Church House Investment Management

Quarterly Review

Autumn 2024

Issue No. 98

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 appropriate diversification and that we know in detail the risks that we are undertaking on your behalf - not something that we wish 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 doubtful 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

A Quarterly Review

Of the economic and market background to investment, edited by James Mahon with additional commentary from a number of Church House managers.

Issue no. 98 - Autumn 2024

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US Presidential Election forecasts…

As I write this, the likely result of the US Presidential Election still appears to be too close to call. Of course, a clear outcome is important, we really do not want a repeat of the problems following the 2020 Election and the subsequent attempt to subvert it and overturn the result. The 2020 Election was overshadowed by COVID-19 and a consequent high proportion of postal votes. These so called 'mail-in' ballots delayed the results in a number of states, only fuelling the unrest at the time, hopefully we won't see a repeat. Voter turnout will be interesting to watch too, Joe Biden's total of 81.3mn votes was the most ever cast for a Presidential candidate.

The opinion polls currently show Kamala Harris ahead with 49.3% v. Donald Trump on 46.6%, leaving few people in the 'undecided' camp. This is too close to call and given the Electoral College structure of the election, well within a statistical 'margin of error'. On the other hand, betting odds (also interesting to watch) have just swung slightly in favour of Donald Trump…

Inflation

Post COVID, US inflation took off and the chart below shows the picture since autumn 2019 alongside the US Federal Reserve's base interest rate, which has just begun to follow that inflation rate down again. This period covers the Biden Presidency, which has been rather dominated by that inflation, along with COVID-19 and its aftermath. The Fed has a 'dual mandate' under which it must also aim to maximise employment alongside stable prices - sometimes quite a tricky juggling act. It wasn't until US employment began to show signs of 'cooling' that they felt able to act to lower rates.

US Inflation (red) **and Base Rates** – Five Years

Source: Bloomberg

The Economic & Market Background

As the third quarter drew to a close, many international equity indices were reaching new high levels despite a serious escalation of the conflict in the Middle East and an imminent US Presidential Election. On the other hand, the US Federal Reserve (the Fed) has begun to cut interest rates with a surprise half per cent move in the wake of a quarter-point move from the Bank of England and the Chinese authorities appear to have recognised the difficulties for their domestic economy and have introduced a massive stimulus package.

Domestically, our new Government has had a poor few months. Having touted the importance of growth and a stable government why on earth they thought it was a good idea to 'talk down' the economy so aggressively is hard to fathom. An encouraging business investment outlook was quickly thrown into doubt and a nascent recovery snuffed out. A seemingly interminable wait for the budget and scares over 'black holes' in the finances has given space for mounting fears over what might be unveiled. Hopefully, the event might prove to be an anti-climax.

Equity markets in general are at or close to all-time highs, though the leadership has changed. All the markets convulsed in the early days of August following weaker than expected US employment figures and volatility has remained elevated since. Japan saw the most violent swing with a 20% fall over just a few days as the Bank of Japan also raised its base rate to 0.25%(!) but most of this has been recovered since.

Inflation has continued to fall in the Western economies, it is now below 2% in the eurozone, and at just 2.2% in the UK (though we seem to be convincing ourselves that it is higher really) *[just released at 1.7%]*. The Fed's half-point move in rates could be construed as more political than they like to be in front of an election. For their sake, let's hope that Kamala Harris wins, Donald Trump is not a fan of the Fed and, as somebody who considers himself to be uncommonly good at predicting interest rates, he is likely to want to interfere in the Fed's decision-making (and independence).

It is hard to know what best to say about the situation in the Middle East, which appears to be escalating yet again. Beside the dreadful situation that so many civilians find themselves in, this still feels like a serious risk to wider stability. I am concerned as to what could happen in the 'lame duck' period between the election of a new US President and he/she actually taking office in January.

But, this is to focus on the negatives. Interest rates have peaked, we expect further cuts from the Bank of England and the other major central banks over the next few months. Inflation is back under control and there is a good chance that the Fed will have achieved a 'soft landing' for the US economy, while the UK looks ever more like a beacon of stability in a troubled Europe.

James Mahon *October 2024*

The UK Economy and Interest Rates

Growth in the economy was slower than expected over the summer providing an unhelpful backdrop to the Budget and those all-important forecasts from the Office for Budget Responsibility (OBR). As mentioned above, the Prime Minister and Chancellor appear to have been going out of their way to depress confidence, hardly a 'platform for growth'. The OBR has now submitted its outlook pre any budget measures to the Treasury and this seems unlikely to leave a lot of room for Chancellor Reeves to act without raising tax(es), or borrowing, or cutting back on spending or, most likely, a combination of all three.

The New Girl at the Treasury - July 2024

Source: Kirsty O'Connor / HM Treasury

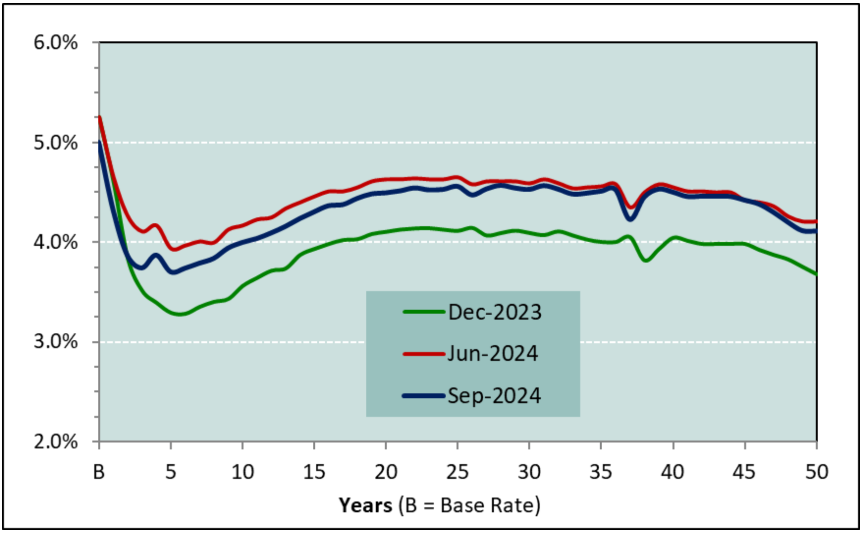
The Bank of England held rates steady in October after the quarter-point cut at the beginning of August. But they are likely to resume the cuts in November in the light of the slowing economy and employment prospects, subject to any surprise from the inflation figures, due out shortly. *[as above, just released at 1.7%]*

As central bank base rates finally come down from the plateau, the question becomes, how far will they go and, did they wait too long? In America, the Fed is hinting at a 'terminal rate' around 3% and it does appear likely that they will continue to cut rates after the Election. US employment is weakening but looks likely to remain sufficiently robust for Jerome Powell to achieve the fabled 'soft landing' for the American economy. Caveat a difficult outcome for the Presidential Election, of course. But the picture for Europe is not so benign and here there does seem to be a real risk that they have waited too long. The European Central Bank has cut rates again but possibly needs to speed up the process as the eurozone appears to be stagnating with consumers and business in downbeat mood, notably in Germany and France. Maybe a terminal rate (actually such a slippery concept) here might be closer to 2%.

