Church House Investment Management

Quarterly Review

Winter 2023/24

Issue No. 95

INVESTMENT RISK

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

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

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

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

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

UK STEWARDSHIP CODE

Church House Investment Management

Church House Investments Limited is authorised and regulated by:

The Financial Conduct Authority

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Issue no. 95 - Winter 2023/4

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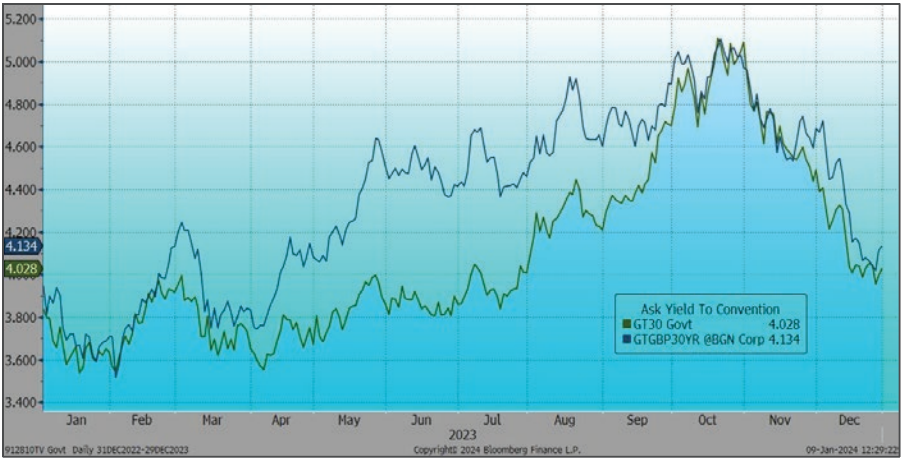
"Acquire worldly wisdom and adjust your behaviour accordingly. If your new behaviour brings you a little temporary unpopularity with your peer group… then to hell with them" Charlie Munger, 1924-2023

The year produced lots of volatility in interest rates again. This chart shows the interest rate on UK and US Government bonds maturing in thirty years (in the US, the 'the long bond'). These rates were at their lowest in February, close to 3.5%, but moved much higher over the autumn with concerns mounting as to how much borrowing governments needed to undertake, reaching peak levels at a shade over 5%. November and December brought relief and a reversal of much of the increase:

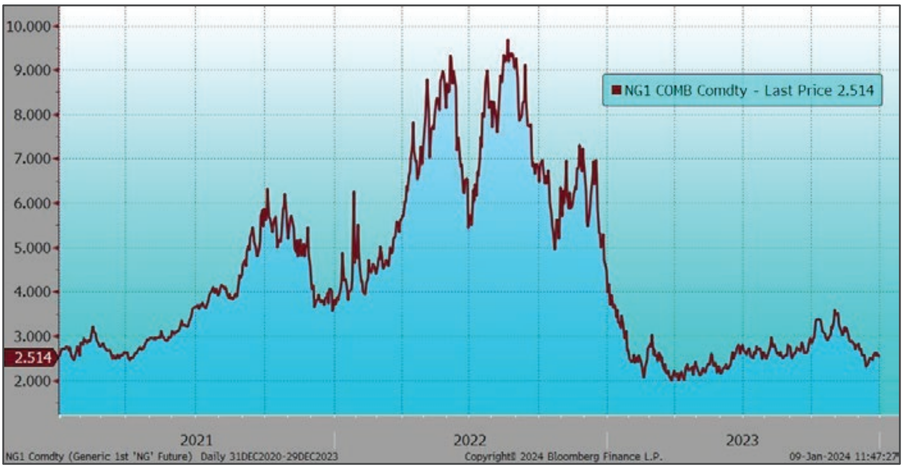
UK (blue) and US (green) Thirty-Year Interest Rates – 2023



Source: Bloomberg

Meanwhile, a turnaround in Natural Gas prices after the problems in 2021/2 has been a welcome contributor to lower fuel costs and inflation:

Natural Gas* – Since December 2020



**Natural Gas Futures Price – US$ per MMBtu*

Source: Bloomberg

THE ECONOMIC & MARKET BACKGROUND

2023 started with a US secondary banking crisis (Silicon Valley Bank et al) that then spread to Europe and took down Credit Suisse. Inflation continued to dominate the news for a long time although it turned out that it had peaked everywhere in October 2022. But that didn't stop the central banks from acting tough and continuing to ratchet up their base interest rates.

UK inflation was slower to react to treatment than elsewhere, for a while it felt distinctly 'sticky', but it succumbed too and by November was back below 4% and much more in line with America and Europe. The US Federal Reserve was the first to 'pause' their rate increases in the summer, with the Bank of England close behind. The European Central Bank carried on increasing rates until the autumn, probably too much too late, but they were the slowest to get going back in 2022.

Geo-political events provided an unpleasant backdrop as the war in Ukraine dragged on, China and Taiwan resurfaced as a major concern and the Israel/Hamas conflict escalated. It does appear that the sheer number of these events is likely to lead to a(nother) year of uncertainties and, of course, 2024 brings elections... The US Presidential Election in November seems bound to dominate the second half of 2024, assuming Donald Trump is allowed to run and wins the Republican nomination, the implications for US democracy and the war in Europe could be profound.

Despite all the gloom, 2023 turned out much better than had been expected at the beginning of the year when there were widespread forecasts of a coming recession. The international economy has displayed remarkable resilience despite the inflation, the aggressive interest rate increases, supply chain problems and war. There is a good chance that the US Federal Reserve has achieved a 'soft landing' without major job losses on either side of the Atlantic.

Continuing in this brighter vein, the price of oil has come back down to lower levels again, along with Natural Gas after Europe (creditably) managed to wean itself further off Russian gas (see opposite). With the falls in inflation, we would expect the central banks to start reducing interest rates again in the spring, bringing relief to many borrowers both private and corporate.

It was right for us to say that investment opportunities really did abound when we were writing in October. November and December saw strong recoveries in the Gilt and fixed interest markets and recovery/gains for stock markets as the view that central banks had gone far enough, and the next moves would be down, gained traction. I hope that 2024 can provide a similar pleasant surprise for economies and the investment markets, and at the moment it does look encouraging but, elections, elections, elections…

James Mahon *January 2024*

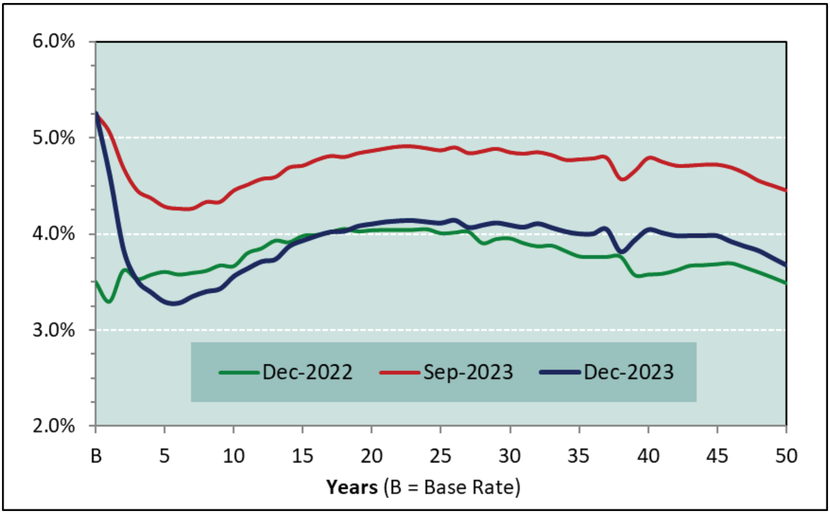
THE UK ECONOMY AND INTEREST RATES

Figures from the Office for National Statistics (ONS) showed that our economy grew at 0.3% in November, but that merely reverses a drop of 0.3% in October. To avoid a 'technical' recession, December's figures really need to be positive, and one has to wonder about that after a month of endless rain and industrial action. Whatever the outcome, I can't get away from the feeling that the economy is stuck in low gear, just as we said last quarter.

