4.9%	-18.6%	19.7%	0.4%	15.7%	-5.1%

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

CH UK Equity Growth vs FTSE Equity Indices

Bid Prices, excluding income – Capital Performance



Past performance is not a reliable guide to future performance

Source: Church House, Bloomberg

Church House UK Equity Growth Portfolio –

Sector / Shareholding	Weight	Sector / Shareholding	Weight
Oil Prod. & Services	**0%**	***Staple Goods & Services***	**14.0%**
		Diageo	4.6%
Mining & Materials	**3.8%**	Heineken	1.5%
Croda International	3.8%	Fevertree	2.0%
		L'Oreal	2.0%
Industrials	**23.9%**	Unilever	3.9%
Diploma	5.5%		
Halma	5.1%	***Pharma. & Healthcare***	**11.3%**
Spirax Sarco	4.6%	Roche Holdings	2.7%
Judges Scientific	3.1%	AstraZeneca	3.2%
Ashtead Group	3.0%	Genus	1.3%
Investor AB	2.6%	Dechra Pharmaceuticals	4.1%
		Media & Telco's	**10.7%**
Technology	**5.2%**	RELX	5.9%
Microsoft	3.6%	Alphabet	2.1%
Keywords Studios	1.6%	Auto Trader Group	2.7%

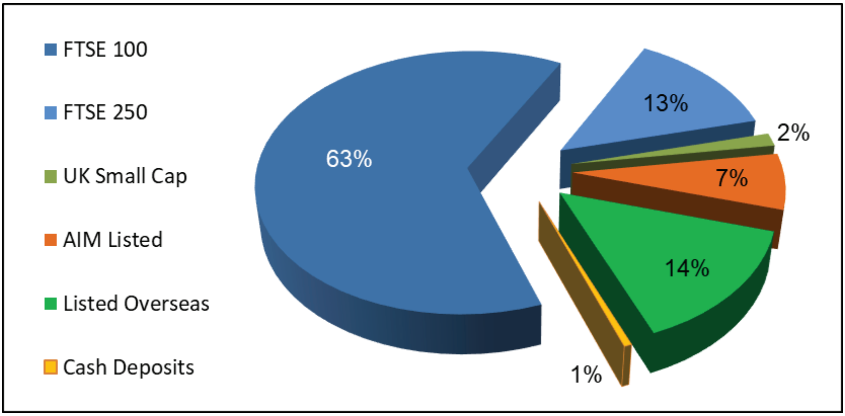
Portfolio Statistics:

Number of holdings	35
Portfolio Value	£89m
Volatility* (past year)	17.2%
Beta (to FTSE All-Share)	0.96
Income Yield	0.3%

**Volatility is annual standard deviation of monthly capital returns expressed as a percentage*

Sector Shareholding	Weight	Sector Shareholding	Weight
Consumer Discretionary	**16.0%**	***Banks & Other Financial***	**12.0%**
Berkeley Group	1.5%	Berkshire Hathaway	1.7%
Compass Group	2.6%	Beazley	2.5%
Greggs	3.6%	Schroders	2.7%
Howden Joinery	1.9%	London Stock Exchange	2.6%
JD Sports	2.6%	Experian	2.5%
Trainline	1.8%		
Intercontinental Hotels	2.0%		
		Equity Investment Cos.	**1.5%**
Property	**1.1%**	CH UK Smaller Cos.	1.5%
Shaftesbury	1.1%		
		Cash	**0.5%**
Utilities	**0%**		