UK inflation has fallen back along with the rate elsewhere but there does still seem to be a perception that it is 'stickier' here than elsewhere. We do like to wallow in negativity sometimes. I am sure that we will hear lots about 'fiscal rules' in the budget and that 'debt must be falling as a share of the economy by the fifth year of the forecast'. I do just worry that something that relies on a forecast of how things will be in five years never actually catches up with itself…

Combined with concerns that the Chancellor will seek to increase borrowing to unsustainable levels, UK interest rates for longer periods have now moved to the highest of the developed economies. This looks a shade silly and makes UK bonds, Gilts and good quality corporate debt, look cheap again. Here is our chart of UK interest rates - the level of interest rates from the Base Rate out to fifty years, with a comparison to the picture at the end of June and the turn of the year. Rates have moved down over the quarter, notably, of course, the Base Rate, bringing some relief to mortgage holders and other borrowers. Further out the moves have been quite modest but the curve still shows a clear expectation that the Base Rate will continue to fall from here:

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%	5.0%	4.0%	3.9%
Longer-Term	10 years	20 years	30 years	50 years
Interest Rate	4.0%	4.5%	4.6%	4.1%

*Source: Bloomberg *Sterling overnight index average.*

CREDIT MARKET COMMENTARY – JEREMY WHARTON

A rate hike from the Bank of Japan at the end of July and a couple of weak US data prints, caused the yen to jump and Japanese stocks to crater. Along with rotation out of some of the technology stock froth, this all combined to deliver some sharp summer volatility as the market threw a tantrum. The VIX measure of volatility spiked to levels not seen since 2020 but then swiftly fell back to normal levels. Stock indices and credit spreads followed a similar path but in the context of coming off all-time highs and multi-year tight spreads. We have then seen a steady recovery and, as I write, US stocks are again exploring all-time highs with the rally broadening out a little, away from the Magnificent Seven.

As the Middle East appears to be sliding towards all-out war, markets still appear to construe the situation as localised. The oil price finally took notice, but only regained levels seen in late August. Meanwhile, the Chinese economy still appears to be stuttering, prompting the authorities to unveil the most wide-ranging set of monetary stimulus policies since 2015. A cut in the reserve ratio for banks, mortgage rates, deposit levels for second home buyers (now 15%) are all intended to give a defibrillatory jolt to their moribund economy. They also introduced a scheme allowing funds to borrow from the central bank to support the stock market, they have tried this before, but it did prompt a dramatic rally of 35% in their stock market before falling back a little. The Chinese monetary stimulus is worth $560bn according to Bank of America, hopefully enough (but possibly not) to stabilise their economy, which otherwise risks heightened internal tensions and potential (although now structurally reduced) consequences for global supply chains. Post their Golden Week, markets are already expressing disappointment that there is no fiscal stimulus follow up.

US politics pushed President Biden aside and the race now between Harris and Trump has a pretty bleak geopolitical backdrop. Kamala Harris did appear to be making some headway against Donald Trump causing his utterances to become even more random, but the race appears to be wide open. More considered was a 50bp cut (apparently a hawkish one for some members of the FOMC) by the Federal Reserve, kicking off their easing cycle, which they managed to achieve without unsettling markets, no mean feat in the midst of accusations of being behind the curve.

'Fedspeak' following their cut has gone into overdrive. Powell, Bostic and others pushed back against the next cut being another 50bp and then a strong Non-Farm Payrolls report put the cat amongst the pigeons moving the concept of a 'soft landing' to 'no landing', causing some to change their minds to speculate that the Fed were actually ahead of the curve(!). Inflation fears have not quite gone away and the US Treasury curve bear-flattened as the ten-year bond regained 4%, from 3.60% just a couple of weeks ago; the market reassessing the pace and depth of this cutting cycle. We have only a few weeks until the US election, the result of which might determine whether Jay Powell is still Chairman at the FOMC's next meeting (three days later).

In contrast, Europe is still experiencing difficulties in its two largest economies. Recent German and French Purchasing Manager Indices were weak and contractionary, especially in manufacturing, and Eurozone PMI's as a whole are also weak as the boom in the periphery moderates. The ECB delivered another 25bp cut in September, but the Eurostoxx has traded sideways for the last six months.

The ECB's focus is shifting from persistent inflation worries to disinflation and stagnation, a cut at their next meeting looks likely. A shift in some analyst's forecasts has cuts at every meeting until the middle of next year, reaching a terminal rate of 2%. The Parisian Investment Banking party looks to be over as new PM Michel Barnier gears up to tax those that were unfortunate enough to make the move disproportionately.

UK Plc remains regarded as a better option, at this time, for outside investment and the new government eventually realised that trying to talk us into a downturn is not such a good idea. Their plans must entail more borrowing but with debt to GDP hovering at around 100% there is not much room for large-scale borrowing.

The Bank of England kicked off their easing cycle too, delivering their own hawkish 25bp cut and money markets now discount two more cuts this year and 4% by June next year. The MPC is at pains to stress that rates will be lowered slowly so will remain restrictive and our Governor 'won't cut too much or too quickly'. The Bank of England therefore remains in no hurry to cut rates further and at their last meeting stayed on hold with a decisive 8-1 vote.

Bear in mind that whatever measures are put in place in the imminent Labour Budget they will not be enough to plug many holes in our finances, whatever their size, and certainly not enough to fund prospective spending plans, especially the sillier environmental ones. Therefore, the strain, once again, will fall on the Gilt market (i.e. more borrowing), making longer-dated yields especially vulnerable, again.

The primary market for corporate bond issuance remained active despite the volatility and the summer months. Corporate borrowers have raised more than $1.2 trillion from sale of investment grade bonds so far this year, making it the second busiest ever. Sterling markets did go on holiday and there was a near three-week drought of issuance, which only served to underpin credit spreads and keep secondary markets well bid. September saw a renewed burst of activity and some high-quality issuers accessing the market and meeting strong demand, helping to keep sterling credit spreads well supported and recently they have comfortably outperformed euro and US dollar spreads.

