

Quarterly Review Grecian Summer 2011

The Economic and Market Background

The credit-worthiness of America (and its treasured 'triple A' rating) is being brought into question at a time when Europe's debt problems appear to be spreading and expectations for Western economic growth are being scaled back. This is not a happy combination.

The rating agency, Standard & Poors, has just put the US on 'credit-watch negative' indicating a 50% chance that America will lose its AAA status within the next three months without a credible plan to bring down US debt. The rating agencies are also at odds with Europe's leaders over the definition of 'default' (quite clear I would have thought). After their risible performance in the run-up to the credit crunch, this is the ratings agencies doing their job properly.

Greece, of course, is broke and there is little likelihood of them achieving the reforms and privatisations planned within a sensible timeframe. But, the cost to 'core Europe' of not bailing out peripheral Europe is probably twice the cost of bailing it out. Leaving the euro area would be an expensive way to default for Greece (or the others); I suspect that we are seeing the slow grind towards a federal Europe. I enjoyed the quote that Giovanni Zanni, a Credit Suisse economist, noted at the Acropolis recently:

"The fate of Athens after its capture by Sulla in 86 BC now depended on its relation with Rome. (...) Thanks to the interest of many Roman emperors and the donation of numerous wealthy benefactors, Athens was able to be rebuilt."

There is no doubt that the burden of debts is weighing on a number of Western economies. Expectations of growth are being revised downwards here and in America: "We don't have a precise read on why this slower pace is persisting" observed Federal Reserve Chairman Ben Bernanke, adding: "some of the headwinds that have been concerning us, like ... balance sheets and deleveraging issues may be stronger and more persistent than we thought".

I have conveniently forgotten why I suggested in April that the Bank of England was likely to lift interest rates in the next couple of months – spring 2012 now looks much more likely. Our domestic economy is clearly struggling; the quarter even saw the demise of Habitat (nostalgic for those of us of a certain age) along with big losses at Dixons and many retail 'reorganisations'. At least we are not in the eurozone ..

These uncertainties continue to support government bond markets, where the sovereign credit is deemed to be good, along with the bonds of high grade corporate issuers. An interesting situation for the US bond market, still a 'safe haven' with ten-year bonds yielding less than 3% but what if ..

Equities are interesting: they are not expensively rated and continue to look cheap versus long-dated bonds. First quarter earnings for the major international companies (exposed to world markets, not just the struggling economies) were strong and, in America the second quarter earnings reports are just starting to come through.

It could be a long hot (!) summer, at least the oil price is turning down ..

James Mahon, July 2011

Regulation Corner and Risk Warnings

I should remind you that investing in stock markets and other assets is risky, if you have any doubts about the investments in your portfolio or any changes in your circumstances which might affect the way we invest your money then do, please, get in touch.

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.

Information on our funds is interspersed through this Review. Some, or all, of these funds feature in most portfolios and the warning above is pertinent to each of them as well as to investment portfolios generally. The main risks they face arise from market price and interest rate risk. They have no borrowings, or unlisted securities of a material nature, so there is little exposure to liquidity or cash-flow risk. We review the policies for managing these risks on a regular basis.

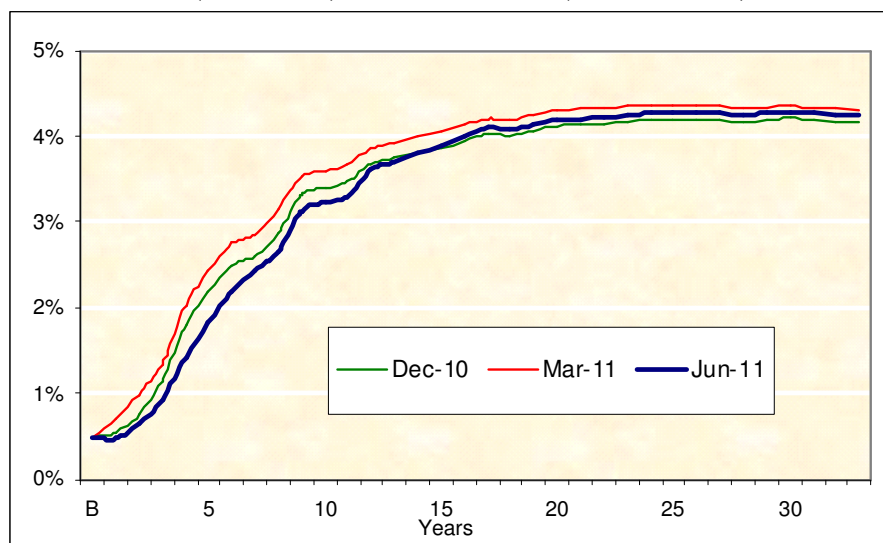
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The UK Economy and Interest Rates

As the optimism of the first quarter faded, expectations for an increase in base rates were quickly moved out again. It is now expected that the Monetary Policy Committee (MPC) of the Bank of England will hold the base rate at one half of one per cent into 2012. This expectation is reflected in our chart of the yield curve below: while in March (the red line) the view was clearly for an increase in base rates soon, the more sombre mood of the last few months has pushed this expectation out again (the blue line). Longer-term interest rates are not moving as much, so the slope of the curve is still upwards and indicating a recovery, but the timing remains uncertain.

UK (Government) Interest Rates 2011 - (The Yield Curve)



B = Base rate Source: Church House

While the headline inflation figures still make for grim reading, there is scope for suggesting that we may be past the worst. Annual Consumer Price Index inflation at 4.2% in June remains at more than twice the Bank's target rate (RPI was 5%) but was, at least, somewhat better than expected. Some fairly shocking price increases for gas and electricity prices are due in the autumn and these may push the rate higher again but 2012 should provide rather more comfort. The so-called 'doves' on the MPC must also be relieved as their position was becoming increasingly untenable with inflation being consistently so far above target. Further good news for them was that the fall came despite an increase in energy prices; the 'core' inflation rate is noticeably lower.

Economic growth forecasts for 2011 are being edged down with depressing regularity. Something around 1¼% growth now looks likely compared with expectations closer to 2% at the beginning of the year. Essentially, I think this is all about debt. Private consumption

(our spending habits) remains weak and consumer confidence is low. A 'normal' recovery would have seen higher growth by now but it simply is not happening, individuals are seeking to rein-in their debts, as Lombard Street put it in a recent note:

“The abnormal recovery is going to remain that way for some time. Cuts in real public spending are going further than at any point in the post-war period – about 14% over the course of this parliament. Although monetary policy remains on an emergency setting, frailties in the banking system and the excessive household debt mean that it is having difficulty gaining traction.”

We have long maintained that the recovery would be a slow process; now it looks as if it will be even longer and even slower than I thought.

John Maynard Keynes identified a 'paradox of thrift' in his 1936 opus *The General Theory of Employment, Interest and Money* (though he was building on earlier work by others). Essentially this suggests that what might be good and sensible for an individual – to save and thereby enrich himself – may well not be good for the economy in general even though it is made up of many individuals. So if all save to enrich themselves the economy will suffer from a lack of demand and, ultimately, they will all suffer too.

In today's context, individuals are 'saving' to reduce their debts while the Government is simultaneously cutting back on its expenditure. That just leaves corporate spending (slow to get going) and exports to take up the slack.

MPC and FPC

There appears to be an avalanche of new initials and acronyms to contend with. To add to the MPC we had the OBR (Office for Budgetary Responsibility) and now we have the FPC (Financial Policy Committee). Actually this is an *interim* FPC prior to legislation which will establish the *permanent* FPC. To quote the Bank of England:

“The FPC will contribute to the Bank's financial stability objective by identifying, monitoring, and taking action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. In advance of formal legislation, the interim FPC is 'paving' the way for its future statutory functions by carrying out preparatory work for the permanent FPC, including in-depth analysis of potential macro-prudential tools, on which it will provide advice to the Treasury.”

So that means no more asset price bubbles or financial crises, the FPC will be way ahead of the rest of us, having spotted and rapidly dealt with any excessive exuberance with the application of a macro-prudential tool or two. I wish it did not remind me so much of the triumvirate that was in charge before the 2008 crisis. Less cynically, I am concerned that identifying 'bubbles' is notoriously difficult and that there is a real risk that over zealous application of macro-prudential tools (almost certainly rules and regulations) will simply snuff out nascent economic growth.

Long-Term Cycles

Leigh Skene and Greg Opie of Lombard Street Research have just written an interesting report: *Trends, cycles and revolutions – The rhyme of history in the reason of markets*. The Report looks at major long-term cycles and suggests that repetitive behaviour underlies those cycles, they quote Mark Twain: “History does not repeat itself, but it does rhyme.” The Report covers different types of long-term cycles but has this passage on credit cycles:

“Charles Mackay initiated the discussion of credit cycles in *Extraordinary Popular Delusions and the Madness of Crowds*, first published in 1841. Present day economists still refer to the three chapters on economic bubbles. In 1974, Hyman Minsky explained the unfolding of credit cycles with his *Financial Instability Hypothesis*.

