CH Church House Investment Management

UK Equity Growth Fund

Quarterly Report

Spring 2021

Contents

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Note from Managers

The market is expecting a recovery to some kind of economic normality and so have begun to price-in higher inflation and higher interest rates.

Q1 Asset Attribution Review

It has been a patchy start to the year for UK markets, but my goodness, we are in a better situation than we were this time last year. At the time of writing, 62% of the adult population has had their first jab in the UK and 19% both jabs, the schools have reopened and soon we will able to enjoy a drink and a meal (outside) with friends and family. Despite all the negative headlines, there is no denying that the medical and scientific communities have surpassed all expectations and we can be confident that meaningful progress is being made in returning to life as we knew it.

From a UK perspective, the **FTSE 100 Index** was up 3.9% in the first quarter, managing to outperform the tech-heavy Nasdaq Index, which paused for breath after a stellar run. The market has focused overwhelmingly on two factors this year: **rising interesting rates** and **COVID-19**. With interest rates, the market is expecting a recovery to some kind of economic normality and so have begun to price-in higher inflation and higher interest rates. The first point to make is that, contrary to popular belief (from financial reporters), this is **GOOD news** that we are entering a recovery environment. Secondly, the move in rates so far has been a return to levels seen a year ago, before extraordinary measures were brought-in to support economies during the pandemic. Within the context of a normalisation in rates and, most importantly, economic growth, this should provide a supportive backdrop for markets. Governments worldwide remain supportive and we hope to see fiscal stimulus begin to pick up any slack as and when monetary stimulus begins to wane. Of course, there is scope for inflation to run ahead and policy errors from central banks, but we are a long way from this currently and **we do not see a return to the 1970s any time soon**.

The textbook market reaction to higher rate expectations is that commodity and financial stocks do well, while high growth technology and 'bond proxy' healthcare names sell-off. This is exactly what happened in the first quarter of 2021. This resulted in the **outperformance of so-called value stocks against their growth/quality counterparts**. One can probably tell from the tone of writing that we do not believe that this move has legs, as it is quality and growth of a business that will out in the long-term. We took the chance of share price weakness in the likes of **AstraZeneca**, **Experian** and **London Stock Exchange Group** during the period to initiate new investments in businesses that we believe are of the highest quality and are well placed to deliver steady growth for years to come.

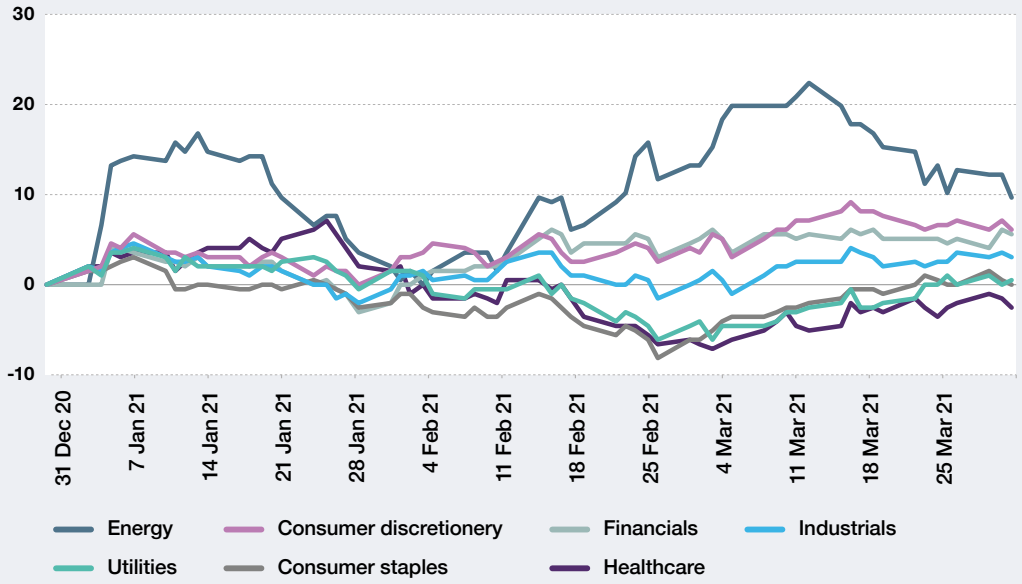
The **Fund has a high active share**, with our primary exposure being to the Pharmaceutical, Consumer, Technology and Industrial sectors, where we see the best combination of quality, growth, and currently some attractive value opportunities. We have minimal exposure to the large-cap banks, miners and oil & gas majors that led the market in Q1/21 and so are not surprised to have lagged the recent market rally. In fact, we used the strong run in mining stocks to further reduce **Rio Tinto**, our last remaining position in the mining sector. The consumer discretionary names, that we added to the Fund last year, namely **Greggs**, **JD Sports**, **Trainline**, **InterContinental Hotels** and **Compass Group**, have all enjoyed an excellent few months as a recovery nears. We also observe that our shares in **Diageo** and **Heineken** have just started to pick-up, again reflecting optimism for a better second half of 2021 and (let's hope) and booming 2022 for the industry. Meanwhile, the likes of **Unilever**, **RELX** and **Smith & Nephew** remain unloved despite what we view as plenty of upside potential for these businesses as the world begins to open up again. All three of these names are core holdings and we are confident on their outlook for the year ahead.