CH UK Equity Growth – Disposition – 30 June 2023



Source: Church House

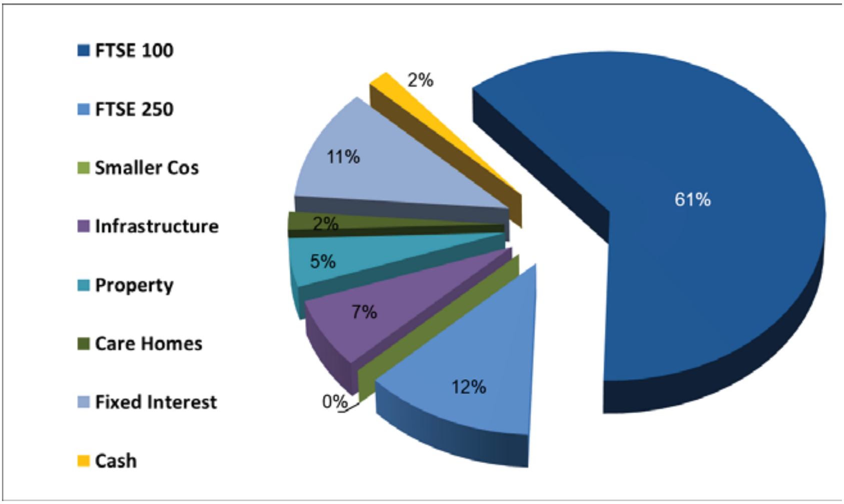
Church House Balanced Equity Income

	30 Jun 2023	31 Mar2023	Quarter
CH Balanced Equity Income*	165.1	172.7	-4.4%
FTSE All-Share Index	4096	4158	-1.5%
FTSE Higher Yield Index	3455	3578	-3.4%
FTSE Index-Linked All Stocks	499.5	535.5	-6.7%
Composite Benchmark**	109.5	112.9	-3.0%

*Source: Bloomberg *Bid-to-bid price, excluding income payments (capital performance)*
***45% FTSE All-Share, 41% FTSE Higher Yield, 14% FTSE Index-Linked All-Stocks Indices.*
The management fee in CHBE is split 50/50 between capital and income.

The Balanced Equity Income portfolio had a difficult quarter as so many of the 'balancing' investments had a rough time, the infrastructure holdings suffering along with the property companies and index-linked stocks. The overall disposition is little changed though the Fixed Interest slice edges up as we added to this area:

CH Balanced Equity Income – Disposition – 30 June 2023



Source: Church House

Higher dividend paying equities were generally weaker with the increase in interest rates. In the portfolio this was particularly noticeable for **Rio Tinto**, for the housebuilders **Berkeley Group** and **Bellway**, for **Kingfisher** among the retailers and for **National Grid**. The financials provided a contrast with **Lloyds** noticeably weak but **Barclays** gaining over the quarter. The property holdings suffered, notably **Land Securities** and **Tritax Big Box** while infrastructure saw a steep fall for **SDCL Energy Efficiency**, which is hard to justify on the basis of their underlying business.

Top 15 Holdings - 30 June 2023	
AstraZeneca	6.1%
Unilever	4.4%
RELX	4.0%
BAE Systems	3.7%
GSK	3.7%
Diageo	3.6%
Sage Group	3.0%
Bunzl	2.7%
Reckitt Benckiser	2.7%
National Grid	2.6%
Halma	2.6%
Aviva	2.6%
Barclays	2.5%
Croda International	2.4%
Schroders	2.3%

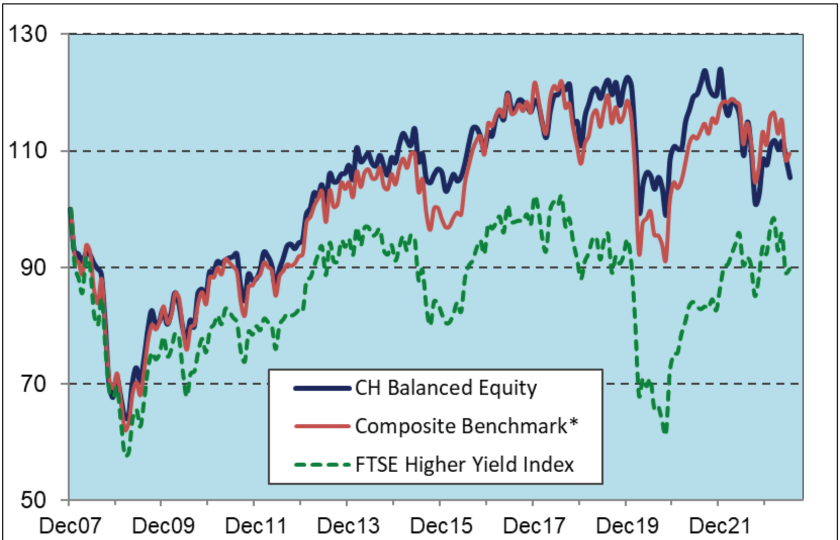
Positive contributions came from **3i Group** (again), we reduced this holding modestly after their strong performance over the year. **Sage Group** provided the best performance of all with a near 20% gain for the quarter after reporting strong revenue growth. The top holdings are broadly unchanged though Sage moves up, most notably at the expense of **Croda**, which had a poor quarter. We added to two of the short-dated fixed interest holdings, the issues from **KBC Group** and **Yorkshire BS**, keen to take advantage of the high interest yields on offer.