Maybe the outlook for 2024 is improving now with the prospect of lower inflation and interest rates and some 'real' spending power as wage growth has begun to outstrip inflation again.

After reaching new fifteen-year high levels in October, interest rates for all time periods longer than the Base Rate came rattling back down again. With the clear exception of that Base Rate, levels are back down to where they started the year. The implication of that steep drop in the blue line is clearly that the market expects the Bank to start to lower Base Rates soon:

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



Source: Church House, Bloomberg

Short-Term	Base Rate	SONIA*	2 years	5 years
Interest Rate	5.25%	5.2%	3.8%	3.3%
Longer-Term	10 years	20 years	30 years	50 years
Interest Rate	3.6%	4.1%	4.1%	3.7%

*Source: Bloomberg *Sterling overnight index average.*

The Monetary Policy Committee (MPC) of the Bank of England (the Bank) held the Base Rate at 5.25% over the quarter. But the Committee is, quite surprisingly, still split over its decision, with three members voting for a further increase in the Base Rate at their mid-December meeting. As above, as the interest rate for two years hence (the two-year Gilt yield) sank to 3.9% by the year-end, the view from the markets is quite clear.

We are not expecting to see a repeat of the unpleasant inflation problems this year, but we do expect the rate of decline to slow. The Bank is still cautious, this from the minutes of the MPC meeting in December:

> "CPI inflation is expected to remain near to its current rate around the turn of the year. In particular, services price inflation is projected to increase temporarily in January, related to base effects from unusually weak price movements at the start of this year, before starting to fall back gradually thereafter."

We do expect the Bank to begin to lower their Base Rate during the year, but we are not expecting to see a return to the (silly) low levels that persisted for so long after the financial crisis of 2008/9. We must remember too that a couple of years ago, central banks looked flat-footed and humiliated as the inflation genie escaped and the long shadow of the 1970s loomed. How they react now is all important, but we should not be surprised if they wait too long before cutting rates.

As above, while we do not expect a repeat of the rampant inflation of the past eighteen months, it is not going to be easy to 'keep it in its box'. The shortage of workers that has helped to keep a lid on unemployment does not appear likely to be solved soon and this problem is also noticeable in most of the major economies. Equally, the problems with the supply of goods that arose in the pandemic now appear to be reviving with problems in the Red Sea and the Panama Canal.

Most importantly this year, we are anything but immune to economic and geo-political problems elsewhere. Most economists appear to have shifted from the expectation of an imminent recession last year to a belief in a 'soft landing' this year. If the US Federal Reserve does achieve a soft landing one year after a sustained period of high short-term interest rates, it will be impressive and a first. Going back over the eight US recessions since the late 1960s, the economy has fallen into recession around one year after the first appearance of higher short-term interest rates than long-term on each occasion.

As well as all those elections, starting with Taiwan and ending with the long run-in to the US Presidential Election, we could see further problems in the East as China appears to have lost its way. Chinese citizens were encouraged en masse into owning residential property but that is now hurting, and many have lost their deposits and savings as prices tumble. That leaves the authorities in an uncomfortable bind, should they attempt to 'stimulate' the economy (which hasn't worked so far) or curtail the supply of new housing/stop building, but they had promised to provide new housing…

CREDIT MARKET COMMENTARY – JEREMY WHARTON

Thin end of December trading exacerbated moves in the fixed interest markets, some of which have subsequently been retraced. It had felt that markets had got a little ahead of themselves and we were due some retrenchment of what turned out to be a strong end to 2023. These moves must be viewed in the context of what is an uncertain geopolitical and economic backdrop. But markets are still fixated on the path of interest rates and, after recent data, have moved quickly to discount hopes that we have seen the peak in the hiking cycle and terminal rates have been found. The markets are not necessarily listening to what Central Bankers are actually saying.

The risk of Middle Eastern tensions stepping up to another level is real and it has been widely broadcast that over 40% of the world's 'democratic' population face elections this year, not least the US and the UK. Undemocratic societies have their own set of problems. China, following hard on the enormous defaults of its two biggest property companies, Evergrande and Country Garden, saw their property debt crisis take hold in their shadow banking sector. This is roughly $3trn in size (the same as the French economy) so the filing of Zhongzhi for bankruptcy with $64bn of liabilities is relatively small, but the risk of contagion is high (thankfully most of these liabilities are contained in onshore China).

Members of the Federal Reserve did their best to push back against the most optimistic and exuberant forecasts of almost immediate cuts in rates. Acceptance of 'higher for longer' was replaced with fears of 'too high for too long?'. Either way, the US ten-year Treasury Bond saw a move in yield of over 1% from near 5% to below 4%, a level not seen since July. As much as rates markets incorrectly discounted the speed and severity of the hiking cycle, they are likely to overestimate the timing and depth of the easing cycle. Commentators have sensibly reminded us of one rule that still holds as true as ever: Don't Fight the Fed...

The reality of funding the US budget deficit has hit home. $6trn is a big number and that is what the Fed has to raise from sales of Treasury-Bills (very short-term debt). Simply funding through T-bills is not possible, so longer-dated debt has also had to bear the brunt of a trillion dollars of new issuance. Longer-dated volatility meant the US thirty-year fixed mortgage rate rose to 7.92%, a major part of the US housing market. Activity fell off a cliff as supply was stifled by existing mortgage holders having no wish to move and refinance at these levels. These rates have since fallen back but remain elevated.

The European Central Bank (ECB) has to watch and help Eurozone member states maintain a collective debt to GDP ratio of more than 91% over the funding period. Bear in mind that while this is going on, central banks are attempting to shrink their balance sheets, removing them as the marginal buyer of new issuance.

The ECB also has the unenviable task of trying to navigate their way through a potential recession that might already be upon them as their Purchasing Managers Indices (PMIs) remain below 50 (a reading below 50 is contractionary) for the seventh month in a row. German inflation popping up to 3.7% from 3.2% in December, France also seeing a rise from 3.5% to 3.7%, won't be helping them. Some ECB members have warned that 'no one should count on rate cuts this year'.

The Bank of England's thinking has become more 'data dependent', which will dictate the 'path of rates' according to deputy Governor Ramsden; I would have thought this is always the case. Politics intrude as the General Election appears on the horizon and Rishi Sunak states that now 'he' has achieved a halving of inflation 'we can begin to cut taxes', however the Autmn Statement had little material in the way of tax reductions, so we look forward to the Budget.

The UK appears to have shaken off the 'stagflation' label as we saw strong year end growth (PMI's well above 50 and a November GDP print of 0.3%) but stagnation (or even recession) remains a risk. There was much navel gazing as the FTSE 100 Index celebrated its 40th birthday, having had a miserable 2023 compared to its peers, but we do look to be in a healthier position than some of our near neighbours. The Bank has also attempted to push back against market expectations of five rate cuts this year. We must remember that rates were normalised from an artificial low point so, unless we see a marked drop-off in activity leading to a sharp recession, we are unlikely to go so far so fast.

The primary market (where companies and governments come to the market to borrow) had a busy fourth quarter and then exploded into life in the New Year for both sovereign and corporate issuers. There has been healthy demand for government bonds, which is reassuring, the new UK twenty-year Gilt issue was 3.6 times oversubscribed and even Italy's seven-year issue was seven times oversubscribed.