It identifies three types of debt financing: hedge (borrowers can pay principal and interest from income, so risk is minimal); speculative (borrowers can pay interest from income, but need liquid financial markets to refinance the principal at maturity, so defaults rise when liquidity is impaired); and Ponzi (borrowers can't pay either interest or principal out of income, so need the price of the asset to rise to service their debts and defaults soar when asset prices stop rising). Confidence (read greed) rises over a prolonged period of prosperity, so a capitalist economy moves from hedge finance dominating its financial structure to increasing domination by speculative and Ponzi finance.

Financial markets and the economy are relatively stable when hedge financing dominates, but become ever more unstable as the proportions of speculative and Ponzi finance rise. The rising instability causes cycles of increasing severity until fear takes over and markets suffer a self-reinforcing spiral downward. Then lending standards tighten until hedge financing dominates once again. Such debt is self-liquidating and creates few, if any, problems and so sets the stage for the next period of prolonged prosperity. The credit cycle described by Minsky's *Financial Instability Hypothesis* doesn't need an external shock to cause a business cycle. Instead, cycles result from greed and fear interacting with the regulators designed to keep the financial markets and the economy operating within reasonable bounds.

Significant changes to credit availability greatly increase the amplitude of credit cycles. The resultant spectacular rise in the price of assets and the even more spectacular crashes affect financial markets for many years. Four such credit and asset price spirals and crashes have occurred – tulip mania in the Dutch Republic in 1637, a British and French joint stock company bubble in 1720, a US real estate bubble in 1837 and an American and European stock market bubble that peaked in 1929. A fifth bubble, real estate in several countries, burst in 2007, but the resulting crash isn't following the pattern of the preceding four.”

In their conclusion they note:

“Identifying cycles helps us understand our history. Major changes in credit availability enabled greed to create spectacular debt-fuelled booms and crashes in asset prices at 79-116 year intervals in the last four centuries. The extremes of greed and fear exhibited in credit cycles show human emotion is the strongest factor in asset markets by far.”

And set out the four major “headwinds to growth” that confront developed nations:

1. the deflationary effects of the end of the credit cycle,
2. the demographic time bomb,
3. potential shortages in and rising costs of water, food and energy and
4. mushrooming government spending [which] is crowding out private sector spending.

The FTSE APCIMS Indices

The table below shows the performance of the Private Investors' Indices from the Association of Private Client Investment Managers and Stockbrokers (APCIMS) for the quarter, excluding income. These are based on long-term model portfolios of APCIMS members and are designed to give private investors a benchmark against which to judge their own portfolios.

Private Investors' Indices	30 June 2011	31 March 2011	% Change
Income ¹	2329.7	2307.7	+1.0%
Balanced ²	3006.4	2984.8	+0.7%
Growth ³	3445.9	3426.4	+0.6%

Source: FTSE Group in association with APCIMS

¹ Their Income portfolio currently contains 40% UK equities, 15% international equities, 35% bonds, 5% cash, 2.5% commercial property and 2.5% hedge funds.

² The Balanced portfolio has 42.5% UK equities, 25% international equities, 20% bonds, 5% cash, 2.5% commercial property and 5% hedge funds.

³ The Growth portfolio has 47.5% UK equities, 32.5% international equities, 7.5% bonds, 2.5% cash, 2.5% commercial property and 7.5% hedge funds.

UK equities = FTSE All-Share Index, international equities = FTSE World (ex UK) Index; bonds = FTSE Gilts All Stock Index. Cash = 7 day LIBOR less 1%; commercial property = FTSE UK Commercial Property Index and hedge funds = FTSE APCIMS Hedge (IT) Index.

Footnote

FTSE APCIMS have now introduced two new indices: ‘Stock Market Conservative’ at the lower risk end and ‘Stock Market Global Growth’ at the opposite end of the spectrum. I will include figures for these two next quarter.

Church House Investment Grade Fixed Interest Portfolio

	30 June 2011	31 March 2011	%
CH Investment Grade* -	104.1	102.9	+1.2%
iBoxx AA Corporate 5-15 year	84.1	83.3	+1.0%
FTSE 5-15 year Gilt	172.4	171.6	+0.5%
CH Investment Grade - Accum.	125.9	123.5	+1.9%
ML AA Corp 7-10 years**	230.3	223.7	+2.9%

*bid price to bid price, excluding income. **Total Return Index. Fees are split 50/50 capital/income.

The Fixed Interest portfolio is relatively complex so we have devoted extra space to it in the hope of adding some more clarity. This page looks at movements in the portfolio since the end of March. Jeremy's economic and credit market commentary follows overleaf; then there is the portfolio itself and some more analysis of the mix of investments within the portfolio.

Fixed Interest Portfolio Statistics – 30 June 2011

Short-dated Securities (less than 5 years)	23.3%
Medium-dated Securities (5 to 15 years)	57.1%
Long-dated Securities (over 15 years)	18.7%
Average Life of Holdings	10.3 yrs
Duration of Portfolio (Macaulay)	6.2 yrs
Number of Holdings	122
Gross Yield	4.3%
Net Yield	3.4%
Portfolio Value	£51.2m

The table above gives the overall picture of the portfolio: there are 122 investments, principally in fixed interest securities, with an average life to maturity of just over ten years. The current gross income yield is around 4.3%. So, the overall life of the portfolio is around three months longer than it was in March and the income yield has fallen a shade, in line with yields generally.

There have been a number of transactions in the portfolio. Some result from new issues where we have an existing interest but could improve our terms, so: we switched from an existing holding of **Abbey National** 4.125% 2017 to a new issue from Abbey National of 5.125% 2021 stock. Similarly we switched from an existing holding of **Leeds Building Society** 4.875% 2020 into a new Leeds 4.25% 2018 on better terms. And in the same vein we sold the holding of **Coventry Building Society** 6% 2019 to re-invest in the higher-rated Coventry 4.625% 2018 issue.

There have also been some switches within particular sectors where we felt that we could improve our return: among bank issues we sold the holding of **Lloyds TSB** 6.75% 2018 and re-invested in **Bank of Scotland** 9.375% 2021. In utilities we sold the holding of **Wales & West Utilities Finance** 5.125% 2016, along with the small holding of **Southern Gas Network** 5.125% 2018, while taking a new issue of 5.125% stock 2023 from **London Power Networks**.

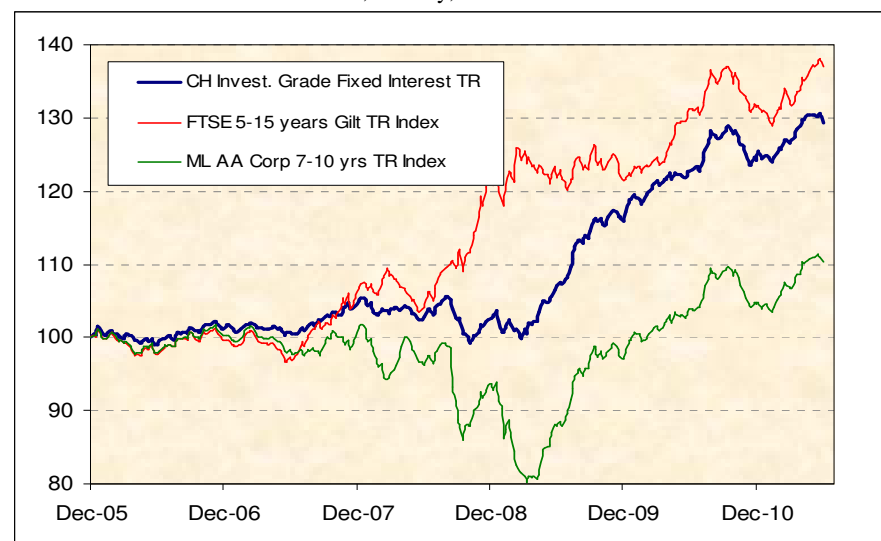
Replacing some of the issues of floating rate notes that matured during the quarter there is a new issue from **Rabobank Nederland** of FRN due 2014. Other new holdings in the portfolio include several from life assurance companies. We have gradually built-up a holding in the long-dated **Aviva** 6.625% 2041 along with new holdings of **Old Mutual** 8% 2021 and **Friends Provident** 8.25% 2022. There is also a new long-dated holding of **BAA** 5.875% 2041, while gone from the portfolio are the small holding of **BUPA Finance** 7.5% 2016 and the **Credit Agricole** 5.5% 2021 (too many Greek debt concerns with that latter issue).

Calendar Year Performance

YTD	2010	2009	2008	2007
3.3%	7.1%	11.9%	-3.0%	2.4%

Source: Church House Investments, bid price to bid price, net income re-invested.