Calendar Year Performance:

YTD	2022	2021	2020	2019	2018
-0.4%	-10.6%	14.9%	-7.0%	14.2%	-3.6%

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



Past performance is not a reliable guide to future performance

*Source: Church House *45% All-Share, 41% FTSE Higher Yield, 14% Index-Linked All-Stocks*

Church House Balanced Equity Income Portfolio –

Sector / Shareholding	Weight	Sector / Shareholding	Weight
Oil Prod. & Services	**0%**	***Pharma. & Healthcare***	**9.8%**
		AstraZeneca	6.1%
		GSK	3.7%
Mining & Materials	**5.9%**		
Rio Tinto	2.0%	***Consumer Discretionary***	**6.8%**
Croda International	2.4%	Berkeley Group	2.1%
D S Smith	1.5%	Bellway	1.5%
		Greggs	1.7%
Industrials	**10.0%**	Kingfisher	1.5%
BAE Systems	3.7%		
Howden Joinery	1.7%	***Media & Telcos***	**4.0%**
Bunzl	2.7%	RELX	4.0%
3i Group	1.9%		
		Utilities	**2.6%**
Staple Goods & Services	**14.4%**	National Grid	2.6%
Diageo	3.6%		
Britvic	2.1%	***Technology***	**5.6%**
Unilever	4.4%	Sage Group	3.0%
Reckitt Benckiser	2.7%	Halma	2.6%
Cranswick	1.6%		

Portfolio Breakdown:

FTSE 100 Companies	61.7%
FTSE 250 Companies	12.4%
Smaller Companies	0%
Infrastructure	6.8%
Property	4.7%
Care Homes	1.8%
Fixed Interest	10.9%
Cash	1.7%

Sector / Shareholding	Weight	Sector / Shareholding	Weight
Banks & Other Financial	**14.8%**	***Infrastructures Cos.***	**6.9%**
Barclays	2.5%	BBGI	2.2%
Lloyds	1.8%	GCP Infrastructure	1.4%
Aviva	2.6%	SDCL Energy Efficiency	1.8%
Phoenix	1.8%	Harmony Energy Effcy.	1.5%
Close Brothers	1.5%		
Rathbone Bros	2.3%		
Schroders	2.3%	***FIXED INTEREST***	
		Index-Linked Issues	**3.5%**
Property	**4.7%**	Treasury I-L 2030	1.9%
Land Securities	1.7%	South. Water I-L 2034	0.8%
Shaftesbury	0.7%	Heathrow I-L 2039	0.8%
Tritax Big Box	1.0%		
Primary Health Props	1.3%	***Gilts***	
Care Home Cos	**1.8%**		
Target Healthcare	1.8%	***Other Fixed Interest***	**7.4%**
		SSE 3.74% 2026	0.7%
Equity Investment Cos.	**0%**	Phoenix 5.75% 2028	0.9%
		Yorkshire 3.375% 2028	1.2%
		KBC Group 5.5% 2028	1.1%
		Barclays 3.75% 2030	2.2%
		Virgin Bank 2.625% 2031	1.3%

Other Portfolio Statistics:

Number of holdings	47
Portfolio Value	£61m
Volatility* (past year)	14.0%
Beta (to FTSE All-Share)	0.80
Income Yield	3.6%