Fred Mahon
Fund Manager

Rory Campbell-Lamerton
Fund Manager

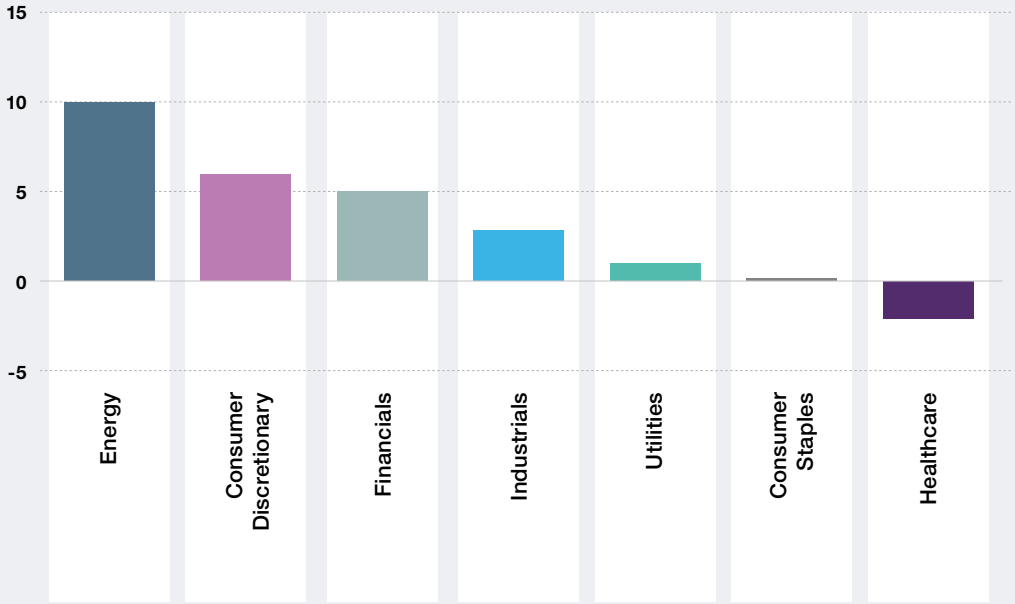
The **Economic** & **Market Background**

UK sector returns ytd (%)



Source: Berenberg

UK sector relative returns ytd (%)