CH Invest. Grade Fixed Interest Portfolio v. Gilt and AA Corporate Securities Bid Prices, Weekly, Income Re-Invested



Source: Church House

Credit Market Commentary – Jeremy Wharton

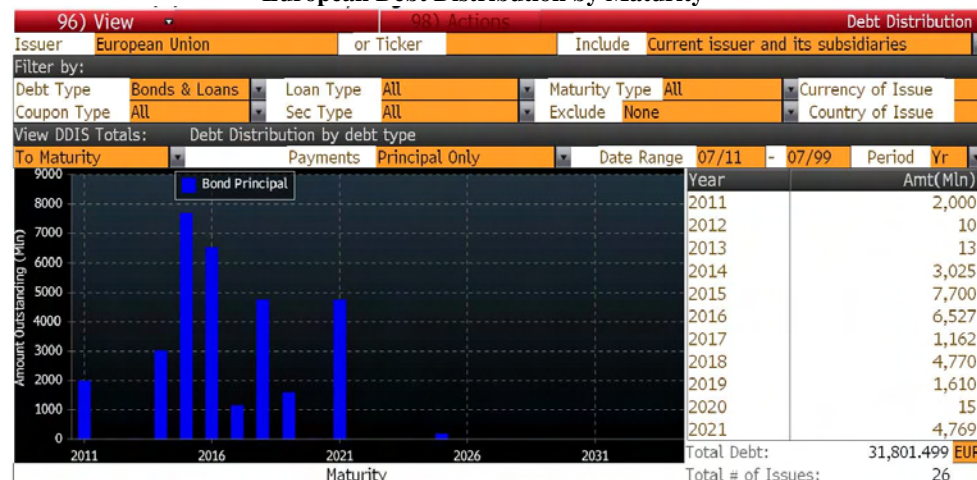
The peripheral sovereign debt shambles remains an acutely serious situation that has wide reaching short, medium and long-term consequences. In the short-term political brinkmanship has played a role in delaying the finding of a viable means of bailing out these countries. The most obstructive has been Angela Merkel, in many ways this is understandable as the German people know that they will end up paying the lion's share of any bailout. Tough. As the providers of most of the political will to force the flawed single currency project that is the euro into existence in the first place this is the price they will have to pay. The immediacy of a proper means to fund the debt piles (only allowed to be amassed because of the synthetic credit enhancement of currency union) is vital if contagion is not to spread to the likes of Italy - everyone now knows that their debt mountain is the third biggest after the US and Japan at €1.3tn (so hardly peripheral). Yields on Italian bonds have risen recently although have since retreated from the danger level of 7%; maybe the Italians will get away with it. At least Italy has an economy and if Bungalersconi can be sat on for long enough they have a chance of enacting enough fiscal belt-tightening to rebalance their economy. Greece on the other hand is bankrupt and the pathetic size and structure of their economy has no chance of servicing, let alone repaying, the €350bn of debt they have been able to amass. So they either default in a disorderly fashion with dire consequences for the Eurozone banking system or someone else has to pay their liabilities for them.

I have said this before but, from a UK perspective it doesn't bear thinking about what our position would be if we had joined the euro or the coalition had not instigated our own fiscal austerity measures, we have to hope these are fully enacted. Commentators and politicians who disingenuously blame our own indebtedness on 'bankers' conveniently disregard the fact that we were living beyond our means and the banking crisis was not responsible for creating monsters such as an NHS with an annual budget of over **£100bn**, a similar figure to the total end cost of propping up our banks, the stakes in which will probably turn an eventual profit.

The long-term consequence of these bail-outs has started as Portugal, Ireland and Greece have now ceded economic sovereignty to Brussels and the IMF, a significant step towards Eurozone fiscal union. Another consequence is that we now have European Government debt. Sorry, European Government, who they, you might ask? However, look at the slide opposite showing the distribution of **European Union** debt, all €32bn of it, issued either by the EU or the EFSF, a 'sovereign' agency, and guaranteed by the members of the Eurozone; fantastically some of whom are being, or are about to be, bailed out. Remember one of the central tenets of the EU, under the no bail-out clause in Article 125 of the Maastricht Treaty, was that it would not assume the debts or liabilities of its member states? Well, the fudge for that seems to be to go straight to being a Sovereign...sounds a bit Federal to me.

The short and medium-term consequences of this mess are that the bouts of volatility that they induce cause the capital markets to close - in particular to the issuance of corporate and bank debt. European corporates need access to funding in order to promote the growth needed to fund the European economic recovery, in turn, needed to fund the Sovereign debt situation - and so we go round in circles.

European Debt Distribution by Maturity



Source: Bloomberg

Guarantors listed for EFSF 2.75% 2016, a 'sovereign' agency with AAA rating:

Federal Republic of Germany	Republic of Austria
French Republic	Republic of Cyprus
Grand Duchy of Luxembourg	Republic of Finland
Kingdom of Belgium	Republic of Italy
Kingdom of Spain	Republic of Malta
Kingdom of the Netherlands	Republic of Slovenia
Portuguese Republic	Slovak Republic

European banks also need to be able to access the capital markets to fund themselves and if these are closed we have a potentially disastrous liquidity crisis which if coupled with write-downs, haircuts or defaults on ECB holdings, bankrupts the entire Eurozone banking system. In the face of all of this the ECB has considered it wise to raise rates from 1% to 1.5% despite 90% of Spanish mortgages being on a floating rate linked to Euribor. As a result, European investment grade issuance in June has been a meagre \$18bn compared with \$40bn in May. High yield (junk), an asset class that continued to receive large yield-chasing inflows in the earlier part of the year, has seen issuance completely dry up in the face of this volatility; these issuers need to be able to do just that, some investors might learn what 'jump to default' means. The uncertainty and volatility has been reflected in credit spreads (the difference between the risk-free rate and cost of funding for corporates) which have widened significantly over the quarter and reflected by CDS indices, the Itraxx IG widening from 95 to 125 and the XOVER trading up from 380 to 465. These moves have, in part, been mitigated by a drop in yields in 'quality' sovereigns with the UK two-year halving from 1.40% to 70bp and the ten-year from 3.8% to 3.1%, driven by feeble economic data, pushing rate hike expectations way into 2012 and beyond.

Cont. after portfolio details ..

Church House Investment Grade Fixed Interest Portfolio - 30 June 2011

Rating	Security	Weight	Rating	Security	Weight	Rating	Security	Weight
	<i>Floating Rate Notes</i>							
BBB	Standard Chartered FRN	0.6%	BBB	Yorks Water 6% 2017	1.0%	BBB-	Old Mutual 8% 2021	1.0%
A+	Barclays Bank FRN	0.3%	A-	A T&T Inc 5.875% 2017	0.5%	AAA	EIB 5.375% 2021	0.7%
A	Bank of America FRN	1.0%	A	Goldman Sachs 6.125% 2017	1.5%	A-	Legal & Gen. 10.125% 2021	0.7%
A+	JPMorgan FRN 2012	1.1%	BBB	Thames Water 5.375% 2017	0.5%	A	CNP Assurances 7.375% 2021	1.4%
AA+	Dexia Credit GG FRN	1.0%	BBB+	Anheuser Busch 6.5% 2017	0.6%	AA	Nat Australia Bk 5.125% 2021	1.0%
AAA	EIB FRN 2014	0.9%	AAA	KFW 5.625% 2017	1.5%	BBB	Friends Provident 8.25% 2022	1.0%
AAA	Rabobank FRN 2014	2.0%	AAA	EIB 8.75% 2017	1.5%	AAA	Temasek Financial 4.625% '22	0.5%
AAA	KFW FRN 2016	2.0%	A	BG Energy 5.125% 2017	0.5%	BBB	Thames Water 5.75% 2022	0.2%
AAA	IBRD FRN 2016	1.0%	AAA	GE Capital 4.125% 2017	1.0%	A	Coventry 5.875% 2022	1.0%
	<i>Short dated (less than 5 years)</i>		AAA	Rabobank 3.25% 2017	1.0%	A-	Aviva 6.125% 2022	0.7%
U/R	Asda Prop 10.31% Deb 2011	0.2%	AA	Nat Australia Bk. 3.625% 2017	1.0%	A-	Nat. Grid 4.188% I-L 2022	1.0%
A	Bank of Ireland LTII	0.2%	BBB	Telecom Italia 7.375% 2017	0.5%	BBB+	Northumbrian 6.875% 2023	1.1%
A	RWE 6.375% 2013	0.5%	U/R	Temple Bar 9.875% Deb. 2017	0.3%	A-	BAA 5.225% 2023	0.9%
U/R	Severn River 6.125% I-L 2013	0.6%	A+	HSBC 5% 2018/23	1.0%	A-	London Power 5.125% 2023	1.0%
A	RBS Capital 6.375% 2014	0.8%	AAA	Coventry B/S 4.625% 2018	1.6%	AAA	GE Capital 5.125% 2023	1.2%
A+	Santander 7.3% 2014/19	0.8%	AA-	RBS 6.625% 2018	1.0%	A-	Segro 6.75% 2024	0.2%
AAA	New York Life 5.125% 2015	1.3%	AAA	EIB 4.75% 2018	1.1%	A-	ENEL 5.625% 2024	0.9%
AA-	Roche 5.5% 2015	0.5%	A	BP Capital 4.325% 2018	0.5%	U/R	John Lewis 6.125% 2025	0.8%
AA-	Heineken 7.25% 2015	0.4%	AAA	Leeds B/S 4.25% 2018	1.0%	BBB+	BT Group 3.5% I-L 2025	0.7%
A	Lloyds 6.9625% 2015/20	1.5%	A-	Southern Water 6.125% 2019	0.5%	A	Central Nets. 5.5% 2025	1.0%
BBB	SSE 5.435% 2015 Hybrid	1.0%	A-	Rolls Royce 6.75% 2019	0.1%	A	BG Energy 5.125% 2025	1.0%
A	Soc. of Lloyds 6.875% 2015	1.1%	U/R	John Lewis 8.375% 2019	1.2%	AAA	Nationwide 5.625% 2026	0.8%
A-	Portman 5.25% 2015	0.5%	BBB	Royal Sun All. 9.375% 2019	1.4%	BBB	Gatwick Funding 6.125% 2026	0.2%
A-	United Utilities 6.125% 2015	0.8%	A-	Barclays 14% 2019	1.2%		<i>Long dated (over15 years)</i>	
U/R	Henderson Group 7.25% 2016	1.6%	BBB	Imperial 7.75% 2019	0.6%	AAA	Network Rail 1.75% I-L 2027	0.7%
BBB+	Akzo Nobel 8% 2016	0.5%	A-	Yorkshire Water 6% 2019	0.8%	A-	United Utilities 5.625% 2027	0.6%
U/R	Resolution 6.586% 2016	0.4%	AA	Westpac 5% 2019	0.5%	A	Bank of America 7% 2028	1.5%
U/R	SVG 8.25% conv. 2016	0.5%	BBB-	M & S 6.125% 2019	0.5%	A	Scot. & Southern 8.375% 2028	0.6%
	<i>Medium dated (5 to15 years)</i>		BBB+	Elec Supply Board 6.5% 2020	0.5%	AAA	Lloyds C'vd 6% 2029	1.0%
BBB	LSE 5.875% 2016	0.6%	BBB	BUPA Finance 6.125% 2020	0.5%	AA-	Statoil Hydro 6.875% 2031	0.6%
BBB	Linde 8.125% 2016	0.4%	AAA	GE 5.875% 2020	0.5%	A-	BAA 6.45% 2031	0.4%
A-	Siemens 6.125% 2016	1.1%	BBB	Eversholt 5.831% 2020	1.0%	A-	Centrica 7% 2033	0.6%
AA+	Witan 8.5% Deb. 2016	0.2%	AAA	Rabobank 4.625% 2021	1.0%	BBB+	BAT Intl. Fin. 6% 2034	0.5%
BBB	Old Mutual 7.125% 2016	1.1%	AAA	Abbey Nat 5.125% 2021	1.5%	A-	Tesco 1.982% I-L 2036	0.7%
A-	Morrisons 6% 2017	0.7%	BBB+	Lloyds 9.375% 2021	1.1%	AAA	GE Capital 8% 2039	0.6%
A-	Close Bros 6.5% 2017	1.5%	AAA	Wellcome Trust 4.75% 2021	1.0%	A	E.ON Intl Fin. 6.75% 2039	0.6%
			BBB+	Aviva 6.625% 2021	0.9%	A-	Tesco CMBS 6.052% 2039	1.0%