In sterling credit, high grade corporate issuers were busy accessing the market and the interest yields on offer for the lenders (investors) are still highly attractive with New Issue Premium (NIP) allowing for outperformance in the secondary market. Fundamentally sound credits offer returns that are more predictable than they have been for years. We do not believe investors should, or need to, compromise credit quality by going down the food chain into high yield (HY) bonds, especially as one can achieve high yields in Investment Grade issues. There is a HY refinancing 'hump' coming in 2025 and a fair number of companies will struggle to refinance, or, if they manage to, they might have to pay penal rates to do so.

Jeremy Wharton, *January 2024*

UK Equity Markets

Index:	29 Dec 2023	29 Sep 2023	Quarter	2023
FTSE All-Share	4232	4127	+2.5%	+3.8%
FTSE 100	7733	7608	+1.6%	+3.8%
FTSE 250	19690	18279	+7.7%	+4.4%
FTSE Small Cap	6425	6098	+5.4%	+3.0%
FTSE AIM All-Share	764	729	+4.8%	-8.1%

Source: Bloomberg

London stocks picked-up in the final quarter of the year and it was good to see this broadening out to smaller companies at last. Our chart of the movements for the year shows that turning point in mid-October after which mid and smaller companies began to out-perform. Over the year as a whole though, smaller companies were still a way behind:

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

Source: Bloomberg, FTSE International

The FTSE 100 Index (and a grouse)

The FTSE 100 Index (FTSE) has just had its fortieth birthday, having been created in January 1984 as a more sophisticated alternative to the FT 30 Index. As an index, it certainly was more sophisticated, the constituents of the old FT 30 Index were chosen quite subjectively as being representative of UK industry, were equally weighted in the Index, and not changed unless a company went bust. FTSE is weighted by market capitalisation (the actual value of the underlying companies) and refreshed each quarter to reflect changes. More interesting to me is to see how it has fared in its role as a UK bellwether, how this compares to other world markets and the changing mix of companies within it.

Until the end of the 1990s, FTSE broadly kept pace with the US S&P 500 Index (S&P), but it began to underperform the S&P in the period up to the Global Financial Crisis (GFC) of 2008/9 though not by a wide margin. Post the GFC, it has been dramatically different, with huge gains for the S&P and only a modest improvement for FTSE. The dominance and scale of US technology companies along with the sheer momentum of their economy stood in stark contrast to the UK's lacklustre growth and a FTSE dominated by banks, oil & gas companies and miners.

But it's not just the might of US technology that makes the difference. UK institutions have been heavy sellers of our market for years. John Authers of *The Financial Times* recently produced a chart of the ownership of UK companies by domestic pension funds and insurance companies, which showed a consistent fall from around 53% in 1990 to around 5% today. Equities are a good match for the long-term liabilities of pension funds, the reason for all this divestment can be found in pension accounting and regulation. One has to wonder whether the Government and regulators have been looking in the wrong direction for years.

Of the original 100 companies in FTSE, 29 survive in some form, just 14 of these under (essentially) the same name, including **BP** and **Shell**, **British American Tobacco**, **Legal & General**, **Sainsbury**, **Tesco**, **Unilever,** and **Rio Tinto**. **Diageo** traces back to three 1984 members: **Allied Lyons**, **Distillers** and **Grand Metropolitan**. **RELX**, previously Reed International and Reed Elsevier, has provided the best return of all the original companies though, a shade depressingly, **British American Tobacco** is not far behind, particularly when taking account of their dividends.

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Fundamental Valuation Indicators

Corporate earnings forecasts for the year ahead have not shifted much overall as we get to the year end, quite possibly this is still on the optimistic side. Dividend forecasts have been brought down again, which looks more realistic and preserves the cover (company earnings as a multiple of the dividend paid out to shareholders) at just over two times:

FTSE All-Share Estimates*	29 Dec 2023	29 Sep 2023	30 Dec 2022
Earnings (per Share)	397	399.1	415.4
Price / Earnings Ratio	10.7X	10.3X	9.8X
Earnings Yield	9.4%	9.7%	10.2%
Dividends (per Share)	190	199	169
Dividend Yield	4.5%	4.8%	4.1%
Dividend Cover	2.1X	2.0X	2.5X

**Bloomberg aggregate earnings estimates for the year ahead*

International Equity Markets

Index:	29 Dec 2023	29 Sep 2023	Quarter*	2023*
US - S&P 500	4770	4288.1	+11.2%	+24.2%
US - NASDAQ	15011	13219	+13.6%	+43.4%
UK – FTSE All-Share	4232	4127.2	+2.5%	+3.8%
Germany - DAX	16752	15386	+8.9%	+20.3%
France - CAC 40	7534	7135	+5.6%	+16.4%
Switzerland - SMI	11125	10964	+1.5%	+3.7%
Japan - TOPIX	2366	2323	+1.9%	+25.1%
Brazil - Bovespa	134185	116565	+15.1%	+22.3%
China – Shanghai Comp.	2975	3110	-4.3%	-3.7%
Hong Kong – Hang Seng	17047	17810	-4.3%	-13.8%
Australia – ASX 200	7591	7048	+7.7%	+7.8%

*Source: Bloomberg *Change in local currency*

Sadly, the UK stock market was one of the laggards over the year along with Switzerland (held back by poor performance from their two leading companies **Nestlé** and **Roche**) and negative out-turns for China and Hong Kong as their economy faltered. The US led the way, specifically the NASDAQ, while the 'Magnificent Seven' of leading US technology stocks (**Alphabet**, **Amazon**, **Apple**, **Meta**, **Microsoft**, **Nvidia** and **Tesla**) outshone everything else.

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

Source: Bloomberg

FOREIGN EXCHANGE

	Cross Rate:	**29 Dec 2023**	**29 Sep 2023**	**Quarter**	**2023**
£	US $ / £ sterling	1.272	1.221	+4.2%	+5.7%
	Euro € / £	1.150	1.154	-0.3%	+2.0%
	£ Exchange Rate Index	81.6	80.6	+1.3%	+5.2%
$	US$ / € euro	1.106	1.058	-4.5%	-3.6%
	Yen ¥ / US $	141.5	149.4	-5.6%	+7.4%
	Renminbi / U S$	7.10	7.30	-2.8%	+2.9%
	$ Exchange Rate Index	101.3	106.1	-4.5%	-2.4%

Source: Bloomberg

The conviction that the US Federal Reserve had finished raising rates led to the US dollar slipping back against the other major currencies. This was the feature of the quarter, exaggerated for the Japanese yen, which moved up smartly as it appears that the Bank of Japan may, finally, ease up on its zero-interest rate policy. Sterling gained over the quarter and for the year as a whole.

Elsewhere, there was drama for the Argentine peso, which collapsed in value over the year, one US dollar cost 178 peso in December 2022, by the end of 2023 one dollar cost 808 peso, ouch… As part of a radical new economic agenda, Argentina's newly elected President, Javier Milei, had included a 50% devaluation of the currency.

Dario Perkins, an economist at ***GlobalData*** *TS Lombard* writes an end-year piece entitled: "Things that won't happen in 2024". Having featured Taylor Swift and 'Swiftonomics' last quarter, we were amused by his suggestion: "The new president of Argentina shocks the world when he "irrevocably" ties his nation's currency to the most valuable commodity in the world – Taylor Swift (or, more precisely, signed and authenticated Taylor Swift merchandise). Taking Swiftonomics to new extremes."