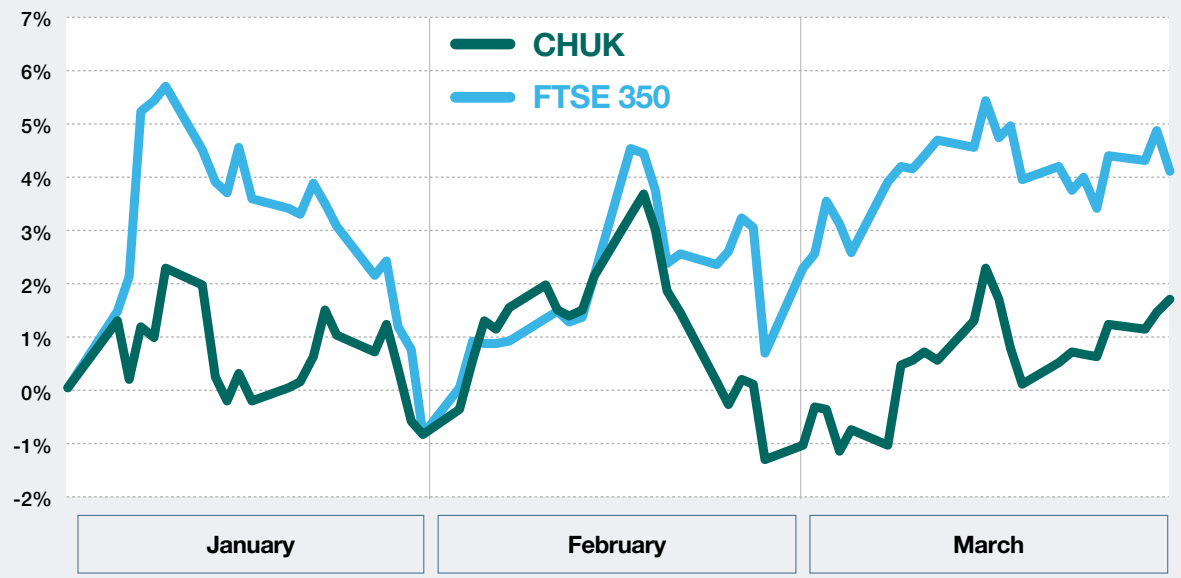


Source: Berenberg

Stock **Overview**

Q1 Performance

CHUK Performance vs FTSE 350



Source: Bloomberg

Q1 Attribution Analysis

Asset Allocation
-0.57%

Stock Selection
-1.87%

Currency
-0.67%

Total Attribution
-3.34%

Top 5
Contributors to Return

		Contribution to Return	Average CHUK Weighting
1	**Diploma**	+0.66%	4.39%
2	**Greggs**	+0.60%	2.68%
3	**Barclays**	+0.42%	1.68%
4	**Alphabet**	+0.27%	1.78%
5	**RWS Holdings**	+0.22%	1.55%

In a tough quarter for quality growth funds, fortuitously our top holding ***Diploma*** remained our top contributor to return. The life sciences and seals business continues to deliver strong operating performance globally and expects revenues for the first half of the year to grow in the double-digits and match pre-COVID-19 levels.

Greggs has had a very strong past two quarters, doubling in share price. The business reported its first ever loss in March, but started the New Year better than expected plans to fully open its 2000+ stores when Lockdown eases in April.

Another business to also catch the value rally has been ***Barclays***, the only Major UK bank we hold in the portfolio. The bank reported profit falls of a third, but resumed its dividend payout. Barclays remains well-capitalised, highly liquid, profitable FICC division and with a strong balance sheet.

Google, owned by parent company ***Alphabet***, remains one of the major beneficiaries of the coronavirus crisis as major swathes of the global population move more and more daily tasks online. Whilst new to the portfolio, ***RWS Holdings***, the provider of language services and technology, continues to benefit from the increased global need of translation services and reported a double-digit percentage increase in pre-tax profit in a February trading update.

Bottom 5
Contributors to Return

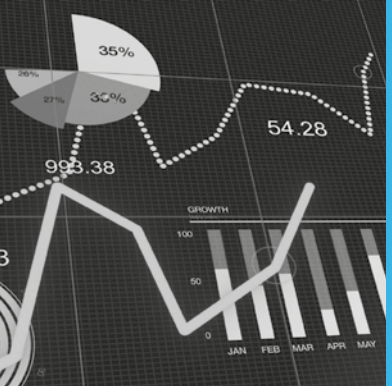
		Contribution to Return	Average CHUK Weighting
1	**Fever-Tree drinks**	-0.32%	1.94%
2	**Smith & Nephew**	-0.28%	3.25%
3	**Arix Bioscience**	-0.22%	1.33%
4	**Roche**	-0.19%	3.69%
5	**Heineken**	-0.14%	1.59%

Fever-Tree Drinks, 2020's top of the charts, lost its fizz as strong performance in its off-trade could not cover the losses of their valuable on-trade revenue streams, which dried up as prolonged lockdowns enforced restaurant and bar closures worldwide. ***Heineken***, very much in the same boat, is even more affected by its on-trade closure. As the world opens up, we expect both of these businesses to outperform as consumers enjoy ice cold gin & tonics and refreshing beers from the summer onwards.

In addition to the drinks sector, another area that has had a torrid start to 2021 is in healthcare. ***Smith & Nephew***, the manufacturer of hip and knee replacements, posted a further fall in annual earnings, blaming the deterioration on the COVID-19 pandemic, which caused elective surgical procedures to continue being put on hold. These surgeries will need to be fulfilled at some point, so as economies open up and the burdens on hospitals are eased, we expect Smith & Nephew to recover swiftly.

After the healthcare rally of 2020, its constituents tracked sideways for the first quarter of 2021 and ***Roche*** was no exception. We still believe it is one of the foremost pharmaceutical companies in the world and we topped up our holding in February. ***Arix Bioscience*** had a complicated quarter as their largest shareholder called for the board to initiate an executive shake up before it deployed any further capital following their successful disposal of VelosBio. We have actively engaged with the board and management and believe that the portfolio of underlying biotech companies remains compelling, whilst trading at a quarter-end discount of 25% to NAV with a cash war chest of 54% of the business for further acquisitions and buybacks.