Church House Investment Grade Fixed Interest Portfolio (Cont.)

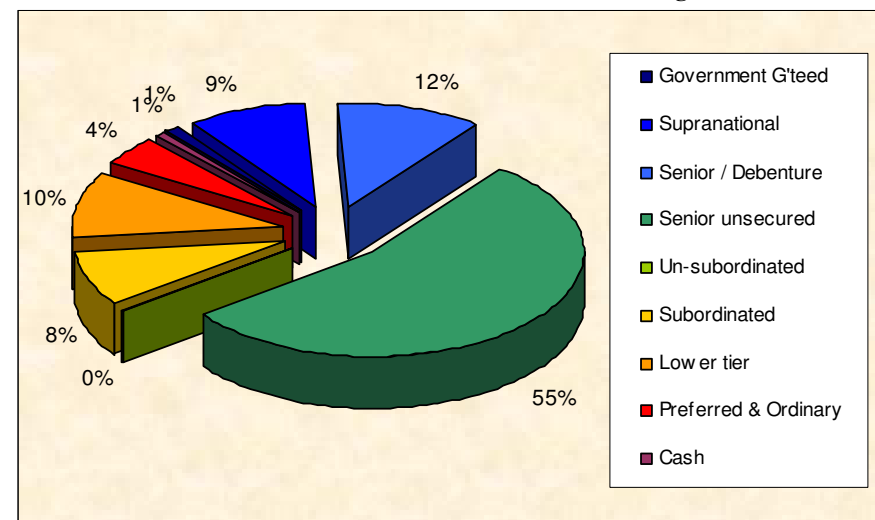
Rating	Security	Weight
	<i>Long dated (cont.)</i>	
BBB	Scotland Gas 2.317% 2039	1.0%
A-	BAA 3.334% I-L 2039	0.9%
A-	Aegon NV 6.625% 2039	0.5%
AA-	London Quadrant 5.5% 2040	0.2%
BBB+	Northern Gas 5.625% 2040	0.6%
A-	Tesco CMBS 5.744% 2040	0.4%
A+	Lloyds 6.5% 2040	0.4%
A-	BAA 5.875% 2041	0.8%
	<i>Undated (Infrastructure)</i>	
U/R	International Public Part.	1.4%
U/R	GCP Infrastructure	0.5%
U/R	HSBC Infrastructure Co.	1.7%
U/R	John Laing Infrastructure	0.8%
	<i>Govt. Guaranteed Issues</i>	
AAA	Export Canada 3.63% 2015	0.5%
	<i>Cash deposits</i>	0.9%

Credit Market Commentary – Jeremy Wharton (cont.)

Meanwhile, across the pond, Standard and Poors' and Moody's have fired a shot across the bow of politicians by putting the US on creditwatch. These politicians have decided to play with fire and their credit rating by leaving agreement on raising their debt ceiling to the very last moment (not for the first time). Hopefully, by the time you read this, not only will this ceiling have been raised to avoid near-term default but there will also be measures in place to reduce their deficit by \$3.7tn. This has to be only the beginning as the US has been living beyond its means for far too long, financed by the rest of the world, and credible long-term debt reduction needs to be enacted. Unfortunately this needs to involve raising taxes – political suicide in the US. Their problems are compounded by a weaker than hoped for recovery and continuing high levels of unemployment with no recovery in housing.

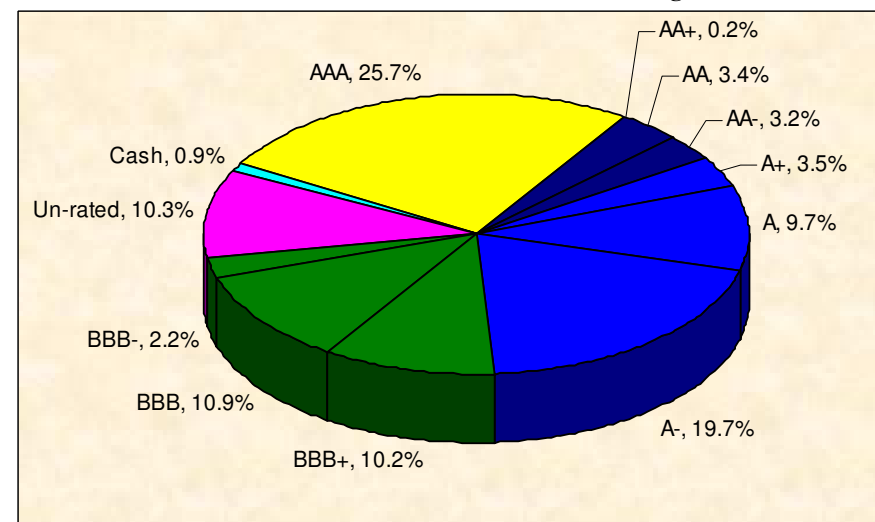
Pie Charts: As usual, the pie charts opposite provide some further analysis of the fixed interest portfolio shown on the previous page (and overflowing onto this page) as it is quite complex. The top chart shows a breakdown by ranking of the securities that we hold, showing that more than three-quarters of the portfolio is invested in those ranked as 'senior' and above; we do not have any exposure to any of the more dubious European sovereign issues. The second chart shows the breakdown by credit rating, something that is becoming more familiar at the moment with all the talk of sovereign debt ratings in Europe. The major ratings agencies use slightly different terminology – a security that Standard & Poors describes as AAA, Moody's will denote as Aaa while S&P's BBB+ broadly equates to Moody's Baa1 – for simplicity we just show the Standard & Poors terms.