**Volatility is annual standard deviation of monthly capital returns expressed as a percentage*

CHURCH HOUSE UK SMALLER COMPANIES

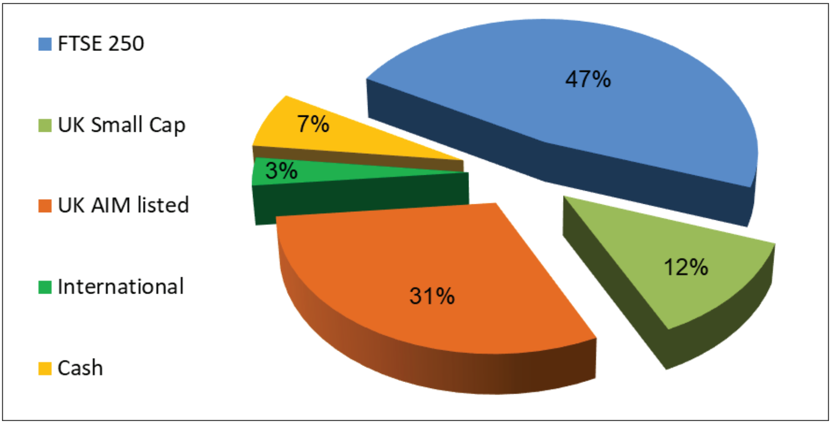
	30 Jun 2023	31 Mar 2023	Quarter
CH UK Smaller Companies*	129.9	132.8	-2.2%
FTSE All-Share Index TR	8611	8650	-0.5%
FTSE AIM All-Share TR	894.5	955.4	-6.4%

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

N.B. We have dropped the FTSE Small Cap ex Investment Trusts Total Return Index from this table, and the chart overleaf, as it is no longer representative and much smaller than the AIM Index above (117 companies valued at £30bn v. 715 companies valued at £76bn).

The pie chart of the portfolio is shown below, we have cash-in-hand at the quarter end, looking for more opportunities as these companies keep getting cheaper:

CH UK Smaller Companies – Disposition – 30 June 2023



Source: Church house

Rory Campbell-Lamerton writes: Underlying businesses in the portfolio are starting to show early rays of sunshine through the gloom. Pub companies, **Young's** and **Fuller's**, announced a strong recovery in their results and we met with the management of both. They had been hammered on the back of COVID lockdowns and then last winter by the tube and rail strikes, which cost Fullers £5m in lost revenues. They are starting to see office workers and tourists return, and even though food inflation remains high, both businesses are seeing increased revenue spend per head. Punters are heading to the pub, not just for a quick pint on the way home but staying longer and more likely to have a house cocktail or a meal. Where we feel the near future is shaping up well for domestic consumer facing businesses, it has been rather more challenging in the industrial space. Both **Porvair** and **Judges Scientific** released in-line results, but US based concrete screed manufacturer **Somero Enterprises** warned that profits would be hit by a slowdown in US non-residential construction (we have added to the holding in this excellent company).

Top 15 Holdings - 30 June 2023	
Judges Scientific	5.9%
Greggs	5.3%
Diploma	5.1%
Beazley	4.8%
Porvair	4.4%
Young & Co's Brewery	4.1%
Keyword Studios	3.5%
Ergomed	3.4%
Somero Enterprises	3.3%
Softcat	3.3%
Bioventix	3.3%
Fevertree Drinks	3.3%
Cranswick	3.1%
Big Technologies	3.1%
Fuller Smith & Turner	3.1%

In technology we continued to add to SaaS distributor **Bytes Technology** and remote monitoring solutions (think ankle tags) business **BIG Technologies.** Both had good results, increasing revenue guidance. We also added to specialist property companies **Primary Health Properties** and **Helical** who have been pegged down along with the rest of the real estate sector on the back of rising interest rates. Both these businesses are specialist and diversified enough to be the amongst the best performers when the tide turns.

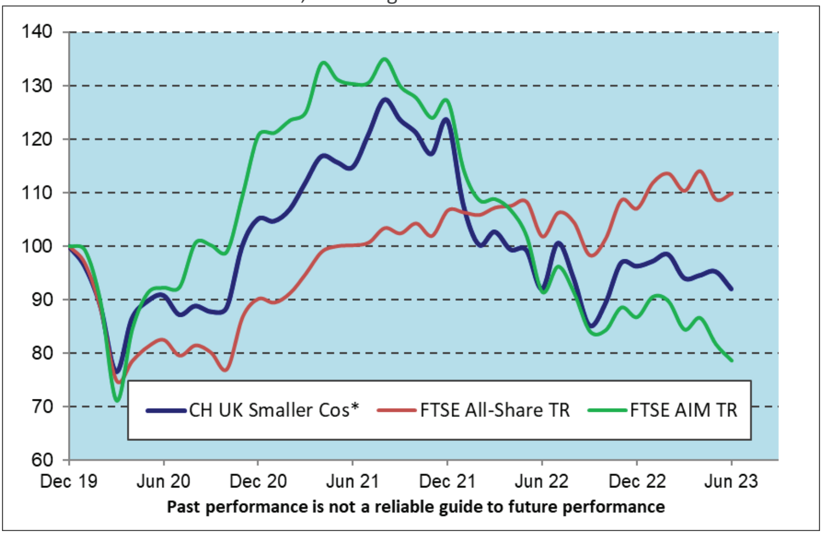
Calendar Year Performance:

YTD	**2022**	**2021**	**2020**
-4.4%	-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

Bid Prices, including income – Total Return



Source: Church House, Bloomberg *The chart shows the performance of the Deep Value Investments portfolio initially. We commenced changes to the portfolio in late February 2020, the new name and policy was formally adopted in August 2020.

Church House Esk Global Equity

	30 Jun 2023	31 Mar 2023	Quarter
CH Esk Global Equity*	414.0	400.4	+3.4%
CH Global Index in £	1324.7	1284.3	+3.1%
MSCI World in $	2967	2791	+6.3%
FTSE 100 Index	7532	7632	-1.3%

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

The Esk Global Equity portfolio increased in value over the quarter, though the continued recovery in sterling has detracted from overall performance (in sterling terms). We have not made any significant changes to the international disposition, at 48% the US exposure remains dominant.

Top 15 Holdings - 30 June 2023	
Microsoft Corp	4.9%
LVMH	4.3%
Alphabet	4.1%
Apple	3.7%
Mastercard	3.4%
Stryker Corp	3.4%
L'Oréal	3.1%
Johnson & Johnson	3.0%
Oracle	3.0%
Amazon.com	3.0%
RELX	2.8%
Roche Holding	2.8%
Hermès	2.6%
Nestlé	2.5%
McDonald's	2.5%

Amongst the individual stocks the detractors were: **Novozymes** and **Rio Tinto**, both of which fell back and, in a generally uneventful Staple Goods sector, **Heineken** and **Nestlé** slipped, while particularly dull were **Rémy Cointreau**, which fell after the French distiller reported slowing revenues over its fourth quarter. Also weaker were the two reinsurance holdings, **Everest Re** and **Swiss Re** in a tricky quarter for insurers generally. Among the smaller holdings we had two disappointments, **Sartorius** reported poor first quarter figures in April and then cut their forecasts further in early June. **Logitech** reported lower sales in early May as expected (the shares rose on the news), but the abrupt departure of their Chief Executive in mid-June was not good news. We sold both of these latter holdings.

Positive contributions came from the big tech holdings. **Alphabet**, **Amazon**, **Apple**, and **Microsoft** all of which gained by 15% or more and a notable contribution from **Oracle**, which has leapt in to our top ten with a 27% gain over this period. In mid-June, we reduced the **Microsoft** holding a shade (it had gone over 5% of the portfolio and gained 40% over the year to date) and similarly **Oracle**, which we reduced by around 10% after their move. The other top ten holdings were quieter, notably the French luxury goods companies, but all contributed.

Otherwise, we saw a decent recovery in **Chugai Pharmaceutical** and in **GN Store Nord** (though this one has a way to go to justify us retaining it). **Ferrari** had another good quarter, gaining 20%, and is only just outside the top ten holdings now. Amongst the financial holdings, **Sumitomo Mitsui Financial** had a good quarter (as did all the Japanese holdings) and we significantly reduced the holding in **Morgan Stanley** in favour of adding a new holding in **Standard Chartered**, which looks anomalously good value in an international context. This latter switch has proved to be profitable so far, we will look to do more if we get the opportunity again.

Other Portfolio Statistics:

Number of holdings	44
Portfolio Value	£65.4m
Volatility*	10.1%
Income yield	0.3%

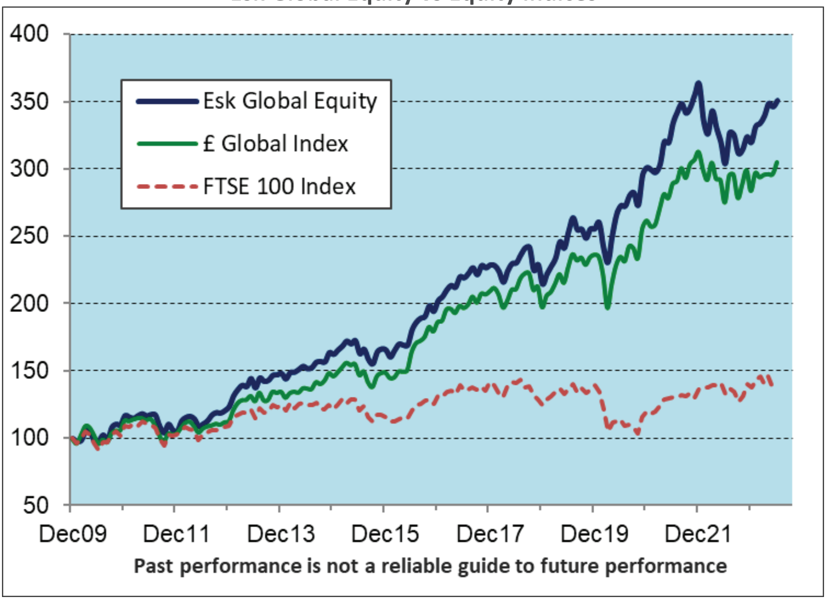
**Annual standard deviation of monthly capital returns expressed as a percentage, past year*

Calendar Year Performance:

YTD	2022	2021	2020	2019	2018
+9.8%	-11.7%	20.9%	18.1%	20.2%	-5.6%

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 ESK GLOBAL EQUITY PORTFOLIO –

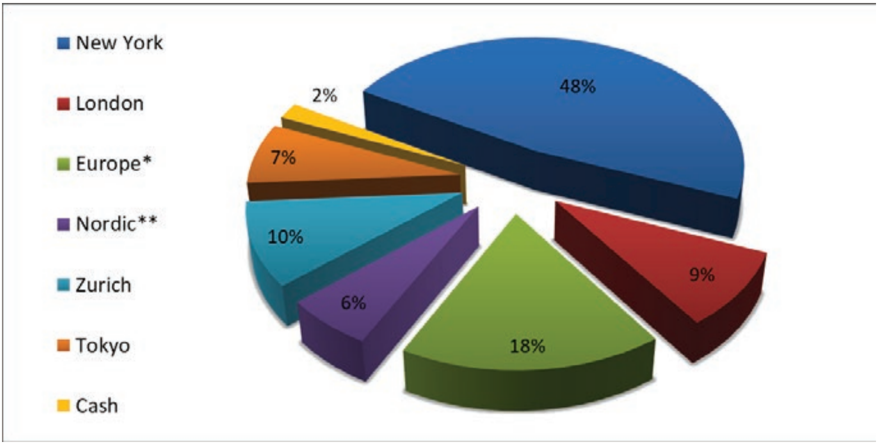
Country/Region & Listing Shareholding	Weight	*Country/Region & Listing* Shareholding	Weight
USA	***47.6%***	***Europe – eurozone***	***17.6%***
New York		*Amsterdam*	*3.9%*
Nordson Corp	2.1%	Heineken NV	2.2%
Paccar Inc.	1.9%	Euronext	1.7%
Stryker Corp.	3.4%	*Frankfurt*	*0%*
Gilead Sciences	1.4%		
Johnson & Johnson	3.0%	*Paris*	*11.3%*
McDonald's Corp	2.5%	L'Oréal SA	3.1%
Amazon.com	3.0%	Remy Cointreau	1.3%
Alphabet Inc 'A'	4.1%	LVMH	4.3%
Apple Inc	3.7%	Hermès	2.6%
Ansys	2.0%	*Milan*	*2.4%*
Intuit Inc	2.2%	Ferrari	2.4%
Mastercard	3.4%		
Microsoft Corp	4.9%	***Nordic***	***6.2%***
Oracle Corp	3.0%	*Copenhagen*	*2.3%*
Morgan Stanley	1.3%	Novozymes A/S B	1.1%
Berkshire Hathaway 'B'	2.0%	GN Store Nord A/S	1.1%
Everest Re Group	1.8%		
T Rowe Price	1.9%	*Stockholm*	*3.9%*
		Investor AB	2.4%
		Industrivarden AB	1.5%