Jeremy Wharton, *October 2024*

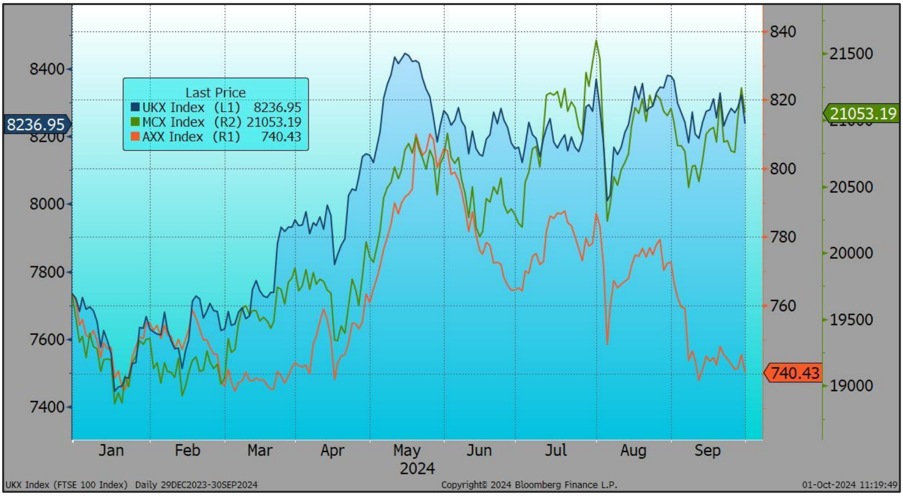
UK Equity Markets

Index:	30 Sep 2024	28 Jun 2024	Quarter
FTSE All-Share	4511	4452	+1.3%
FTSE 100	8237	8164	+0.9%
FTSE 250	21053	20286	+3.8%
FTSE Small Cap	6941	6728	+3.2%
FTSE AIM All-Share	739	764	-3.3%

Source: Bloomberg

Overall, UK shares moved ahead over the third quarter, despite it being a bumpy ride along the way. The FTSE 100 Index was held back by weakness in the oil majors and, unusually, in **AstraZeneca**. The indices for companies outside the FTSE 100 fared rather better though not the AIM market, which was weaker again:

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



Source: Bloomberg, FTSE International

Looking down the list of FTSE 100 companies, around two thirds of them rose over the quarter, but falls of 18% and 14% for **BP** and **Shell** respectively, on the back of the sliding price of oil, was enough to limit the overall increase in the Index to less than 1%. AstraZeneca slipped 6% after disappointing late-stage trial results for a lung cancer drug and the arrest of five of their employees in China. Between them these three companies account for 20% of the FTSE 100 Index so have an outsize impact on the Index return. Of course, it wasn't just these three companies struggling this quarter. The rather sad demise of **Burberry** has continued with a further 20% fall, their shares were trading at prices over £25 in early 2023 but closed September at just £7. Another disappointing update on trading in mid-July was swiftly followed by the departure of Chief Executive, Jonathan Akeroyd.

The Industrials sector saw the other three principal casualties of the quarter. **Melrose Industries** fell 18% as it guided for lower revenue growth ahead, amid concerns over their aerospace supply chain, and **Spirax Group** was down by around 11% as their earnings missed estimates. Shares in **Rentokil Initial** surged in July amidst talk of an imminent takeover, but then slumped in early September after warning on profits, leaving them 21% lower overall.

In stark contrast to Burberry, a number of the other stores groups had a tremendous quarter. **Marks and Spencer** gained 30% as their rehabilitation continues and **Kingfisher** gained a similar amount after forecasting a brighter outlook for B&Q. **JD Sports Fashion** was another to put in such a gain, apparently climbing a wall of disbelief as they continue to trade well despite a repeated negative tone from **Nike** in the US. The food retailers, **Sainsbury** and **Tesco**, were also in demand, both gaining by mid-teens percentages.

Shares in **Rightmove** jumped 30% as the Australian **REA Group** (controlled by the Murdoch family) made a takeover approach in early September. But, despite an increased offer late in the month, Rightmove stood firm in refusing to negotiate and REA Group abandoned the process at the end of the month. The financial sectors featured a continuing recovery in the banks, **NatWest Group** gained a further 10% this quarter and are now up by a whopping 56% over the year. Of course, they are still trading at less than 10% of their value before the financial crisis of 2007/8 but maybe that should now be regarded as history.

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Fundamental Valuation Indicators

Corporate earnings forecasts for the FTSE All-Share have not changed much over the year so far, if sterling continues to move ahead we must expect them to come down. Much of the revenue of companies in the FTSE 100 (in particular) arise overseas so strong sterling depresses their value on translation. Dividend forecasts have actually edged down a shade but the overall dividend cover[1] is steady. 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*	30 Sep 2024	28 Jun 2024	29 Dec 2023
Earnings (per Share)	398	395	397
Price / Earnings Ratio	11.4X	11.3X	10.7X
Earnings Yield	8.8%	8.9%	9.4%
Dividends (per Share)	181	184	190
Dividend Yield	4.0%	4.1%	4.5%
Dividend Cover	2.2X	2.1X	2.1X

**Bloomberg aggregate earnings estimates for the year ahead*

INTERNATIONAL EQUITY MARKETS

Index:	30 Sep 2024	28 Jun 2024	Quarter*
US - S&P 500	5762	5461	+5.5%
US - NASDAQ	18189	17733	+2.6%
UK – FTSE All-Share	4511	4452	+1.3%
Germany - DAX	19325	18236	+6.0%
France - CAC 40	7636	7479	+2.1%
Switzerland - SMI	12169	11994	+1.5%
Japan - TOPIX	2646	2810	-5.8%
Brazil - Bovespa	131816	123907	+6.4%
China – Shanghai Comp.	3337	2967	+12.5%
Hong Kong – Hang Seng	21134	17719	+19.3%
Australia – ASX 200	8270	7768	+6.5%

*Source: Bloomberg *Change in local currency*

American equity markets rose over the quarter as did the European markets (though with sterling strengthening against the US dollar and other major currencies, UK investors did not see the benefit). The Far East saw some wild gyrations, Chinese stocks sank relentlessly from May until late September when their authorities introduced their ‘shock’ economic stimulus package and they shot up again, Japan got a nasty shock in early August but has since been trying to recover:

S&P 500 (green) **Shanghai Composite** (blue) and **Topix** (brown) **– 2024**

Source: Bloomberg

Foreign Exchange

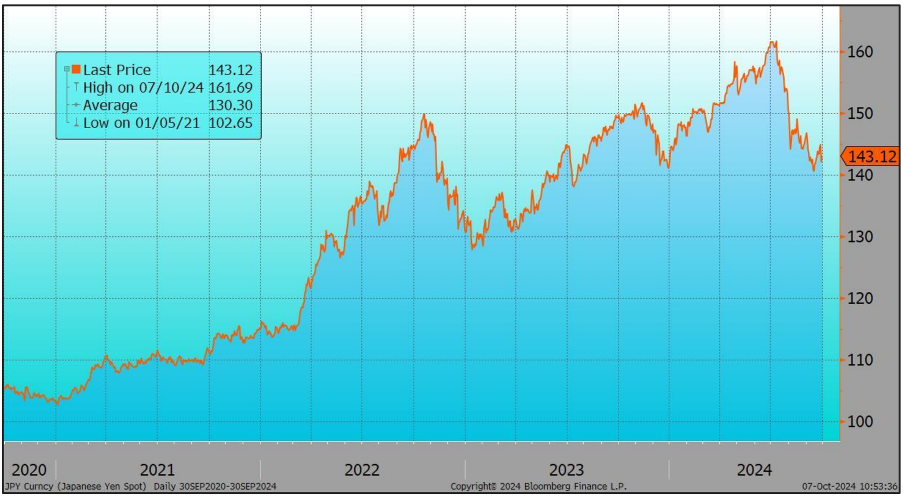
	Cross Rate:	30 Sep 2024	28 Jun 2024	Quarter
£	US $ / £ sterling	1.340	1.265	+5.9%
	Euro € / £	1.202	1.180	+1.9%
	£ Exchange Rate Index	85.7	83.3	+2.9%
$	US$ / € euro	1.114	1.070	-4.1%
	Yen ¥ / US $	143.2	160.8	-10.9%
	Renminbi / U S$	7.02	7.30	-3.8%
	$ Exchange Rate Index	100.7	105.9	-4.9%

Source: Bloomberg

The foreign exchange markets have seen much greater volatility this quarter as interest rate cycles are seen to be shifting. Most visible to us has been sterling's strength against the US dollar but the big shift has really been the weakness in the US dollar with that near 5% fall in its Exchange Rate Index shown above.