CH Invest. Grade Fixed Interest Portfolio – Debt Ranking – 30 June 2011



Source: Church House Investments

CH Invest. Grade Fixed Interest Portfolio – Credit Ratings – 30 June 2011



Source: Church House Investments

UK Equity Indices

	30 June 2011	31 March 2011	Change
FTSE All-Share	3096.7	3067.7	+0.9%
FTSE 100	5945.7	5908.8	+0.6%
FTSE Mid 250	11934	11592	+3.0%
FTSE Higher Yield	3133.4	3090.4	+1.4%
FTSE Small Cap	3272.9	3222.5	+1.6%
FTSE AIM All-Share	858.0	901.4	-4.8%

Once again, the UK equity market showed little overall change on the quarter, though this disguises some volatility; over the year to date it is around one per cent higher. Sector changes do reflect a more cautious underlying tone to the market. Stronger over the period were the less cyclical sectors like *Pharmaceuticals*, where **GlaxoSmithkline** stood out; *Tobacco* companies, despite some serious wobbles at **Imperial Tobacco** which has been facing a price war in Spain; *Beverages*, led by **Diageo**, **SAB Miller** have been volatile after announcing a bid for **Fosters**, and the *Food Producers*. Counter-intuitively, the *General Retail* sector, which certainly is a cyclical sector, also had a strong quarter. Clearly the retail trade in general is having a tough time and there have been a number of high profile failures, but we are into the period when the survivors begin to prosper as the competition diminishes. **Home Retail** (Argos, Homebase) is under a great deal of pressure and their shares have fallen sharply, in contrast to **Kingfisher** (B&Q, Castorama) whose shares rose.

Weak sectors over the quarter were led by the *Banks* as European sovereign debt worries rose to the top of the list of concerns again, and, as I write, we await the latest round of European bank 'stress' tests – after the first round passed the Irish banks there is considerable scepticism as to their worth. **Lloyds Banking Group** led the sector down, closely followed by **Barclays** and **Royal Bank of Scotland**. The *Oil & Gas* sector fell, led by the exploration companies, **Tullow Oil**, **Cairn Energy** and **Premier Oil**, reacting to the setback in the oil price. **BG Group** was also weak despite further upgrades to the scale of the Santos Basin offshore Brazil, as Shell sold some acreage in the area at a low valuation.

The *Mining* sector was also weaker but the feature here was the flotation of **Glencore International** in May amidst colossal hype. Glencore is a commodity trading and marketing business based in Switzerland, originally established in 1974 by Marc Rich (a name from the past – he was indicted in the US on federal charges of illegal oil trading with Iran in the 1970s and, famously, was given a Presidential Pardon by Bill Clinton on his last day of office in 2001). We did not feel comfortable that we understood the business, despite the biggest prospectus that I have ever seen (close to 1000 dense pages - now acting as a doorstop) so avoided the issue. Glencore is a huge company (their current market capitalisation is around £35bn) that immediately went into the FTSE 100 Index, taking the number of mining companies in this index up to thirteen.

International Equity Indices

	30 June 2011	31 March 2011	% Change
US - S&P 500	1320.6	1325.8	-0.4%
US - NASDAQ	2773.5	2781.1	-0.3%
UK – FTSE All-Share	3096.7	3067.7	+0.9%
Germany - DAX	7376.2	7041.3	+4.8%
France - CAC 40	3982.2	3989.2	-0.2%
Japan - TOPIX	849.2	869.4	-2.3%
Brazil - Bovespa	62403	68587	-9.0%
China – Shanghai Comp.	2762.1	2928.1	-5.7%
Hong Kong – Hang Seng	22398	23528	-4.8%
Australia – ASX 200	4608	4837.9	-4.8%

International equity markets produced a rather more diverse performance over the second quarter. American markets were little changed though the S&P 500 Index is still up 5% over the year to date. Far Eastern and 'emerging' markets were rather weaker with Brazil showing the strain of the continued rise in the real in the wake of interest rates now lifted to 12.25% to contain inflation (quite a contrast to the UK position). In Europe, Germany was, once again, the feature.

S&P 500 Index



Source: Bloomberg

International Investment Trusts

This quarter we take a look at Henderson Eurotrust, which features in many portfolios. We utilise a number of investment trusts in portfolios, normally to gain greater geographic exposure, but also to get access to some interesting underlying investments that we would be unlikely to invest in directly.

Henderson Eurotrust has been managed by Tim Stevenson for a number of years. He invests predominantly in large and medium-sized companies across Europe which he perceives to be undervalued in view of their growth prospects. The portfolio is quite focused, normally between forty and fifty investments, and predominantly invests in 'old' Europe – German, French and Swiss companies currently account for more than three quarters of the portfolio. In discussion with Tim Stevenson about the portfolio last week he observed:

“The main features, as I see it, are that we have about 3% gearing at present (we have a facility for £10m and are using a small part of it only so far). I am reasonably positive on markets, as I think the Greek / Portugal / Spain / A N Other crisis is getting overblown. I am not complacent about it – but as one report I saw rather succinctly put it, the cost of picking up the pieces of Greece IF they exit is higher than the cost of ‘kicking the can down the road’ (I paraphrase about three reports with that!) I also think that the current period of slower growth is a combination of our long held belief in a square root recovery and Japan Tsunami and end of QE2 in the US. Welcome to the new world of a long grind towards lower debt....!

The broad changes in the portfolio are an increase in Tech like names (United Internet, Sky Deutschland, SAP, Temenos, Kabel Deutschland, Ericsson) very low in Banks still (only UBS and Commerzbank – a recent purchase so actually at a profit) but more in Insurance (Axa, Allianz and ZFS). Still some “cyclicals” – Atlas Copco, Sandvik, ABB, Siemens, Linde, Legrand, Schneider, D Post and a few other transport names.

Apart from that it is the same old reliable names – SGS, Fresenius, Inditex, Swedish Match to name a few.”

By “a square root recovery” he is referring to the shape of the square root sign – recover from the pit of recession then ‘flat line’, as with his comment on the long grind towards lower debt. With the addition of some brief descriptions from me, here are the current top ten holdings in the Eurotrust portfolio:

Deutsche Post

Leading mail, logistics and freight forwarding group, best known here for DHL. They are the largest postal company in Europe and claim number one position in express international services and global forwarding.

Fresenius Medical Care

As the name suggests, a major German medical care company - specialising in kidney dialysis services and the manufacture of equipment and products used in the treatment of dialysis patients.

Swedish Match

Swedish tobacco company specialising in the more esoteric areas of snuff, chewing tobacco, mass market cigars, lighters and matches. I had no idea that snuff was still such a big market; US sales grew quite strongly last year.

Amadeus IT Holding

Amadeus IT processes transactions for the global travel and tourism industry. Essentially they provide the technology link between all the travel providers (airlines, tour operators, hotels, cruise lines, car rental, insurers etc) and the users of travel.

Societe Bic

The eponymous Bic, manufacturer of biros, pens, pencils, lighters etc. Also includes Sheaffer.

SES Global

Operates a fleet of satellites providing coverage to 99% of the world's population. At the end of 2010 this consisted of 44 satellites spanning the globe. The satellites carry 1250 transponders for transmitting television, broadband and internet services.

Linde

Major industrial gases and engineering company (they acquired BOC Group in 2006). Covering compressed and liquefied gases for use in a wide range of industrial applications as well as food processing and healthcare.

France Telecom

Provides telecommunication services to business and residential customers. Covers fixed and leased line services, mobile telecoms (they own Orange), cable television, internet and wireless applications.

Legrand

Legrand provide products and systems for electrical installations and information networks. Systems for control and monitoring of installations, cable management and power distribution and for managing lighting, heating, energy usage and IT networks.

Atlas Copco

We covered this company in April as it is also a major holding in Scottish Mortgage. A Swedish engineering company. They develop and manufacture industrial tools, are the world leading producer of air compressors, construction and mining equipment. They have an excellent record that belies the apparently cyclical nature of their business.

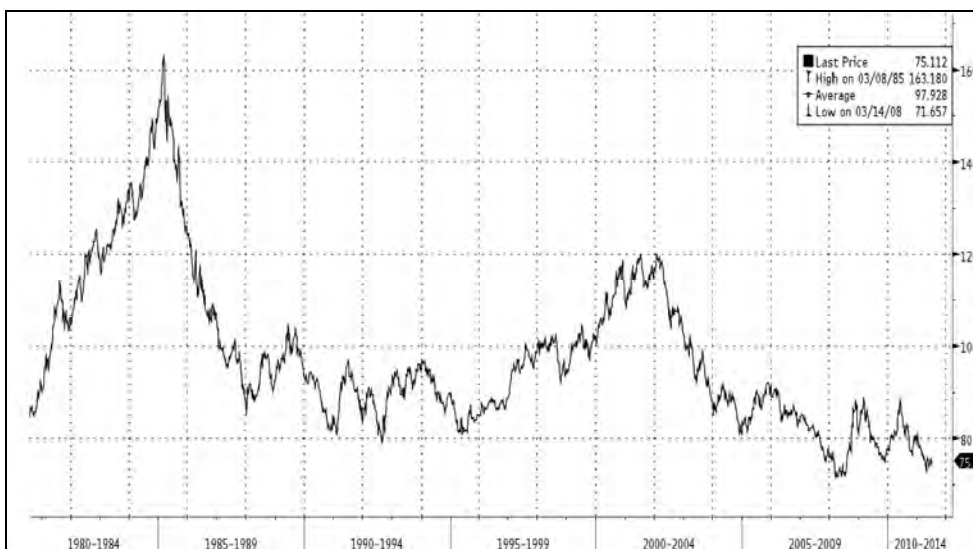
Currencies:

	30 June 2011	31 March 2011	% Change
£/\$	1.605	1.603	+0.1%
£/euro	1.107	1.13	-2.0%
£ Exchange Rate Index	77.8	79.0	-1.5%
\$/euro	1.45	1.419	+2.2%
\$/yen	80.8	82.9	-2.5%
\$ Exchange Rate Index	77.0	78.4	-1.8%

Both the £ sterling and US\$ slipped further against other currencies this quarter, leaving the 'cable' rate between the two unchanged. The Swiss franc is the currency of choice at the moment, being viewed as a 'safe haven' away from the US\$ and euro, it has reached new high levels against both currencies (and against £ sterling), and giving the Swiss authorities something of a headache.