Source: ***GlobalData.*** *TS Lombard*

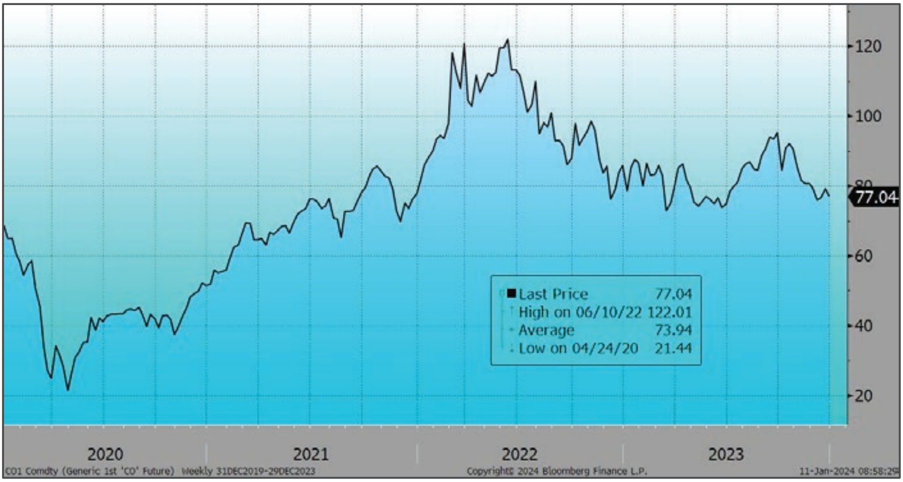
Commodities

	29 Dec 2023	29 Sep 2023	Quarter	2023
Oil – Brent (barrel)	$77.0	$95.4	-19.3%	-7.4%
Natural Gas	$2.51	$2.93	-14.3%	-43.8%
Gold (troy ounce)	$2065	$1855	+11.3%	+13.4%
Copper* (25 tons)	$8559	$8218	+4.1%	+2.2%
Milling Wheat (50 tons)	€223	€236	-5.5%	-28.1%

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

We have mentioned the continuing fall in the price of natural gas already. Pleasingly, the price of oil also came back down again over the quarter, after that increase from late-June to September, and the price remains lower for the year:

The Price of Oil* – Past Four Years



*Source: Bloomberg. *Brent blend, US$ per barrel*

The Israeli / Hamas conflict and resulting rise in tension in the Middle East do not appear to have had any impact on oil supplies yet and Barclays note that spare capacity remains elevated. Combined with a slowdown in Chinese demand and a more general slowdown in growth, it is perhaps not surprising that oil prices have drifted. From the inflation perspective it is also welcome to see the price of wheat settling back to 2021 price levels.

Base metal prices have been quiet. It remains to be seen whether these (and other commodity prices) begin to be affected by the environmental problems reducing the Panama Canal's capacity and geo-political problems in the Red Sea having a similar impact on the Suez Canal. The price of gold has moved up, worrying about the Middle East and liking the prospect of lower interest rates.

THOUGHTS FROM *CRANLEY MACFARLANE AND JAMES EDGEDALE*

The choice of words that the Federal Reserve Chairman uses in his press conferences has been a major driver of market direction for some time. November was no exception, as Jerome Powell suggested for the first time that the Federal Reserve was not anticipating the need for further rate rises. This sparked a huge rally in bonds and equities as the market participants immediately extrapolated interest rate cuts in 2024. Where America goes, the UK often follows, and despite far more cautious language from the Bank of England Governor, markets in the UK rallied also.

The yield on the UK ten-year gilt moved from 4.8% to 3.6%, representing an increase in price of 12% in a little over two months. While gilts still offer far more attractive returns than they have for a long time, this move felt excessive, and we were happy to take profits on some of our low-coupon holdings. The rally in equity markets was not a rotation out of what had done well previously, rather it seemed to be an investment of cash that had been built-up or stored in money market funds. Therefore, many companies continued to perform well, and unsurprisingly that meant the tech mega caps, such as **Amazon** (+19%), **Microsoft** (+18%) and **Alphabet** (+6%), but also **RELX** (+11%) and **Visa** (+13%).

However, those sectors that had been out of favour due to the threat of high interest rates, such as property, also did well. We had a good meeting in November with the management of **Land Securities** (+21%), who emphasised that, notwithstanding the interest rate environment, some parts of their market are in high demand (new office space in the City), while others are very much not (office space in Canary Wharf). As well as being a good analogy for the rest of the stock market, the positivity was reflected in its share price, and that of **Segro** (+23%).

The appalling situation in Israel highlighted the precariousness of security globally. It confirmed a point that I made last quarter, that defence spending will be a priority for some time, as reflected in **BAE Systems** (+13%) and **RTX** (+17%).

Not all companies had a good quarter. Miners generally benefitted from the improved economic outlook, **Rio Tinto** (+13%) and **BHP** (+13%), but news of further production cuts at **Anglo American** (-14%) rounded off a difficult six months for the company. It was a tougher quarter for energy companies too, but **Chevron**'s (-11%) $53bn acquisition of exploration company, **Hess**, did not impress the market. Consumer goods companies continued to test how elastic demand is in a world of higher prices, and **Diageo** (-7%) saw cracks emerge in its Latin America business.

The final quarter showed that markets are somewhat on edge, with good news being leapt at, and bad news overly punished. Hopefully, as inflation and interest rates settle down into their new regime, markets will respond more to companies' fundamentals, and less to central bank press releases.

Cranley Macfarlane, *January 2024*

CHURCH HOUSE INVESTMENT GRADE FIXED INTEREST

	29 Dec 2023	29 Sep 2023	Quarter	2023
CH Investment Grade* - Inc.	107.2	103.4	+3.7%	+2.7%
iBoxx AA Corporate 5-15 year	80.1	74.1	+8.1%	+4.5%
CH Investment Grade - Accum.	180.0	170.3	+5.7%	+7.4%
iBoxx £ ABS 5-10 year TR**	334.6	310.5	+7.8%	+10.8%

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

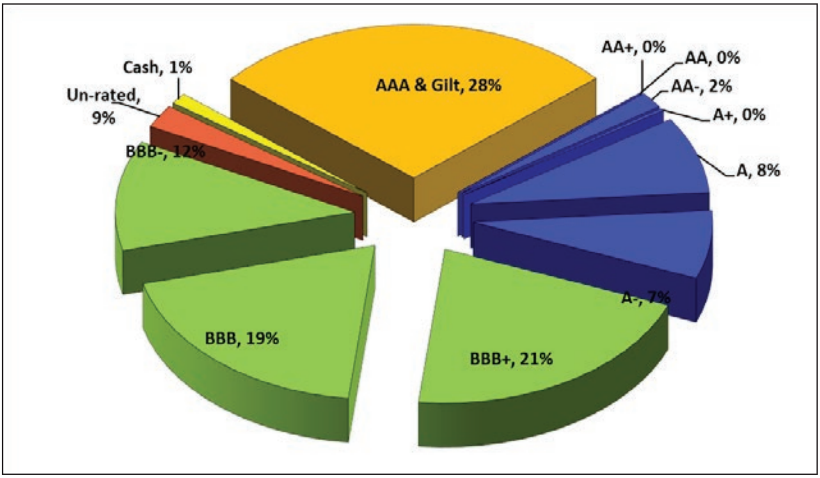
The Investment Grade Fixed Interest portfolio closed the year ahead having demonstrated so much less volatility than seen in so many fixed interest markets. The interest payment from the portfolio during the period was also significantly higher than that for the final quarter of 2022:

CH Investment Grade Fixed Interest	Dec 2023	Sep 2023
Short-dated Securities (less than 7 years)	74%	73%
Medium-dated Securities (7 to 15 years)	23%	23%
Long-dated Securities* (over 15 years)	3%	4%
Duration of Portfolio	3.1	2.9
Volatility** (past year)	4.4%	3.7%
Number of Holdings	102	92
Yield (historic)	4.5%	4.4%
Portfolio Value	£308m	£249m