As with so many markets, it has been all eyes on the Fed and when and by how much they might cut rates. As the perception of a weakening US economy gained ground and the Fed then cut their rates by more than expected, the US dollar sagged. Meanwhile the Bank of Japan (their central bank) raised their base interest rate (for the second time this year) to the dizzying heights of one quarter of one per cent. The yen has been sinking since late 2020 when US$1 cost just ¥103, by July this year that had risen to ¥162, a colossal loss of value. The turnaround has been quite dramatic as our table shows.

US Dollar v. Japanese Yen – September 2020 to Date



Source: ***Bloomberg***

Church House Investment Grade Fixed Interest

	30 Sep 2024	28 Jun 2024	Quarter
CH Investment Grade* - Inc.	107.9	106.7	+1.1%
iBoxx AA Corporate 5-15 year	78.3	77.1	+1.6%
CH Investment Grade - Accum.	187.7	183.4	+2.3%
iBoxx £ ABS 5-10 year TR**	344.9	336.3	+2.6%

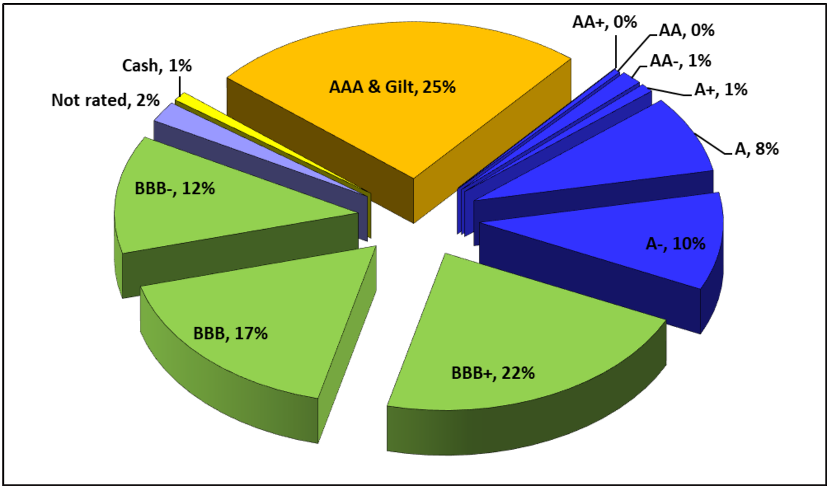
*Source: Bloomberg *bid price to bid price, excluding income. **Total Return Index.*

The Investment Grade Fixed Interest portfolio continues to provide a regular, quarterly return of interest and this has again increased year-on-year. We have not changed its short-dated profile, which is almost identical to the position at the end of June:

CH Investment Grade Fixed Interest	Sep 2024	Jun 2024
Short-dated Securities (less than 7 years)	71%	71%
Medium-dated Securities (7 to 15 years)	25%	25%
Long-dated Securities* (over 15 years)	4%	4%
Duration of Portfolio**	3.4	3.4
Volatility*** (past year)	4.6%	4.7%
Number of Holdings	113	105
Yield (historic)	4.8%	4.6%
Portfolio Value	£363m	£359m

**Long-dated includes infrastructure holdings **Duration is defined on page 35*
****Volatility is annual standard deviation expressed as a percentage*

CH Investment Grade Fixed Interest – by Credit Rating – 30 September 2024



Source: Church House

Top 15 Holdings - 30 September 2024	
Standard Chartered LTII 5.125% 06/2034	2.1%
M&G Plc 33nc7 5.625% 10/2031	2.0%
Societe Generale 5.750% 01/2032	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	1.8%
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%
Segro 2.375% 10/2029	1.5%
Pacific Life 5.375% 11/2028	1.4%
New York Life 4.950% 12/2029	1.4%
EIB (SONIA) 6.028% 01/2027	1.4%

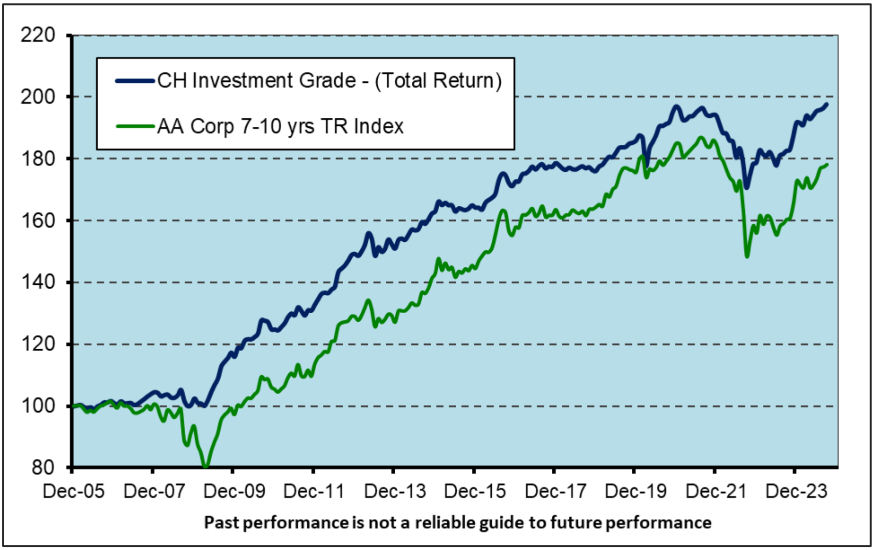
The top holdings in the portfolio are little changed from the end of June. We are continuing to edge down the proportion held in floating rate notes (FRN), now at 12% of the portfolio from 14.3% in June. For example, we sold our holding in a **CPPIBC** (Canadian Govt.) FRN due to repay in 2026 and bought a fixed rate issue of theirs due to repay in 2029. The interest rate paid on the FRN will 'float' down with rates generally, now our return is fixed.

Calendar Year Performance:

YTD	2023	2022	2021	2020	2019
+4.3%	+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)



Source: Bloomberg, Church House

CHURCH HOUSE UK EQUITY GROWTH

	30 Sep 2024	28 Jun 2024	Quarter
CH UK Equity Growth*	213.2	209.4	+1.8%
FTSE All-Share Index	4511	4452	+1.3%
FTSE 250 Index	21053	20286	+3.8%

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

Rory Campbell-Lamerton writes: the Church House UK Equity Growth portfolio had a busy summer as the market, although ending the season broadly flat, had a very chaotic middle two weeks in August as **Nvidia** market dominance and Yen 'carry-trade' fears caused panic.