Broad Industry Split of Direct Investments

Oil Production & Services	0%	Utilities	0%
Mining & Materials	5.2%	Media & Telcos	6.9%
Industrials	7.9%	Technology	19.3%
Staple Goods & Services	11.5%	Banks & Other Financials	14.3%
Pharma & Healthcare	15.3%	Property	0%
Consumer Discretionary	16.9%	Investment Cos	0.8%

Country/Region & Listing **Shareholding**	**Weight**	*Country/Region & Listing* **Shareholding**	**Weight**
Switzerland	***10.2%***	***United Kingdom***	***8.7%***
Zurich	*10.2%*	*London*	*8.7%*
Nestlé	2.5%	Rio Tinto	2.1%
Roche Holding AG	2.8%	RELX	2.8%
Lonza Group	1.1%	Unilever	2.4%
Straumann Holdings	2.0%	Standard Chartered	1.1%
Swiss RE	1.8%	Caledonia Investments	0.8%
Far East	***7.4%***	***Emerging Markets***	***0%***
Tokyo	*7.4%*		
Shin-Etsu.	2.0%	***Cash Deposits***	***1.9%***
Chugai Pharma.	0.7%	GBP	0.2%
Sony Group	2.2%	USD	0.6%
Sumitomo Mitsui Fin.	1.7%	EUR	1.1%
Nomura Holdings	0.8%		

Esk Global Equity Constituents by City of Listing – 30 June 2023



Source: Church House *Amsterdam, Milan, Paris, Frankfurt **Copenhagen, Stockholm*

CHURCH HOUSE TENAX ABSOLUTE RETURN STRATEGIES

	30 Jun 2023	31 Mar 2023	Quarter
CH Tenax Absolute Return*	151.7	154.4	-1.7%
Cash Return (SONIA)**	104.9	103.8	+1.1%

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

The asset mix within the Tenax Fund is shown below along with the changes since the beginning of the year. This reflects our view that sterling fixed interest (short-dated) is the most attractive asset class for the Fund at present. Clearly, we can't be certain when the current pressure on interest rates will subside, but the short time to maturity of these bonds and high redemption yields (7.3% for the Fixed Interest portion) gives us a high degree of confidence in the returns available at present.

CH Tenax Fund - Allocation to Asset Classes – Year to Date

2023	30-Dec-22	31-Mar-23	28-Apr-23	31-May-23	30-Jun-23	YTD
Cash	0.5%	0.4%	0.8%	0.6%	0.3%	-0.2%
Treasury / T-Bill	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FRN (AAA)	25.5%	22.1%	21.7%	21.8%	22.3%	-3.2%
Floating Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fixed Interest	42.8%	44.6%	43.7%	43.9%	45.1%	2.2%
Index-Linked	1.5%	1.9%	1.8%	1.9%	2.0%	0.5%
Infrastructure	6.3%	6.0%	6.4%	6.0%	5.8%	-0.5%
Convert / ZDP	8.9%	9.6%	9.7%	10.2%	8.8%	-0.1%
Alternative / Hedge	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Property / Real	2.9%	3.4%	3.6%	3.7%	3.7%	0.8%
Equity	11.6%	11.9%	12.4%	12.1%	12.1%	0.5%
Overall Duration	2.6	2.9	2.9	2.9	2.9	
Fixed Int. Duration	4.1	4.3	4.3	4.3	4.3	
P/folio Running Yield	3.7%	4.1%	4.0%	4.2%	4.5%	

Source: Church House

The overall duration*, and that of the fixed interest proportion, is unchanged over the quarter. The yield on the portfolio has increased again, to 4.5%, with higher payments from the floating rate notes and the attractive returns we are picking-up in credit (corporate fixed interest). Such as a new bond from **British Telecom** with a coupon of 8.375% (the sort of rates that are reminiscent of the 1980s/1990s).

**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 (in this case, the duration of 2.9 equates to 5 ½ years). It can also be viewed as a measure of the sensitivity of the price of a bond to a change in interest rates.*

It has not been an easy period with, essentially, all of the asset classes in the list under pressure from the steep rise in interest rates. We have quietly been continuing to add to the portion in fixed interest, switching from floating rate note (FRN) holdings. As we said last quarter, we still like our FRN holdings, which are paying a steadily rising level of interest to us as base rates move up, now around 5.5%, whilst maintaining their capital value. But as rates go up it becomes increasingly attractive to 'fix' the even higher rates available among our Fixed Interest holdings. We still prefer the short-dated end of the fixed interest market, not seeing adequate compensation for the higher risk in longer dated instruments.