**Long-dated includes infrastructure holdings*

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

CH Investment Grade Fixed Interest – by Credit Rating – 29 December 2023



Source: Church House

Top 15 Holdings - 29 December 2023	
UK T Bill 1/2024	2.6%
Bank of America 7% 7/2028	2.3%
Deutsche Pfandbriefbank 7.625% 12/2025	2.3%
Goldman Sachs Group Inc 7.25% 4/2028	2.1%
IFC 4.5% 10/2028	2.0%
Standard Chartered 5.125% 6/2034	2.0%
SSE Hybrid 3.74% 2026/2029	2.0%
John Deere 5.125% 10/2028	1.8%
M&G 5.625% 10/2031	1.8%
Pacific Life 5.375% 11/2028	1.7%
EIB FRN (SONIA) 1/2027	1.7%
Bayerische Landesbank 5.125% 6/2026	1.6%
Virgin Money Covered FRN (SONIA) 3/2024	1.6%
Lloyds Covered 5.125% 3/2025	1.6%
TSB Covered FRN (SONIA) 9/2028	1.6%

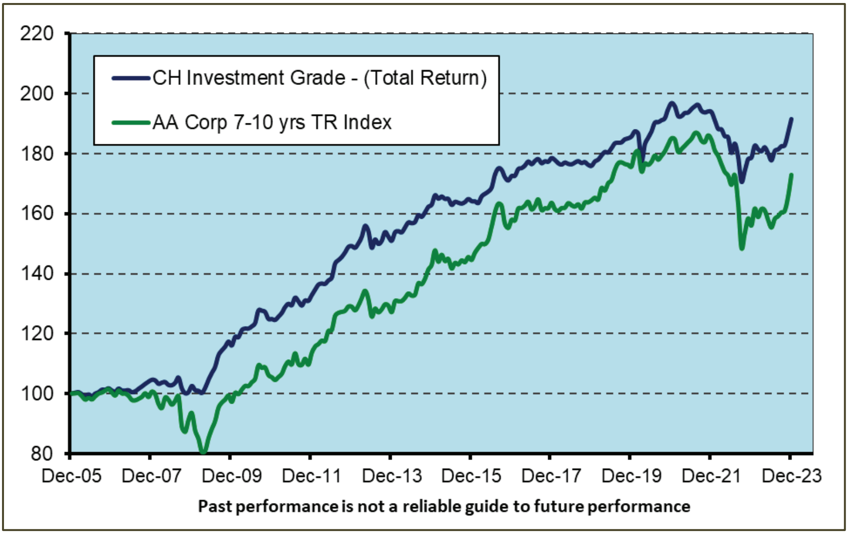
The top holdings now start with a **Treasury** Bill, but this is really just a (better) cash alternative and will mature before the end of January. Otherwise, the most significant new holding here is the **IFC** (International Finance Corp) 4.5% stock due in October 2028. This is a AAA-rated 'supranational' issue. It was also good to participate in new issues from **John Deere** and **Pacific Life**, both of which now appear in this list.

Calendar Year Performance:

2023	2022	2021	2020	2019
+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

	29 Dec 2023	29 Sep 2023	Quarter	2023
CH UK Equity Growth*	196.7	184.2	+6.8%	+9.5%
FTSE All-Share Index	4232	4127	+2.5%	+3.8%
FTSE 250 Index	19690	18729	+5.1%	+4.4%

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

Rory Campbell-Lamerton writes: Our UK Equity Growth portfolio had a much more pleasing quarter, where the ongoing terrible conflict in Israel and Gaza in October gave way later in the quarter to increasing optimism for receding interest rate and inflation risk. Inflation in the UK has been steadily easing and it can't be too long before the Bank will start (albeit gently) cutting rates. We remain optimistic that increased visibility on monetary policy will underpin improved market conditions, and one only has to look at how well the UK markets have performed over the past quarter, as a hint to the potential upside.

There were positive movements across most sectors of the market, but particularly in Industrials and Consumer Discretionary where the portfolio is overweight. After a lacklustre year, **Halma, Spirax-Sarco Engineering** and **Diploma** all rallied late in the quarter, on the back of no market announcements, just the long-awaited shift in sentiment. **Judges Scientific**, the maker of niche scientific instruments, also performed strongly, we added to Judges in October following a further meeting with management.

In Consumer Discretionary, **InterContinental Hotels**, the group behind the Six Senses and Holiday Inn chains, was the bright star (up just shy of 50% in 2023), where their mix of multi-price point brands and franchised operating model increased revenues and profits as the world recovered further from the Covid-19 pandemic. **Trainline**, the rail ticketing app, received a fillip in December when the Government quietly dropped its plans for a *Great British Rail* app. **Howden Joinery,** the kitchen makers, also rallied into the year-end on the back of its continued excellent cash generation and balance sheet strength.

Not all companies fared well in the final quarter, in particular, **Diageo** performed poorly. The beverages conglomerate issued a rare and surprising profit warning in November, citing tough trading conditions and subsequent de-stocking in Latin America and the Caribbean. Coupled with the new Chief Executive making a hash of the earnings call, the stock fell sharply. It should be noted that LatAm & The Caribbean account for 11% of Diageo's annual net sales. On the other hand, Hein Schumacher, the new Chief Executive of **Unilever**, delivered accomplished maiden results and an intention to focus on their major brands and the bottom line, rather than their brand's respective social qualities. It is rather hard to find a social purpose for mayonnaise.

Top 15 Holdings - 29 December 2023	
RELX	6.7%
Diploma	6.6%
Halma	5.2%
Spirax-Sarco Engineering	5.0%
Microsoft	3.9%
Diageo	3.8%
Croda International	3.7%
Greggs	3.6%
Unilever	3.6%
Dechra Pharmaceuticals	3.4%
Judges Scientific	3.3%
Auto Trader Group	3.2%
London Stock Exchange	3.1%
AstraZeneca	3.1%
Ashtead Group	3.0%

RELX, the global information and analytics company, continued its strong performance and we took some profits. We also took further profits in **Dechra Pharmaceuticals**, the veterinary drugmaker, whilst we await their acquisition by EQT to go through and sold our holding in video games software developer **Keyword Studios.** Our allocation to non-UK equities, which we allocate to sectors where we see a lack of UK options, particularly in healthcare and technology, benefitted from holding two of the 'Magnificent Seven'; **Microsoft** and **Alphabet** both of which were good contributors.

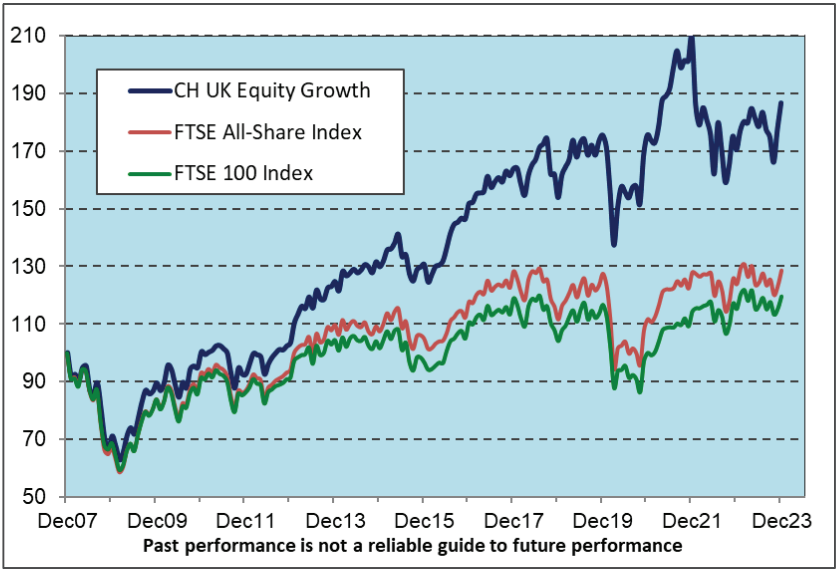
Calendar Year Performance:

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

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

CH UK Equity Growth vs FTSE Equity Indices

Bid Prices, excluding income – Capital Performance



Source: Church House, Bloomberg

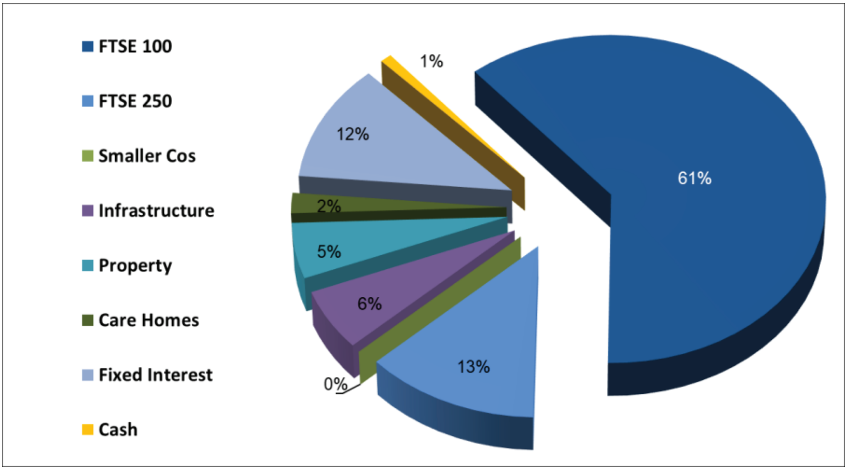
Church House Balanced Equity Income

	29 Dec 2023	29 Sep 2023	Quarter	2023
CH Balanced Equity Income*	172.7	166.9	+3.5%	+2.5%
FTSE All-Share Index	4232	4127	+2.5%	+3.8%
FTSE Higher Yield Index	3607	3585	+0.6%	+1.5%
FTSE Index-Linked All Stocks	515.7	475	+8.6%	+0.2%
Composite Benchmark**	113.6	110.9	+2.4%	+2.4%

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

The Balanced Equity Income portfolio gained over the final quarter taking it to positive for the year as a whole. The dividend paid at the end of November was around 12.5% higher than last year. The overall disposition shows little change though there were more transactions than usual this time:

CH Balanced Equity Income – Disposition – 29 December 2023



Source: Church House

Within the Fixed Interest portion of the portfolio, we have reduced the index-linked holdings in favour of fixed coupon where the interest rates have been so attractive recently. We have sold **Heathrow** index-linked 2039 and reduced the **Treasury** index-linked 2030 in favour of new holdings in **Royal Bank of Canada** 5% 2028 and **Toyota** 5.625% 2028 along with additions to the **KBC Group** 5.5% 2028 holding. Within the equity holdings, we have made modest reductions to **Halma** and **Sage Group**. We still like both of these companies but Halma's dividend yield below 1% makes it harder to hold in this portfolio and the strong gains for Sage over the period took them to a level that called for some profit taking. In the opposite direction, we added to **Phoenix Group**, which was depressed for no clear reason and offers a high dividend yield.

Top 15 Holdings - 29 December 2023	
AstraZeneca	5.5%
RELX	4.5%
BAE Systems	4.2%
Unilever	3.9%
GSK	3.7%
Sage Group	3.3%
Diageo	2.9%
Bunzl	2.8%
Aviva	2.7%
National Grid	2.6%
Berkeley Group	2.4%
Barclays	2.4%
Reckitt Benckiser	2.4%
Rio Tinto	2.3%
3i Group	2.3%

We have also shuffled the property holdings to improve the dividend yield, selling **Shaftesbury Capital** in favour of additions to the **Tritax Big Box** and **Primary Health Property** holdings. The Top 15 are broadly similar to last time though **Unilever** drops down after dull performance as does **Reckitt Benckiser**. **Sage** edges up the list despite the reduction in the holding. **Berkeley Group** appears in the list after a strong period for the housebuilders (**Bellway** has also had a particularly good quarter). **3i Group** appears in the list as their good run over the year continues on the back of good figures for their **Action** subsidiary.

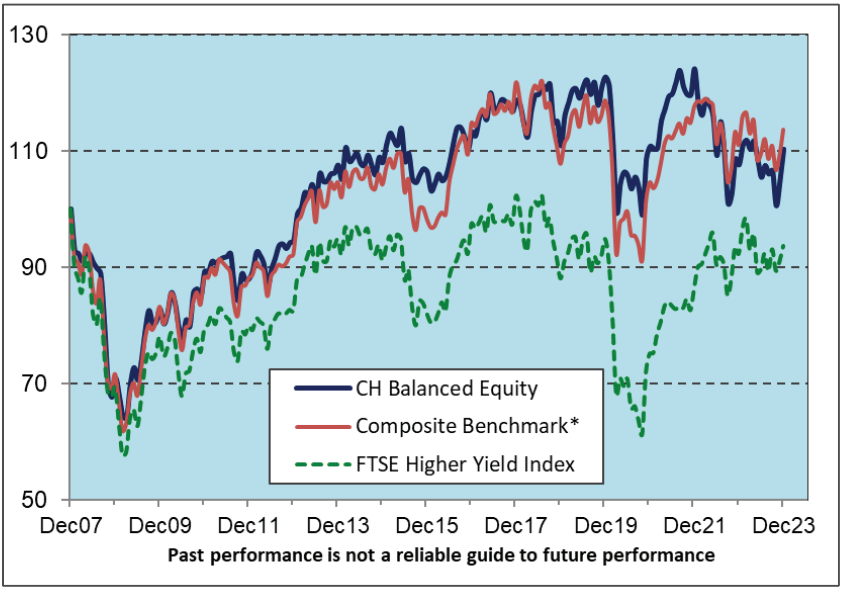
Calendar Year Performance:

2023	2022	2021	2020	2019
+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 *45% All-Share, 41% FTSE Higher Yield, 14% Index-Linked All-Stocks*

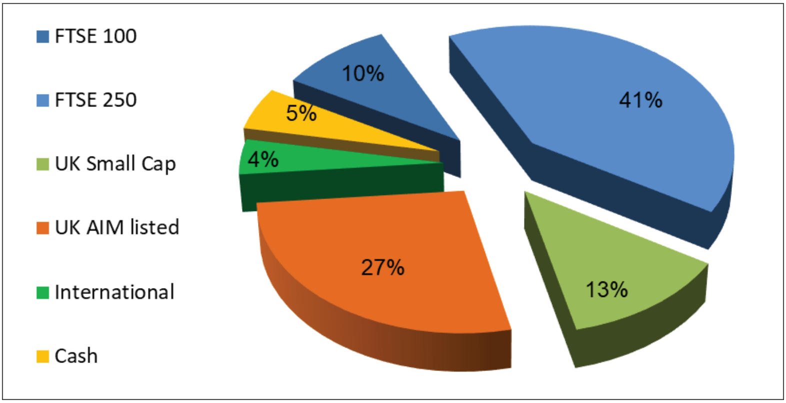
CHURCH HOUSE UK SMALLER COMPANIES

	29 Dec 2023	29 Sep 2023	Quarter	2023
CH UK Smaller Companies*	140.2	128.7	+8.9%	+3.2%
FTSE All-Share Index TR	9056	8773	+3.2%	+7.9%
FTSE AIM All-Share TR	915	865.9	+5.7%	-6.4%

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

Fred Mahon writes: Our UK Smaller Companies portfolio weathered a rotten year for the sector to post a modest gain. Testament to the underlying quality of the businesses that we hold, which have continued *business-as-usual* in patchier economic times. In fact, for companies that have maintained balance sheet strength through the good times, these more challenging periods are an exciting opportunity to grow and win market share off those who have been less prudent – Darwinian but true.