At present it is difficult to see what might reverse the fortunes of the US\$ and £ sterling, but then foreign exchange markets have always been like that. Here is our regular snapshot of the long-term picture for the US\$, looking perilously close to new low valuations, to provide some perspective:

US Dollar Index - 1980 to 2011



Source: Bloomberg

Commodities:

	30 June 2011	31 March 2011	% Change
Oil (Brent)	\$112.5	\$115.1	-2.3%
Gold	\$1512	\$1424	+6.2%
Copper	\$9430	\$9428	0%
Commodity Price Index	338.1	359.4	-5.9%

The commodity markets have had a particularly volatile few months. Gold continues its seemingly inexorable rise and while the price of copper is unchanged overall, it has moved 15% during the period. Most interesting has been the movement in the price of oil: initially this rose again, applying more price pressure to the world's economy, and then fell back sharply (West Texas fell by more than 20%).

I cannot resist including this chart of the price of cotton. I recall a number of BBC reports bemoaning the increase in price, I do not believe that I have heard any mention of the reversal ..

A bubble bursts:

**Cotton Futures*
December 2004 to July 2011**



Source: Bloomberg

*The cotton No.2 contract is the benchmark for global cotton trading. The contract prices physical delivery of US-grown, exchange-grade cotton (as graded by the US Dept of Agriculture)

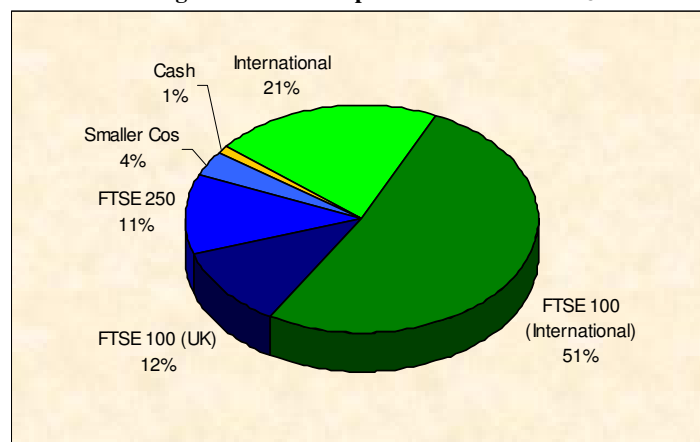
Church House UK Managed Growth Portfolio

	30 June 2011	31 March 2011	% Change
CH UK Managed Growth*	106.8	106.3	+0.5%
FTSE 100	5945.7	5908.7	+0.6%
FTSE All-Share	3096.7	3067.7	+0.9%

*bid price to bid price, excluding distributions of income. The management fee is charged to income.

The underlying holdings in our UK Managed Growth portfolio are shown overleaf as usual. There has not been a great deal of activity in the portfolio over the quarter. We are happy with the current disposition and have no desire to incur unnecessary dealing costs! The overall 'beta' of the portfolio (essentially its likely sensitivity to movements in the overall market) is 0.96, close to the figure at the end of March. The pie chart below shows the broad disposition of the portfolio at the end of the quarter: modest changes only at this level from the position at the end of March, still with the lion's share invested in companies whose principal business is international.

CH UK Managed Growth – Disposition of Assets – 30 June 2011



Source: Church House Investments

FTSE 100 (International) – our definition: FTSE 100 companies with more than 75% of sales overseas.

We have had a relatively low exposure to the *Oil & Gas* sector for some while; this is rather less marked now as we have established a new holding in **Vallares**. This was a new issue that came to the market in June led by Nat Rothschild and Tony Hayward (formerly of BP). Vallares aims to build a new oil production company (they will not have any 'downstream' business such as refining and marketing) based on acquiring existing oil (and possibly gas) production. I was impressed with Tony Hayward's presentation of the opportunities – and with his clear 'hunger' to be back in the business.

We have reduced the portfolio's exposure to direct overseas equities over the quarter, principally for individual corporate reasons, but also in response to the weakness in the £ sterling. We sold the holding in **Hewlett Packard** which appeared to be moving from one problem to another; reduced the holding of **Johnson & Johnson** which had moved up sharply in April and sold the holding of **Kraft Foods** which had done well for us. In the other direction, we added further to the holding in **Investor AB** which was trading at an unwarranted large discount to the value of their underlying (high quality) assets. We were in receipt of a takeover bid for **Synthes**, the medical devices company, from Johnson & Johnson and decided to take the profit; partly because it will take a long time awaiting various regulatory approvals and partly because the £ sterling has slumped in value against the Swiss franc over the last six months, further enhancing the value of the bid to us.

New to the portfolio are small initial holdings in the precision instruments and controls company **Spectris** (who also have a director in common with **Spirax Sarco**), and **Marwyn Management Partners** who aim to take control of smaller listed companies where they can add value with specialist operational management.

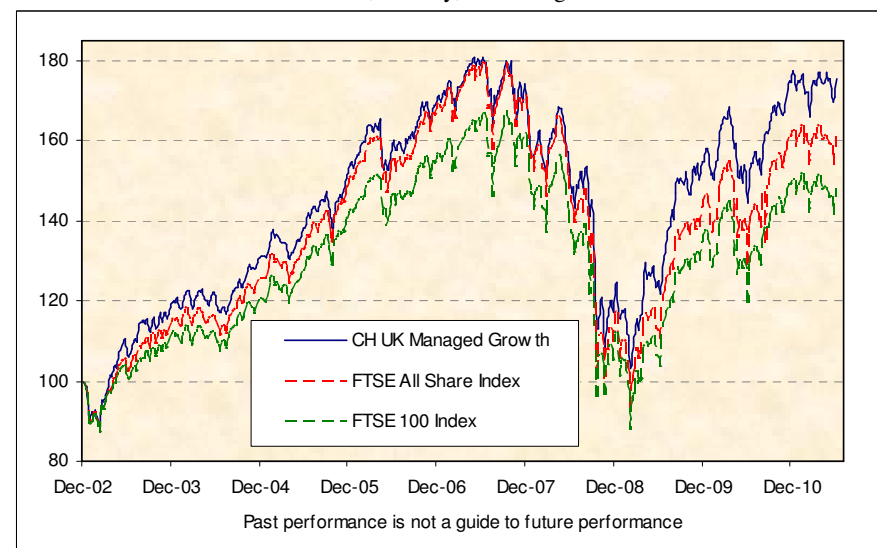
Calendar Year Performance

YTD	2010	2009	2008	2007
1.4%	13.4%	28.8%	-27.2%	3.9%

Source: Church House Investments, bid price to bid price, net income re-invested.

CH UK Managed Growth v. FTSE Equity Indices

Bid Prices, Weekly, Excluding Income



Source: Church House Investments

Church House UK Managed Growth Portfolio – 30 June 2011

Sector	Shareholding	Weight	Sector	Shareholding	Weight	Sector	Shareholding	Weight
Oil & Gas		15.1%	Consumer Goods(cont.)			Financials		16.8%
Oil & Gas Producers	BP	6.0%	Food Producers	Unilever	2.5%	Banks	HSBC	5.9%
	BG Group	4.0%	Tobacco	BAT	2.9%		Standard Chartered	2.6%
	Exxon Mobil	3.2%					Barclays	1.6%
	Vallares	1.9%	Health Care		6.4%	Insurance	Berkshire Hathaway	2.1%
Oil Equipment		-	Healthcare Equipment		-	Life Assurance	Prudential Corp	1.2%
			Pharmaceuticals	Astra Zeneca	2.5%		Legal & General	1.5%
Basic Materials		12.9%		Roche Holding	2.9%	Real Estate	Shaftesbury	1.6%
Chemicals	Johnson Matthey	1.2%		Johnson & Johnson	1.0%	General Financial	Terra Catalyst	0.9%
Mining	BHP Billiton	3.7%	Consumer Services		8.5%		Aberdeen Asset Man	1.0%
	Rio Tinto	4.5%	Food & Drug Retail				Marwyn Manage.	0.6%
	Xstrata	3.4%		Tesco	2.3%	Technology		2.1%
Industrials		5.6%	General Retailers			Software/Computers	Microsoft	1.2%
Construct. & Build.	Balfour Beatty	1.2%	Media			Hardware & Equipment	First Solar	0.5%
Aerospace & Defence		-	Travel & Leisure	Reed Elsevier	1.3%			
Electronic Equipment				Whitbread	1.6%			
	Halma	1.3%	Telecommunications		4.4%	Investment Companies		9.1%
	Spectris	0.6%	Mobile			International	Investor AB	2.5%
Industrial Engineering	Spirax Sarco	1.3%		Vodafone	4.4%		Scottish Mortgage	1.9%
Support Services	Babcock Intl.	1.3%	Utilities		2.2%	Private Equity	Candover	1.1%
			Electricity			UK Smaller Cos.	Montanaro UK	1.6%
Consumer Goods		14.1%	Gas, Water					
Beverages	SAB Miller	2.6%		Scottish & Southern	1.1%			
	Pepsico	1.7%		Centrica	1.1%	Cash Deposits		1.1%
	Diageo	1.6%						
	Britvic	0.9%						
Household Goods	Reckitt Benckiser	1.9%						
Personal Goods		-						