In the midst of this maelstrom we initiated a new position, little by little, in an old friend, **ARM Holdings**, whose shares we first bought in the early 2000s. We watched it come and go as the smartphone industry boomed and it was subsequently taken over in mid-2016 by Masayoshi Son's **Softbank Group**. There it sat in the world's largest tech fund, the Vision Fund, while it consolidated its position as one of the leading chip designers, before being re-listed on the NASDAQ stock exchange in September last year. Although it is now listed in New York (as an American Depositary Receipt), with US management and a huge Silicon Valley ethos, it has retained its Research and Development base in Cambridge and, importantly for UK fund managers, its UK incorporation and domicile.

ARM shares fell dramatically over July and early August, in the wake of Nvidia's share price and we used the opportunity to initiate our new holding. The two companies both operate in the cyclical (often forgotten) semiconductor industry, but are very different businesses. AI (and market sentiment) has driven Nvidia into being one of the world's most valuable companies; ARM on the other hand is focused on designing and licensing chips in the smartphone sector (50/50 between **Apple** and Android OS) as well as for the 'Internet of Things'. ARM revenue growth is forecast to grow >20% over the next three years and analysts believe that the next peak in the semiconductor market will be around mid-2025. Day-to-day, AI will be the driver of this growth as consumers look to purchase new AI smartphones, such as the latest iPhone 16, for which Apple anticipate strong demand. Android too (led by **Samsung**) are improving their mobile AI capability and will be a significant player in the ramp-up of demand. Of the sales split between the two operating systems, Android is more mass-market, lower margin, with Apple being more exclusive, with lower sales and higher margin.

Top 15 Holdings - 30 September 2024	
Diploma	7.5%
RELX	7.2%
Halma	5.6%
Greggs	4.1%
Unilever	3.9%
Auto Trader	3.7%
Diageo	3.6%
Judges Scientific	3.5%
Microsoft	3.5%
AstraZeneca	3.5%
Experian	3.4%
Spirax Group	3.4%
London Stock Exchange	3.3%
Investor AB	3.3%
Croda International	3.2%

Away from new positions, our existing top fifteen have been doing well. We took profits in **Unilever**, after a strong earnings statement where they highlighted that Knorr has become their latest €5bn brand in sales (over 600 Bouillon cubes sold worldwide every minute!). We also took some profit in **Diploma** and **RELX,** who remain our top two holdings. We used proceeds to top up **Diageo**, **Experian** and **Croda.** We had a good meeting with Steve Foots, the CEO of Croda, they are having a difficult time as their core customers (consumer care, farming and pharmaceuticals) are going through cyclically tough times. But we were impressed with his consistent conviction and no-nonsense approach, hence adding to the holding.

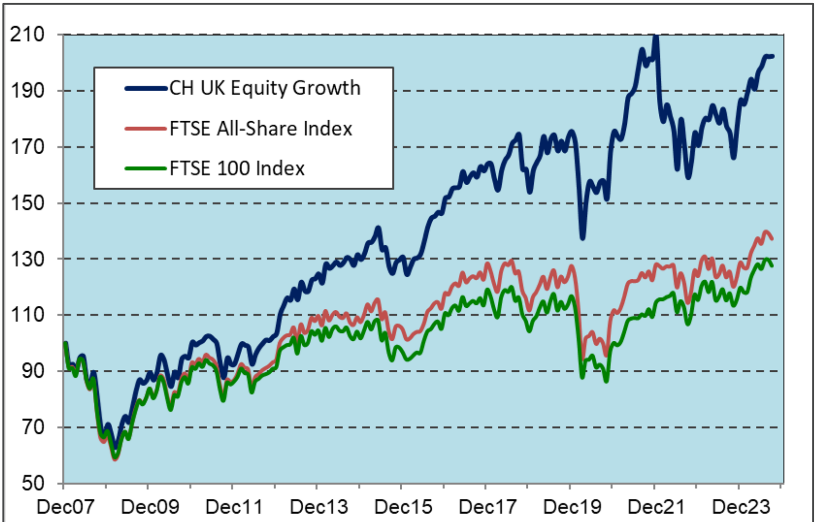
Calendar Year Performance:

YTD	2023	2022	2021	2020	2019
+8.3%	+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



Past performance is not a reliable guide to future performance

Source: Church House, Bloomberg

Church House Balanced Equity Income

	30 Sep 2024	28 Jun 2024	Quarter
CH Balanced Equity Income*	186.9	179.5	+4.1%
FTSE All-Share Index	4511	4452	+1.3%
FTSE Higher Yield Index	3805	3814	-0.2%
FTSE Index-Linked All Stocks	499.8	493.9	+1.2%
Composite Benchmark**	119.1	118.3	+0.7%

*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.*

It has been a good quarter for the Balanced Equity Income portfolio, which has seen a bit of a shuffle in the top holdings. *Craig Elsworth writes:* In a reversal of recent trends, UK small and mid-capitalisation companies outperformed the FTSE 100 Index over the period. Stock specific reasons aside, strong sterling affecting the short-term earnings of large UK companies (large portion of revenues generated internationally) and a narrowing of the wide valuation disparity between large and small capitalisation companies, are perhaps the drivers.

Given an alarming number of geopolitical concerns, not least, the upcoming US presidential election, is it perhaps time to think of the UK as the proverbial 'port in the storm'. A stable political environment (despite Labour PR disasters), a 'cheap' stock market vs international peers (just look at the number of bids for UK companies) and an improving macroeconomic backdrop would support this view. Now, just don't do anything silly in the upcoming budget, Chancellor…

Having started the period with a sizeable cash balance, we added to positions in **Schroders** and **Croda** on the back of weak figures. Both businesses are going through a period of restructuring/market repositioning and are 'cheap' on a valuation basis, with reasons to be positive moving forward. More cash came from our sale of the long-standing holding in **Britvic** following the takeover proposal from **Carlsberg**. The transaction is under investigation by the Competition & Markets Authority and we opted to take the prudent approach, selling our holding at a modest discount to the bid price.

A new holding in the portfolio is **BT Group** (we have held them before), a widely recognised name who, under new leadership, seem to be running a much leaner operation. The shares trade on a depressed valuation and offer a good dividend yield, with the prospect of significantly increased cash flows as the business has moved past peak capex spend on full fibre. Another new holding is **Breedon Group**, a vertically integrated construction materials group operating in GB, Ireland and now the US. The business is highly cash generative and has delivered consistent returns through a combination of organic growth and M&A.