CH UK Smaller Companies – Disposition – 29 December 2023



Source: Church House

One of the lead performers in the portfolio this quarter (and all year) was **Bytes Technology**, who are the primary distributor of Microsoft software products (Office, Windows, Azure Cloud… the list goes on) in the UK. 2023 was an excellent year for Bytes and the years ahead look set to be even better as Microsoft's new suite of AI products come to market. We have met with Bytes a number of times this year and have been particularly impressed with their CEO, Neil Murphy. We initiated a new position in **Ashtead Technology** over the summer and their shares have almost doubled since then. Ashtead, based in Aberdeen, is a rental company providing equipment to the offshore energy sector – the next time that you need a marine growth removal (MGR) system to get barnacles off a pipeline or a robot submarine to survey the foundations of an oil rig, then look no further than Ashtead. The shares were boosted by their recent acquisition of ACE Winches, which looks like an excellent fit and adds to their presence in the US and UAE.

Games Workshop has had a more volatile quarter as the market has blown hot-and-cold on the maker of Warhammer miniatures. While not being avid players of their game, we are ardent supporters of the business and its management team, who have done a remarkable job growing what was once a hobby-shop in Hammersmith to a global business that in 2023 signed a deal with Amazon Prime to produce a Warhammer series starring Henry Cavill (Superman) – could this be Warhammer's Drive to Survive moment?

Top 15 Holdings - 29 December 2023	
Judges Scientific	5.8%
Diploma	5.7%
Greggs	4.9%
Somero Enterprises	4.4%
Porvair	4.2%
Big Yellow Group	4.0%
Beazley	3.9%
Young & Co's Brewery	3.9%
Trainline	3.7%
Cranswick	3.6%
Ashtead Technology	3.4%
Bioventix	3.3%
Bytes Technology	3.2%
Fuller Smith & Turner	3.1%
Keyword Studios	3.0%

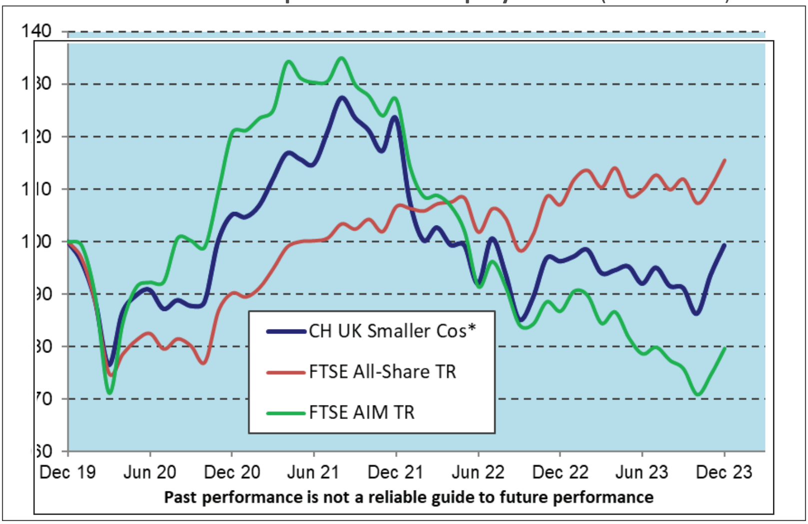
We are optimistic that the market for smaller companies will continue to recover into 2024, any move lower in interest rates would be a notable tailwind to the sector.

Calendar Year Performance:

2023	2022	2021	2020
+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

	29 Dec 2023	29 Sep 2023	Quarter	2023
CH Esk Global Equity*	434.6	408.5	+6.4%	+15.2%
CH Global Index in £	1412	1326.8	+6.4%	+14.6%
MSCI World in $	3169	2856	+11.0%	+21.8%
FTSE 100 Index	7733	7608	+1.6%	+3.8%

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

The Esk Global Equity portfolio closed the year with a positive quarter though the weakening dollar / strengthening sterling did not help given that half of the portfolio is directly exposed to US assets and much of the rest accounts in US dollars. The portfolio has done well over the year as a whole.

The list of the top holdings reflects trends in the markets as **Amazon.com** and **Intuit** move up, while the pharmaceuticals, notably **Johnson & Johnson** and **Roche Holding** slip down. The constituents of the list are the same bar a return for **Hermès**, replacing **Nestlé**, which has had a dismal year. We did make small reductions in two of the major holdings, **Microsoft** and **Apple**, in mid-November, acknowledging the strength of the move over the year. We have also sold the complete holding in **Industrivarden**, which had had a good year, preferring to focus on the other Swedish holding company, **Investor AB**, which has moved further up our top holdings list.

Top 15 Holdings - 29 December 2023	
Microsoft Corp	5.1%
Alphabet	4.6%
Mastercard	3.7%
LVMH	3.6%
Amazon.com	3.4%
Apple	3.4%
RELX	3.3%
Stryker Corp	3.3%
Intuit	3.0%
L'Oreal	2.9%
Johnson & Johnson	2.8%
Investor AB	2.7%
Oracle	2.6%
Roche Holding	2.6%
Hermès	2.5%

In other activity, we reduced the holding in **L'Oréal** a shade, concerned that there was scope for some of the (luxury) goods companies to disappoint with a slow-down in Europe and China. We sold the complete holding in the US bio-pharmaceutical company **Gilead Sciences**, in favour of adding further to the **Cencora** and **UnitedHealth Group** holdings, both being relatively new positions where we can see better value and predictability.

In purely numerical terms, **Shin-Etsu Chemical** of Japan did best over the quarter with a 36% gain, though a 30% recovery in **Novozymes** was not far behind. **Euronext**, the pan-European stock exchange, also recovered well with close to a 20% gain, they had been looking very 'oversold', but remain some way behind 2021 levels.

The bank holdings were mixed with gains for **Morgan Stanley** offset by a fall in **Standard Chartered** and similarly in Japan where **Nomura Holdings** gained and **Sumitomo Mitsui Financial** slipped back. In terms of overall contribution, **Microsoft** provided the greatest gains though **Intuit** and **Ansys** were also notable with gains of around 22% over the quarter. Intuit, who provide accounting software for small and medium sized businesses (akin to Sage in the UK), buoyed further good figures that beat expectations again. Ansys jumped just before the year end on reports in *The Wall Street Journal* that **Synopsys** was likely to bid for the company early in 2024.