*see text

FTSE 100 (UK)*	11.6%	FTSE 100 (Intl.)*	51.7%	No. of	Portfolio
FTSE Mid 250	11.3%	International Equity	20.7%	Holdings	Value
UK Smaller Cos.	3.6%	Portfolio Beta	0.96	50	£39.7m

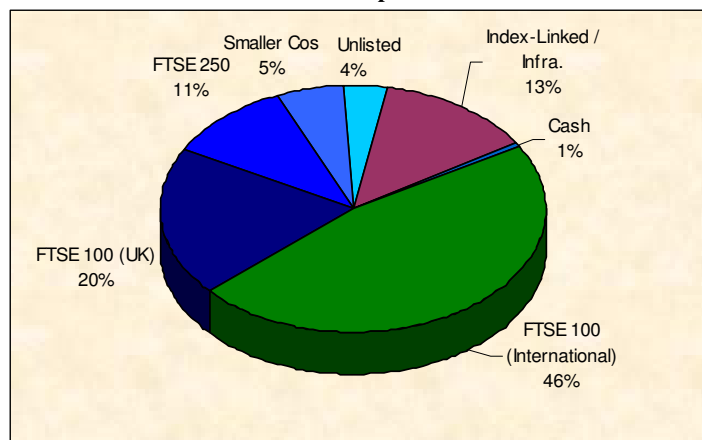
Church House Balanced Value & Income Portfolio

	30 June 2011	31 March 2011	% Change
CH Balanced Value & Inc*	143.8	142.0	+1.3%
FTSE Higher Yield Index	3133.4	3090.4	+1.4%
FTSE All-Share	3096.7	3067.7	+0.9%
FTSE Index-Linked All Stocks	395.0	380.9	+3.7%

*bid price to bid price, excluding distributions of income. The management fee charged is split 50/50 between capital and income.

The Balanced Value & Income portfolio is shown in full overleaf. While there have not been a great many transactions, the balance of the portfolio has shifted with an overall addition of nearly 4% to major company equities, a reduction in holdings in smaller companies and modest reduction in the proportion held in index-linked securities. The pie chart shows the overall disposition of assets at the end of June.

CH Balanced Value & Income – Disposition of Assets – 30 June 2011



Source: Church House Investments

Index-linked issues have moved ahead again and, much as I value their inflation-proof characteristics, valuations begin to look rather stretched. Accordingly, we have reduced the holding of **Treasury 4.125% Index-Linked 2030** in the portfolio (we will happily buy this position back if there is a sensible set-back in valuations). Within the infrastructure investments in this area of the portfolio: we added to the holding of **John Laing Infrastructure Fund** early in the quarter when they undertook a placing of new shares, and, latterly, we reduced the holding in **International Public Partnerships**.

Among the smaller company equity investments, we sold the position in **KBC Advanced Technologies** and reduced the holdings in **Ambrian Capital** and **M J Gleeson**. Moving up the scale we made some modest reductions to some of the mid-cap holdings that had done particularly well for us, notably **Babcock International**, **Halma**, **Aberdeen Asset Management** and **Pennon Group**. While in FTSE 100 companies there was just one reduction - in the holding of **Vodafone** during May.

The market set-back in early June gave us the opportunity that we wanted to add to some of the major company holdings in the portfolio. We added significantly to the holding in **Royal Dutch Shell 'B'** shares, to two of the leading mining companies, **BHP Billiton** and **Rio Tinto**, and to **Whitbread**, the leisure company (they do not brew beer any more). All of whose shares we felt had been marked down too much. It has been suggested that Whitbread should 'hive off' their hugely successful Costa Coffee chain to demonstrate its value; we do not know if this is likely but the value is there either way.

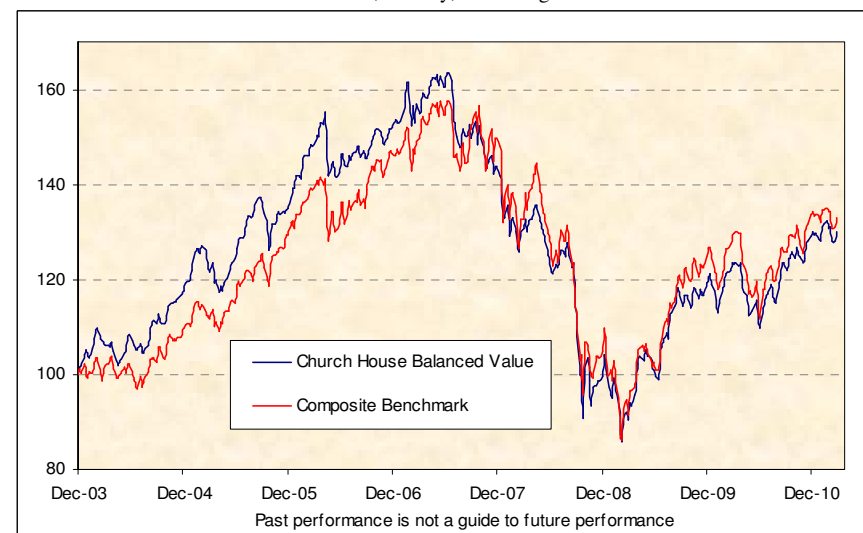
Calendar Year Performance

YTD	2010	2009	2008	2007
4.0%	11.0%	20.8%	-26.2%	-3.2%

Source: Church House Investments, bid price to bid price, net income re-invested.

CH Balanced Value & Income v. Composite Index*

Bid Prices, Weekly, Excluding Income



*Benchmark was FTSE All-Share to 31/12/2007 then 50% FTSE Higher Yield, 40% FTSE All-Share and 10% FTSE Index-Linked All Stocks Index. Source: Church House Investments

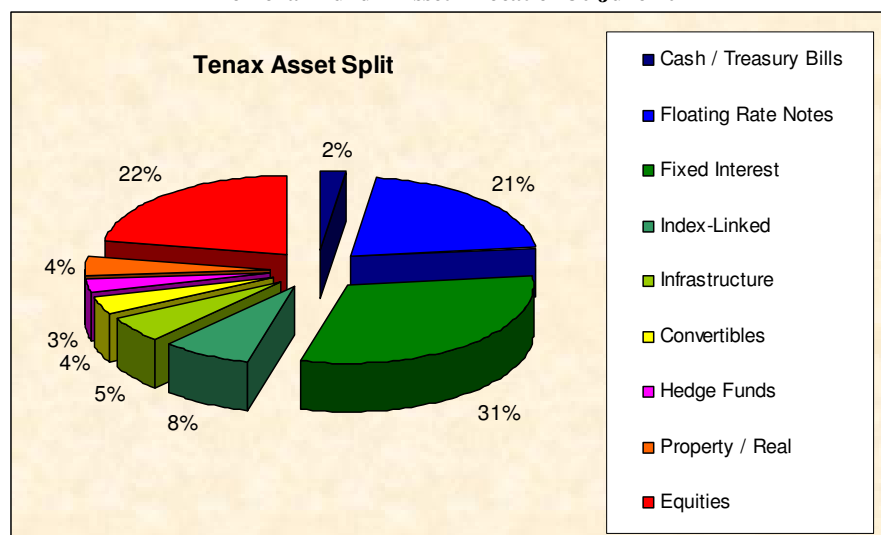
The Tenax Fund

	30 June 2011	31 March 2011	% Change
The Tenax Fund*	120.4	119.4	+0.8%

*bid price to bid price, 'A' accumulation shares.
The management fee in Tenax is charged to income.

The disposition in our 'multi asset class' portfolio, the Tenax Fund, is shown on the pie chart below. This shows a decrease in the Fixed Interest and Index-Linked sections and an increase in Floating Rate Notes, Convertibles and Equities. The full portfolio, broken down by the respective asset class, is shown overleaf.