Top 15 Holdings - 30 September 2024	
AstraZeneca	5.8%
RELX	4.8%
Unilever	4.8%
GSK	3.7%
Barclays	3.4%
National Grid	3.1%
BAE Systems	3.0%
Bunzl	3.0%
Aviva	2.9%
Rio Tinto	2.8%
Sage Group	2.7%
Diageo	2.6%
Halma	2.4%
Cranswick	2.3%
BT Group	2.3%

BAE Systems slides down the list after we took a significant profit from the holding. Low exposure to the Middle East conflict, a lengthy visible order book, the prospect of a forced settlement in the Ukrainian war (Trump presidency) and economic sector rotation out of industrials were among the drivers for this decision.

Bunzl and **Unilever** climb the list on the back of strong figures, which helped to offset the poorer performance from **AstraZeneca**. Food producer **Cranswick** appears in the list after more good figures propelled their shares higher along with the new holding in BT Group.

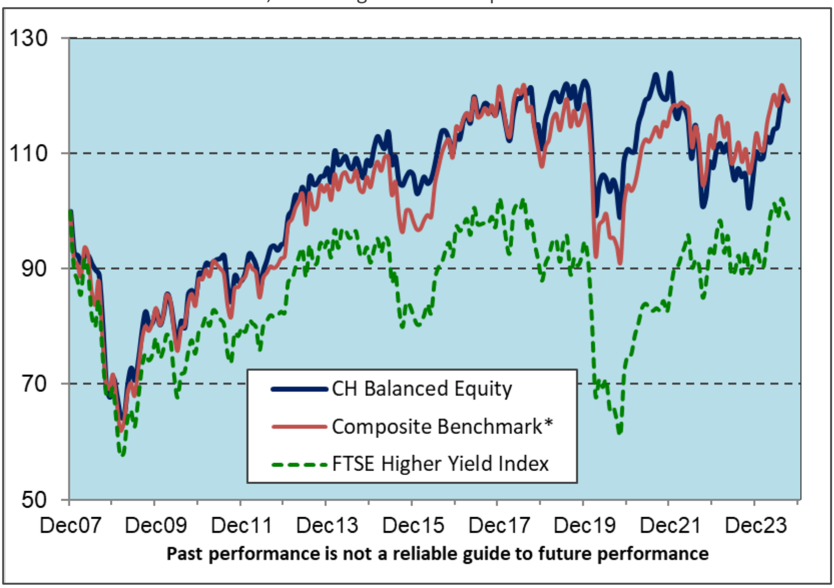
Calendar Year Performance:

YTD	2023	2022	2021	2020	2019
+9.6%	+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

	30 Sep 2024	28 Jun 2024	Quarter
CH UK Smaller Companies*	150.0	151.1	-0.7%
FTSE All-Share Index TR	9948	9729	+2.3%
FTSE AIM All-Share TR	900	925	-2.7%

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

Overall, it was a dull quarter for smaller companies in the UK with the AIM market nervously awaiting news from the Chancellor in the budget.

Rory Campbell-Lamerton writes: with cash due in from the takeover of **Keywords Studios** by **EQT Investors**, the UK Smaller Companies portfolio was able to use the August volatility to add to a few positions and initiate a new holding in **Raspberry Pi**.

Raspberry Pi was founded in 2008, by the current CEO, Eben Upton, with the goal of bringing coding and technology literacy to a much wider audience. Over the past fifteen years it has sold over 60m units of its low-cost, high-performance computers to industries, schools and enthusiasts across the world. The beauty of Raspberry Pi computers is that they can be used across everything from automation (e.g. developing your own 'Smart' home) to learning, where many schools have used their devices in their curriculums.

The stock came to the market via an 'IPO' (initial public offering) in June, we began to buy in early August and have been slowly increasing our position since then, joining **ARM** and **Sony**, who are strategic investors in the business. The IPO raised over $200m, which will be used to accelerate product development and support the Raspberry Pi Foundation's charitable initiatives. It is pleasing to see a UK IPO this year (there have only been two so far), especially one that has been so successful.

We topped up two of the holdings in the industrials sector, **Judges Scientific** and **Ashtead Technology**, we met both of these companies over the quarter and continue to rate them highly. A setback in their share prices during August presented a good opportunity to add. We remain confident that these businesses will continue compounding and outperforming their peer groups over the long term. The period also saw the completion of the merger between our holding in **Redrow** and **Barratt Developments**.

Top 15 Holdings - 30 September 2024	
Diploma	6.7%
Judges Scientific	6.1%
Greggs	5.6%
Beazley	5.4%
Cranswick	4.5%
Porvair	4.5%
Keywords Studios	4.1%
Big Yellow Group	3.9%
Trainline	3.8%
Ashtead Technology	3.6%
Young & Co's Brewery	3.4%
Fuller, Smith & Turner	3.4%
Somero Enterprises	3.2%
Softcat	3.1%
Bellway	2.9%

Results in the consumer staples and discretionary sectors have started to pick up with particularly strong statements from **AG Barr**, on the back of their increasingly diversified portfolio, and **Greggs**, on continued store growth. Both have seen strong share price performance over the summer.

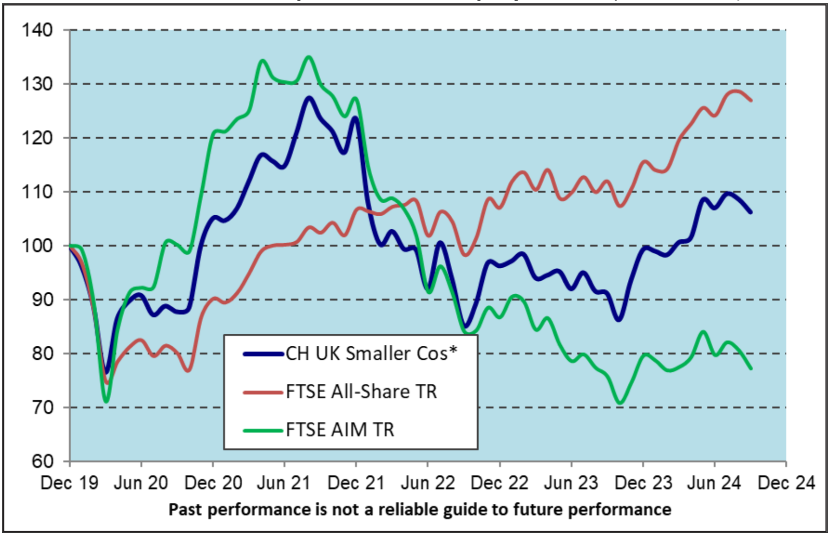
Despite our worries that we continue to see UK stocks, especially at the smaller end, being 'cherry-picked' by private capital because of cheap valuations, we remain confident that after a few years in the doldrums, smaller companies look to be set fair.

Calendar Year Performance:

YTD	2023	2022	2021	2020
+7.0%	+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)



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

	30 Sep 2024	28 Jun 2024	Quarter
CH Esk Global Equity*	467.7	468.0	-0.1%
CH Global Index in £	1568	1571	-0.2%
MSCI World in $	3723	3512	+6.0%
FTSE 100 Index	8258	8164	+1.2%

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

The Esk Global Equity portfolio has been constrained by the strength of sterling this quarter and shows little change over the period. *Fred Mahon writes*: From the headline return figures one would be excused for thinking that it has been a lovely year to be a global equity investor, with all the major global indices rising by double digits. In reality, it has been a relatively exclusive party, with the majority of returns being driven by a small number of mega-cap US technology names (the now famous Magnificent Seven). Esk does own four of these favoured companies (**Apple**, **Microsoft**, **Amazon** and **Alphabet**) but our lack of holdings in **Meta** and **Nvidia** in particular meant that while we have generated respectable returns this year, we are still lagging the major world indices.