Other Portfolio Statistics:

Number of holdings	43
Portfolio Value	£66.7m
Volatility*	8.4%
Income yield	0.4%

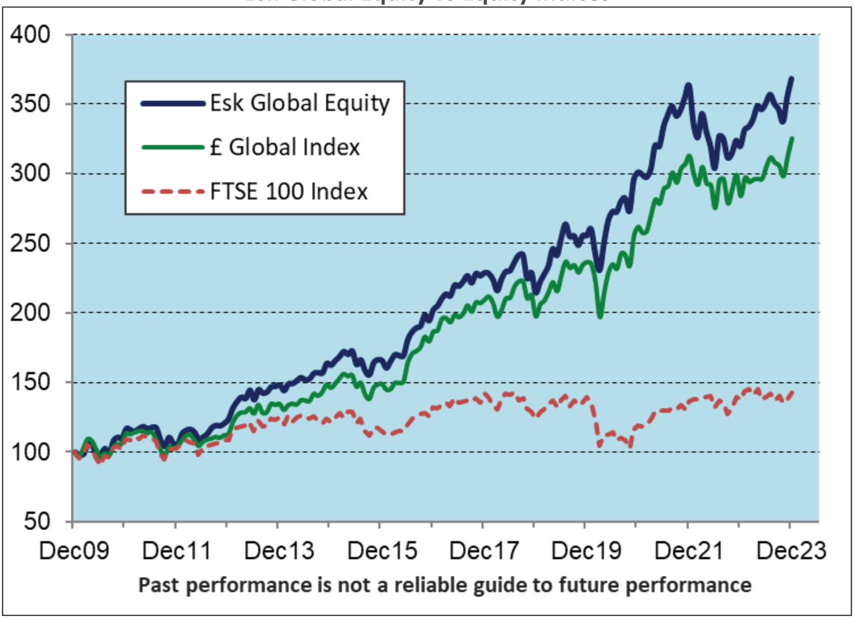
**Annual standard deviation of monthly capital returns expressed as a percentage, past year*

Calendar Year Performance:

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

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

Esk Global Equity vs Equity Indices



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

CHURCH HOUSE TENAX ABSOLUTE RETURN STRATEGIES

	29 Dec 2023	29 Sep 2023	Quarter	2023
CH Tenax Absolute Return*	162.2	153.6	+5.6%	+6.2%
Cash Return (SONIA)**	107.6	106.2	+1.3%	+4.7%

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

After what felt like another tumultuous year, though one that ended on a much brighter note, we start with a look at movements in the Fund's asset mix over 2023:

CH Tenax Fund - Allocation to Asset Classes – 2023

2023	30-Dec-22	31-Mar-23	30-Jun-23	29-Sep-23	29-Dec-23	Year change
Cash	0.5%	0.4%	0.3%	0.2%	0.2%	-0.4%
Gilt / AAA Fixed	0.0%	0.0%	0.0%	0.0%	2.1%	2.1%
FRN (AAA)	25.5%	22.1%	22.3%	20.0%	12.6%	-12.8%
Floating Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fixed Interest	42.8%	44.6%	45.1%	48.4%	51.6%	8.8%
Index-Linked	1.5%	1.9%	2.0%	0.5%	0.6%	-0.9%
Infrastructure	6.3%	6.0%	5.8%	5.6%	5.9%	-0.4%
Convert / ZDP	8.9%	9.6%	8.8%	9.1%	10.2%	1.3%
Alternative / Hedge	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Property / Real	2.9%	3.4%	3.7%	4.1%	5.0%	2.2%
Equity	11.6%	11.9%	12.1%	12.1%	11.8%	0.2%

Source: Church House

The big change has been the halving in exposure to floating rate notes (FRN) over the year, a move that we accelerated over the final quarter, assisted by the significant weakness in fixed interest markets in October. The principal beneficiary being Fixed Interest (credit/corporate fixed interest) along with some AAA-rated Fixed Interest (akin to high quality deposits). We consider that it is definitely time for a switch from floating to fixed rate investments after the massive increase in short rates over the past two years and our expectation that the next move from the Bank of England will be to reduce the Base Rate.

Property and Convertibles have also been a beneficiary of the switch from FRNs, convertibles more than is apparent from these figures as the proportion in ZDP (zero dividend preference shares) has been reducing from sales and maturity of this (shrinking) area of the market. The recent recovery in commercial property stocks is welcome and overdue in our view as the sector was looking unreasonably depressed. Equity exposure is little changed as we have tended to reduce here in favour of the credit markets, which, for Tenax, look a more attractive option at present.

We did see some good new issues before the primary market for new issuance went to sleep over the Christmas period. We bought into an issue from **Aviva** of new 6.875% stock callable in 2033, a similar new issue from **Phoenix** of 7.75% stock also callable in 2033 and a new AAA rated issue from **New York Life** of 4.95% stock due in 2029.

In the opposite direction, we reduced our exposure to **Rothesay Life** 5% in mid-December feeling that the rally was reaching a high. Indeed, we do feel that in the short-term the move in rates has gone far enough, leaving little room for disappointment at a time when European inflation rates will tick back up again slightly, though, hopefully, this should be brief.

In slightly more technical terms, the table below shows the duration* and redemption yield** figures for the FRN and Fixed Interest portions of the portfolio (around two thirds at the year-end) as they have developed over the year:

2023	**30-Dec-22**	**31-Mar-23**	**30-Jun-23**	**29-Sep-23**	**29-Dec-23**
Overall Duration*	2.6	2.9	2.9	2.8	3.2
Redemption Yield**	5.7%	5.8%	6.7%	7.1%	6.2%
Fixed Int. Duration	4.1	4.3	4.3	3.9	3.9
P/folio Running Yield	3.7%	4.1%	4.5%	4.7%	4.4%

Source: Church House

This shows an edging-up in the overall duration, which is a result of the reduction in the FRN exposure (floating rate notes have negligible duration) not a change in policy, we still prefer shorter-dated bonds. The overall redemption yield still looks attractive at 6.2% for such a short-dated (and short duration) portfolio of investments.

Calendar Year Performance:

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

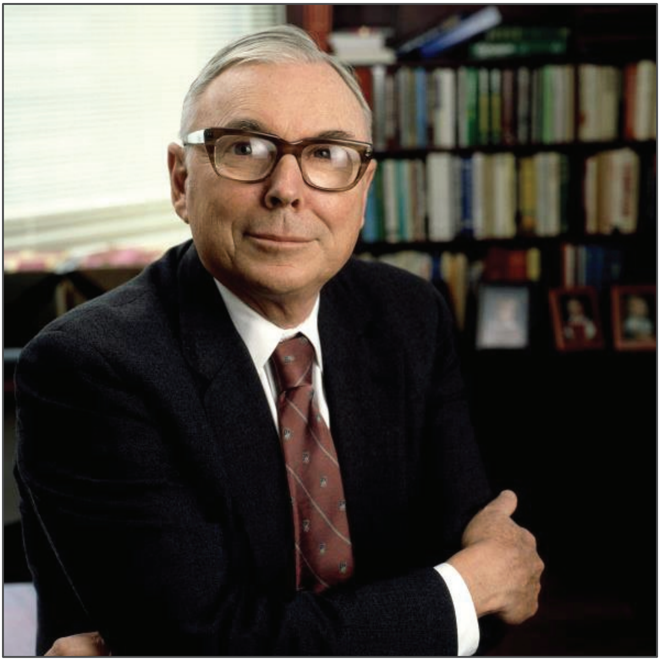
Source: Church House, NAV to NAV, 'A' accumulation shares

**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.*

Charles T. Munger

1924 - 2023



© Getty Images

Charlie Munger, vice Chairman of Berkshire Hathaway and Warren Buffett's partner for nearly sixty years, died in November, one month short of his hundredth birthday. Buffett and Munger's partnership commenced in the 1960s since when they have produced quite astonishing returns. Warren Buffett had the higher profile and folksy manner but this was a close team with Charlie Munger providing the intellectual heft. His commentaries on the market (and much else) are a joy to read, being tackled pithily but with much thought and, above all, humour. Probably his most famous aphorism was: "It's far better to buy a great company at a fair price than a fair company at a great price", to quote Warrenn Buffett: "Charlie understood this early, I was a slow learner". In his *Poor Charlie's Almanack* (a tip of the hat to his hero, Benjamin Franklin), Munger cites this as rule nos. 1, 2 and 3 in investing. He continued to work, he and Buffett answering around five hours of questions at Berkshire's AGM in May. RIP Charlie, you will be missed.