We have already mentioned the new fixed interest issue from **British Telecom** that we took. We also participated in a new issue from **Rothesay Life** with a 7.734% coupon, maturing in 2033, which we funded with the sale of a 2025 issue from Rothesay. **Marks & Spencer** made an offer to buy-back, at a premium, the 3.75% 2026 stock of theirs that we held so we did sell this holding. A 6.25% issue from **Société Générale**, due in 2033 was another new holding.

One area of the portfolio (and the market) that is really struggling at the moment is infrastructure. Reported asset values are under pressure from valuers applying higher discount rates, while the pool of natural buyers for these companies has been severely diminished by current regulations and the interpretation of these regulations by the Investment Association. The result is messy but with some areas of outstanding value emerging. An example would be **SDCL Energy Efficiency**, which recently reported assets per share of 101.5p at 31st March down from 108.4p the previous year. The effect of the increased discount rate being used was a negative 7.3p. Meanwhile, the (covered) dividend target is being increased again. So, at the end-month price of 74p, the shares have a yield of 8.25% and stand at a discount to their marked-down asset value of 27%.

Until such time as we get reform of the current regulations, as indicated by the Treasury, and fresh guidance from the Investment Association, these massive discounts seem likely to persist, something that is afflicting so many investment trusts and property companies. In fundamental terms (most of) these companies look outstandingly cheap. They can no longer raise equity capital for new projects and, unsurprisingly, new issues are a thing of history. London risks losing good companies like SDCL to overseas buyers with no regulatory problems, the quality of long-term assets on offer at sizeable discounts will just be too tempting.

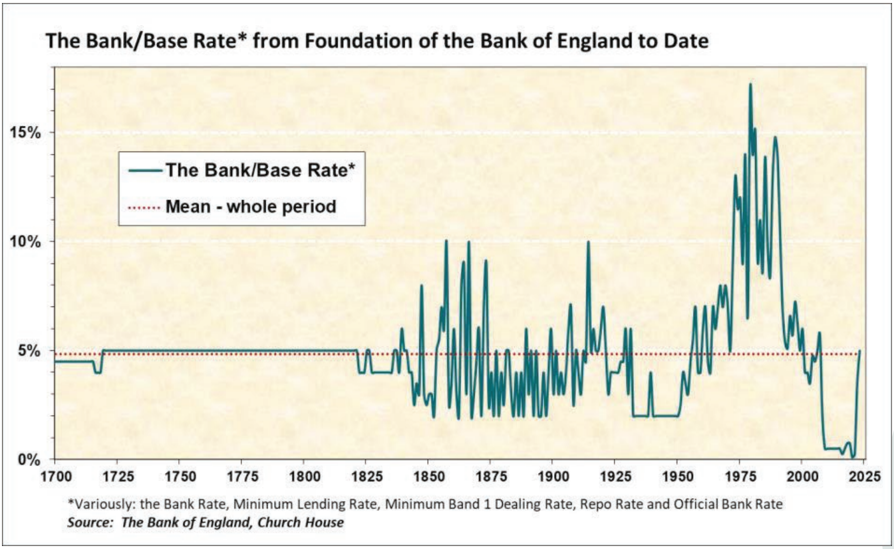
Calendar Year Performance:

YTD	2022	2021	2020	2019	2018
-0.7%	-7.5%	1.4%	3.8%	3.4%	-1.7%

Source: Church House, NAV to NAV, 'A' accumulation shares - Portfolio value: £266m

UK Bank Base Rates

1700 - 2023



Source: The Bank of England, Church House

After the Bank of England put up the Base Rate to 5% a few weeks ago, I felt that we should refresh this long, long-term chart of Base Rates that we maintain. This shows the Base Rate every year since 1700, just after the Bank was founded[1].

The obvious point being that the Base Rate has finally moved back over its long-term average, which is currently at 4.85%. Increasingly, it does feel that that period from March 2009 to this time last year was the anomaly and that a more likely range for the next ten years will be 2% to 6%. We shall see.

[1] The Bank of England was founded in 1694 to act as banker to the Government of the day under King William and Queen Mary. The original Royal Charter states that it was founded to "promote the public Good and Benefit of our People", though its primary job at the outset was to help fund the war against France.