Top 15 Holdings - 30 September 2024	
Alphabet	4.8%
Microsoft Corp	4.8%
Mastercard	3.8%
Amazon.com	3.7%
Apple	3.6%
Oracle Corp	3.5%
Stryker Corp	3.5%
RELX	3.4%
Investor AB	3.2%
LVMH	3.0%
Ferrari	3.0%
Hermès	2.6%
Intuit	2.6%
Johnson & Johnson	2.6%
Unilever	2.6%

Nonetheless, positive returns have not been exclusively limited to the Tech sector in 2024 and we have seen strong performance from a wide variety of businesses within the portfolio. In the luxury sector, **Ferrari** shares have defied the gloom seen elsewhere in both automotive and consumer markets to hit all-time highs at the end of the summer. We have been shareholders in Ferrari since 2021 and the business now ranks as a top fifteen position in Esk. We believe that Ferrari has a unique global brand on par with the likes of Louis Vuitton or **Hermès** and the pricing power this brings is exceptional, even in tougher times.

We added to our holding in dental implants maker **Straumann** after a fascinating meeting with their CEO and are pleased to report that shares have since picked up nicely. Straumann may be listed in Switzerland, but they are a truly global business and are the best at what they do – after a softer few quarters while demand for cosmetic dental procedures waned post-lockdowns, it looks like we are returning to more normal conditions, and we fully expect Straumann to march ahead against this backdrop.

Our holding in **UnitedHealth** has also recovered from an uncharacteristically weaker time post-COVID, with shares now comfortably above their previous highs set in 2022. UnitedHealth is a huge player in the US insurance market, generating best-in-class financial returns while also managing to grow in double-digits – a remarkable feat in an industry one would have thought of as relatively mature. On the other side of the coin, it has been a year to forget for **Nestlé**, who have seen their share price fall back to 2018 levels on the back of slowing growth and margin pressure. It feels to us like the business needs more than a shot of Nespresso to get them back to their previous winning ways and we were pleased to see the appointment of a new CEO earlier in the year, who promises to update the market before long with his plans for re-energising this Swiss giant. With the US election just around the corner we have plenty of scope for market volatility over the next few months and, as always, we will stand ready to act if we see opportunities arise. In the meantime, Esk's top holdings remain consistent.

Portfolio Statistics

Number of holdings	43	Volatility*	8.8%
Portfolio Value	£71.3m	Income yield	0.3%

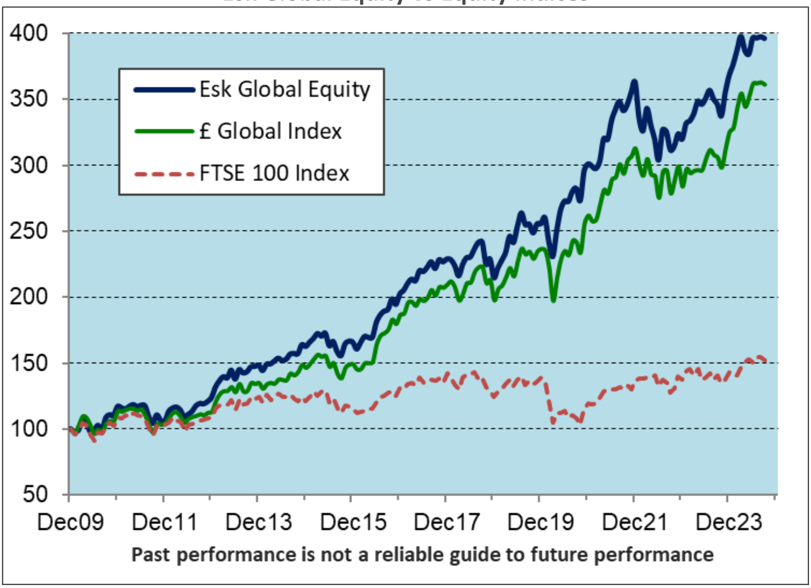
**Annual standard deviation of monthly capital returns expressed as a percentage, past year*

Calendar Year Performance:

YTD	2023	2022	2021	2020	2019
+7.6%	+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 Human Capital

	30 Sep 2024	28 Jun 2024	Quarter
CH Human Capital*	100.9	100.0	+0.9%
CH Global Index in £	1568	1571	-0.2%

*Source: Bloomberg *Bid-to-bid price*

Our new Human Capital fund has completed its first quarter and is close to being fully invested. *Fred Mahon writes*: it has been a busy first quarter for the Human Capital Fund putting our seed capital to work. At the point of writing, we are 90% invested in a list of 23 companies and expect to be close to 100% by the end of October.

One of the great joys of establishing, and now running, Human Capital has been the number of one-to-one company meetings that we are having. The quieter summer months were an ideal time to speak to management teams on a less formal basis than the traditional results roadshows that tend to focus far too much on short-term trading. Thanks to the persistence and persuasion of Rose (our analyst for these companies), we were able to have first-time meetings with the leaders of thirty-five businesses over the quarter, headquartered from the Arctic Circle to sunny Sydney.

Top 15 Holdings - 30 September 2024	
Installed Building Products Inc.	4.8%
Lifco AB	4.7%
Brenntag SE	4.6%
Lagercrantz Group AB	4.5%
Siteone Landscape Supply Inc.	4.5%
Momentum Group AB	4.4%
Topbuild Corp.	4.4%
Indutrade AB	4.3%
Diploma plc	4.3%
Addtech AB	4.3%
Topicus.com Inc.	4.2%
Judges Scientific plc	4.1%
Watsco, Inc.	4.0%
Addnode Group AB	4.0%
Lumine Group Inc.	3.9%

Of these Human Capital candidates, two new names stood out head-and-shoulders above the rest and have now been added to the Fund. These are:

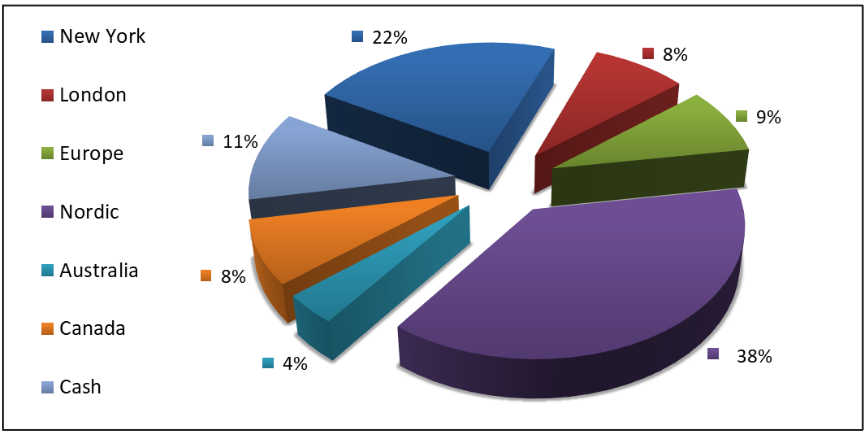
- **Savaria Corporation:** listed in Canada, Savaria are a leading manufacturer of stairlifts, home elevators and wheelchair lifts, predominantly in North America and Canada. It is the most remarkable example of how to build a successful business in an unglamorous but very necessary niche. Savaria as it is today commenced in 1989, when Marcel Bourassa purchased a small but profitable wheelchair lift company based in Canada called Savaria. Over the next thirty-five years Marcel steadily built the business through organic expansion (into new regions and adding more products) and via acquisitions. Since IPO in 2002, Savaria equity has compounded at over 27% annually and we believe that there is plenty of runway for further exceptional growth.