The Tenax Fund – Asset Allocation 30 June 2011



Source: Church House Investments

Starting at the low risk end of the spectrum, there are two new floating rate note (FRN) issues in the portfolio: the **European Investment Bank (EIB) FRN 2015** and the **Rabobank Nederland FRN 2014**, replacing matured notes and the sale of the **Credit Agricole FRN 2012** issue that we held. FRNs currently represent more than 20% of the portfolio; they are a useful alternative to cash deposits (which earn practically nothing at present) and the rate of interest that they pay will increase with any general increase in short-term interest rates. Among the fixed interest holdings, we have sold a number of short-dated issues that had done well for us but now offer meagre returns to maturity. We have sold the **Rabobank Nederland 4% 2015**, **Royal Bank of Canada 3.125% 2015** (US\$ issue), **KFW 2.75% 2015** and **BP 4% 2014**, all at prices over 'par' (their maturity values, normally 100p).

The weighting in index-linked securities is down by 2% as we sold the holding of **Treasury 4.125% Index-Linked 2030** for reasons mentioned above, similarly we will happily return to this stock if/when the prospective return looks attractive again. There were several transactions in the convertibles section: **Ecofin Water & Power** ordinary shares had fallen to levels that left the convertible issue that we held looking expensive, accordingly we switched out of the convertible into the ordinary achieving a higher yield. Having sold all of the previous holding of **Petropavlosk 4% Conv. 2015** at the beginning of the year, we were able to buy back into this holding in mid June when its price fell back below par. New to the convertibles portfolio is a holding of **Electra Private Equity 5% Conv. 2017**; this gives us an interesting call on the Electra private equity portfolio for the next six years while paying respectable income in the meanwhile.

In the hedge funds and structured debt areas, we have added modestly to holdings of **BH Global** and **Harbourvest Senior Loans Europe**. In equities, we have introduced a new holding in **Vallares** and added to the holding of **Caledonia** while reducing exposure to smaller companies with the sale of the holding in **Montanaro UK Smaller**.

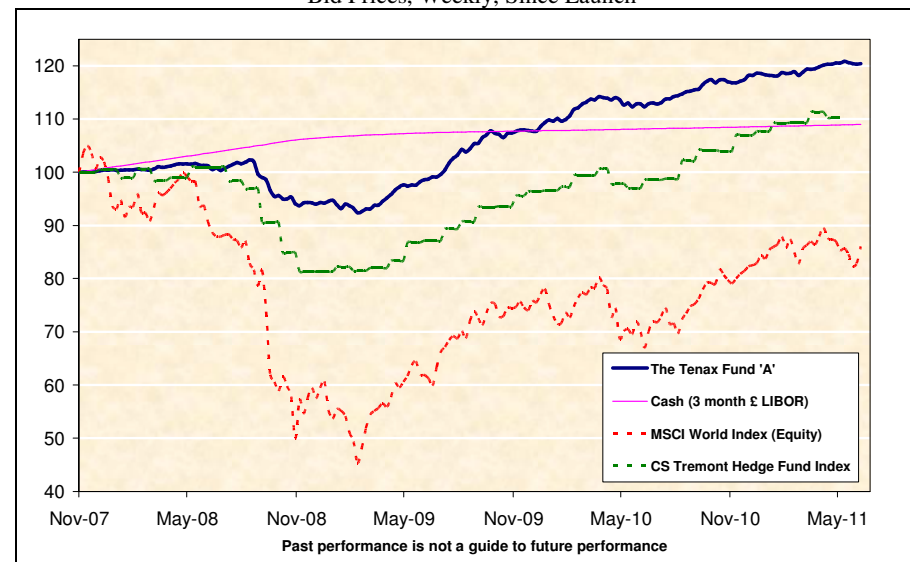
Calendar Year Performance

YTD	2010	2009	2008	2007 (part)
1.9%	9.8%	14.2%	-6.0%	0.3%

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

The Tenax Fund 'A' Shares v. Cash & other Indices

Bid Prices, Weekly, Since Launch



Source: Church House Investments

The Tenax Fund – 30 June 2011

Asset Class / Holding	Weight	Asset Class / Holding	Weight	Asset Class / Holding	Weight
Fixed Interest	30.7%	<i>Structured Credit / Distressed Debt:</i>	<i>3.1%</i>	<i>Equity Long/Short:</i>	<i>1.7%</i>
<i>Government (& supranational):</i>	<i>0%</i>	Harbourvest Senior Loans Europe	1.6%	S&W Enterprise	1.7%
<i>Corporate:</i>	<i>21.3%</i>	NB Distressed Debt	1.5%	<i>International Equity:</i>	<i>13.1%</i>
Novae 8.375% 2012/17	0.8%	Fixed Interest – Index-Linked	7.9%	RIT Capital Partners	1.3%
Lloyds 6.9625% 2015/20	0.9%	<i>Government (& supranational):</i>	<i>2.5%</i>	Senhouse European Focus	1.7%
Soc. of Lloyds 6.875% 2015/25	0.9%	Network Rail Index-Linked 1.75% 2027	2.5%	Caledonia Investments	2.2%
Scottish & Southern 5.453% 2015 Hybrid	0.9%	<i>Corporate:</i>	<i>5.4%</i>	Scottish Mortgage	1.4%
Akzo Nobel 8% 2016	1.1%	Severn River 6.125% Index-Linked 2013	0.2%	Berkshire Hathaway 'B'	1.1%
Old Mutual 7.125% 2016	1.0%	HBOS 1.835% Index-Linked 2016	0.5%	Findlay Park American Smaller Cos	0.7%
Amlin 6.25% 2016 Var.	1.0%	Tesco 4% Index-Linked 2016	1.1%	Impax Asia Environment Technology	0.9%
Linde 8.125% Var. 2016	1.0%	National Grid 2.983% Index-Linked 2018	0.7%	Ecofin Water & Power	1.1%
Siemens 6.125% Var. 2016	0.9%	National Grid 4.1875% Index-Linked 2022	0.8%	Eredene Capital	1.5%
Henderson Group 7.25% 2016	1.4%	British Telecom 3.5% Index-Linked 2025	0.7%	Schroder Japan	1.2%
BAA 7.125% 2017	1.1%	Wales & West 2.496% Index-Linked 2035	1.0%	Vallares	0.7%
RBS 5.6457% Var. (2017)	0.5%	BAA 3.334% Index-Linked 2039	0.5%	<i>Private Equity:</i>	<i>2.6%</i>
RSA 6.701% Var. (2017)	0.8%	Infrastructure Assets	5.1%	Neuberger Berman Private Equity	1.2%
Lafarge 8.75% 2017	0.5%	International Public Partnerships	1.6%	KKR & Co.	0.9%
Segro 5.5% 2018	1.2%	HSBC Infrastructure Co.	1.6%	Marwyn Management	0.6%
Anglian Water 7% 2018	0.4%	GCP Infrastructure Investments	0.7%		
John Lewis 8.375% 2019	1.2%	John Laing Infrastructure	1.1%		
RSA 9.375% Var. 2019	0.5%	Convertible Fixed Interest	3.6%	Cash / Near Cash	23.4%
LSE 9.125% 2019	0.6%	Aberdeen 3.5% Conv. 2014	1.1%	<i>Floating Rate Notes (senior):</i>	<i>21.1%</i>
Barclays 14% 2019	1.1%	Petropavlosk 4% Conv. 2015	0.8%	Lehman Bros FRN Jun 2009	0.4%
Standard Chartered FRN	0.5%	SVG Capital 8.25% Conv. 2016	0.7%	Citigroup FRN Aug 2011	1.4%
Investec Bank 9.625% 2022	1.3%	Electra 5% Conv. 2017	1.0%	SNS Bank FRN GG Apr 2012	1.1%
CH Invest Grade Fixed Interest Fund	1.3%	Absolute Return / Hedge Fund	2.7%	J P Morgan FRN Jun 2012	1.6%
<i>Zero Dividend Preference:</i>	<i>6.3%</i>	Brevan Howard Global - \$	2.7%	Bank of America FRN Jun 2012	1.3%
J P Morgan Private Equity ZDP 2013	0.8%	Property / Real Assets	4.2%	Santander FRN Aug 2012	1.3%
Utilico ZDP 2014	0.6%	Segro	1.4%	Dexia Govt Gteed FRN Jan 2013	2.2%
F&C PE ZDP 2014	1.2%	Duet Real Estate	1.1%	Commonwealth Bk Australia FRN Jan 2014	2.3%
J P Morgan Private Equity ZDP 2015	0.8%	Terra Catalyst Fund	1.0%	Rabobank FRN Jun 2014	1.3%
Ecofin Water & Power ZDP	0.4%	Blackrock World Mining	0.7%	EIB FRN Feb 2015	4.5%
Electra ZDP 2016	0.5%	Equity	22.3%	KFW FRN Mar 2015	2.3%
Neuberger Berman PE ZDP 2017	1.1%	<i>UK Equity:</i>	<i>4.2%</i>	IBRD FRN Jan 2016	1.4%
Aberforth Geared Income ZDP 2017	0.8%	Barclays FTSE Synthetic 2012	1.5%	<i>Treasury Bills:</i>	<i>0%</i>
		Barclays Financials Synthetic 2013	0.5%	<i>Cash Deposits:</i>	<i>2.3%</i>
		CH Deep Value	2.3%		