- **Comfort Systems:** listed in the US, Comfort Systems (CS) was established in 1997 when twelve unloved air conditioning contractors were merged to form a holding company. From this point CS went on to acquire forty-five more 'mom-and-pop' contractors in the HVAC (Heating Ventilation Air Conditioning) sector, spread across over 170 locations in the US. CS equity has compounded at over 20% since the early-2000s and they make astronomic returns on capital. CS's Chief Executive, Brian Lane, is aligned with investors to the tune of his $80m shareholding in the equity and we are happy to have joined him as shareholders.

A fascinating part of our work with Human Capital so far is that the more people we meet, the longer our list of potential new ideas seems to become. As with the introduction to Comfort Systems, there exist networks of outstanding and like-minded management teams, investors and often family groups that are more than happy to tell us all about other businesses that they look to as guiding lights. In the case of two holdings in the Fund (one German, one British), their two chief executives attend the **Berkshire Hathaway** annual meeting together each year and have become firm friends, despite being in completely different sectors.

While we will be disciplined in keeping the number of holdings in the Fund relatively focused, our watchlist of companies that we are looking to meet and are actively following is now over forty and span all corners of the developed world. As we head into the final quarter of this year, we have all the ingredients for a spike in volatility (US elections and rates moves to name two). In the meantime, we will keep our heads down and focus our efforts on investing in the highest quality Human Capital businesses and look for any market opportunities to add on weakness.

CH Human Capital, Split by Country of Listing **– 30 September 2024**



Source: Church House

Church House Tenax Absolute Return Strategies

	30 Sep 2024	28 Jun 2024	Quarter
CH Tenax Absolute Return*	169.8	165.9	+2.4%
Cash Return (SONIA)**	111.9	110.4	+1.3%

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

The Tenax multi-asset portfolio had another positive quarter. Other than some detail movements, our activity was at the lowest level of the year so far as we saw no reason to vary the strategy over the summer. Our table below of the mix of asset types in the portfolio and change over the course of the year shows the cash balance returning to a more normal level and modest changes elsewhere:

CH Tenax Fund - Allocation to Asset Classes – 2024

2024	29-Dec-23	28-Mar-24	28-Jun-24	30-Sep-24	YTD
Cash	0.2%	1.1%	3.7%	0.7%	0.5%
Gilt / AAA Fixed	2.1%	1.4%	1.6%	1.1%	-1.0%
FRN (AAA)	12.6%	11.8%	10.3%	10.5%	-2.1%
Floating Rate	0.0%	0.0%	0.0%	0.0%	0.0%
Fixed Interest	51.6%	54.7%	56.3%	58.9%	7.3%
Index-Linked	0.6%	0.6%	0.7%	0.7%	0.1%
Infrastructure	5.9%	4.5%	5.6%	5.3%	-0.6%
Convert / ZDP	10.2%	7.4%	3.9%	4.0%	-6.2%
Alternative / Hedge	0.0%	0.0%	0.0%	0.0%	0.0%
Property / Real	5.0%	5.3%	4.3%	4.6%	-0.4%
Equity	11.8%	13.1%	13.8%	14.1%	2.3%

Source: Church House

The Fixed Interest proportion has increased the most, partly from price gains and partly as we added a new holding in a longer-dated bond from **Aviva**, replacing a smaller holding from another of the insurers, **Phoenix**. Also gone from the list is a shorter-dated bond from **Anglian Water**.

The FRN (floating rate note) holdings are unchanged at present but, as with the Fixed Interest portfolio, we are likely to reduce these again soon, preferring to 'fix' our returns at this point in the cycle. The Infrastructure holdings remain under something of a cloud, notably the battery storage companies, **Gresham House Energy Storage** and **Harmony Energy Efficiency**, hopefully some more clarity on the new government's policies, particularly in relation to planning, will assist. There were no changes in the Convertible / ZDP (zero dividend preference) holdings.

The commercial property investments, **Land Securities**, **Primary Health Properties** and **Shaftesbury Capital**, have had a good quarter, notably PHP, and we have not made any changes to the holdings.

Among the Equity holdings, we reduced the holding in **National Grid**, taking some profit from the holding as they recovered after their rights issue earlier in the year. Apart from this there were few notable movements, the banks, **Barclays** and **Standard Chartered** were better, the funds that we hold were all a shade better while **Investor AB** gained a further 7% to add to their good performance for the year.

Ending as usual with this more complex table, which shows the duration* and redemption yield** figures for the FRN and Fixed Interest portions (close to 70% of the portfolio at present), as they have developed over the year. The duration has come down as the portfolio is three months closer to maturity, as ever, this is quite a confusing number, the average time to maturity of this portfolio of bonds is around 4¾ years, the duration of 3.0 reflects the high coupon (interest) stream that the portfolio will be receiving in the meantime.

2024	29-Dec-23	28-Mar-24	28-Jun-24	30-Sep-24
Overall Duration*	3.2	3.1	3.1	3.0
Redemption Yield	6.2%	6.0%	6.0%	5.8%
Fixed Interest Duration*	3.9	3.8	3.7	3.5
Portfolio Running Yield	4.4%	4.4%	4.4%	4.4%

Source: Church House

Calendar Year Performance:

YTD	2023	2022	2021	2020	2019
+4.7%	+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.*

The US Presidential Election

Donald Trump (Republican) v. Kamala Harris (Democrat)

© *Getty Images*

The 60th US Presidential Election takes place on 5th November (appropriately for us) to elect the 47th US President. The Democratic candidate, Kamala Harris, took over from President Joe Biden when he stood down from the contest in July, to face former President, Donald Trump, the Republican candidiate.

Thirty-three of the one hundred seats in the US Senate will also be contested, along with seats for all four hundred and thirty five congressional representatives of the House of Representatives. The result of this contest is also too close to call, both parties elected new leaders last year following the removal of Republican Kevin McCarthy in October and the retirement of Nancy Pelosi in January (though she is still active in the Party, appearing to have been instrumental in persuading President Biden to stand aside).