Source: Bloomberg

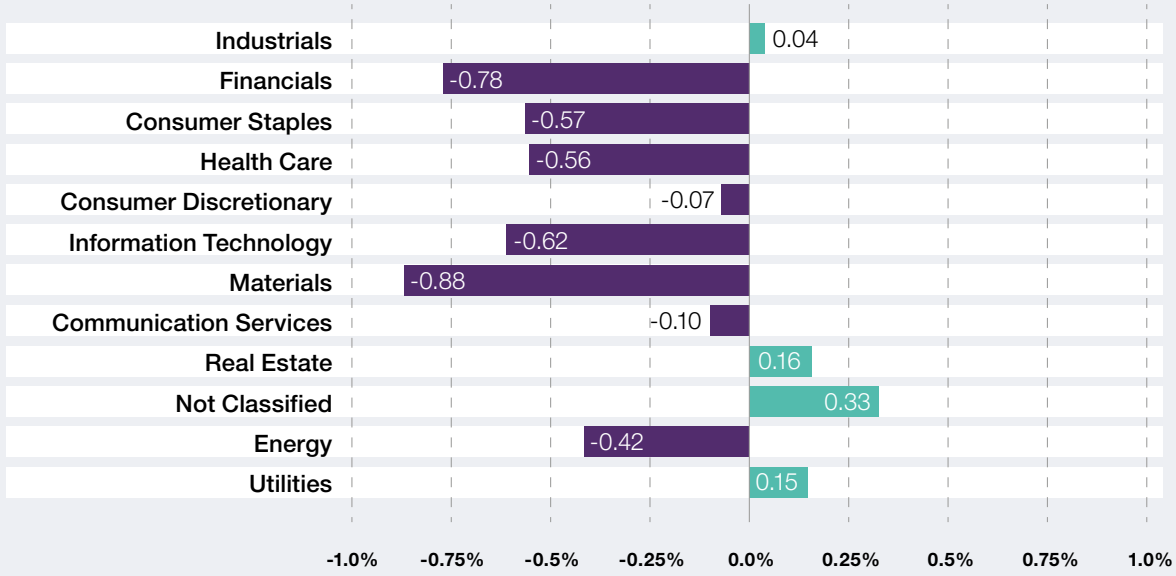


Asset **Attribution**

Q1 Performance

Attribution Summary

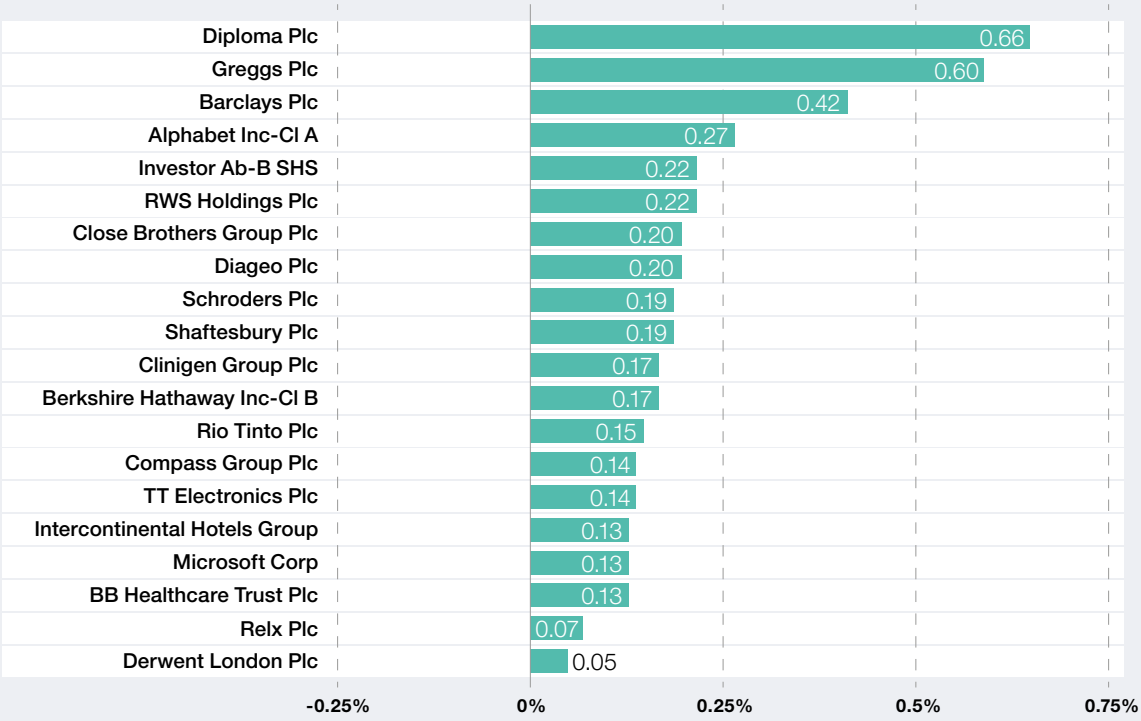
Total attribution
CHUK: -3.34%



Source: Bloomberg

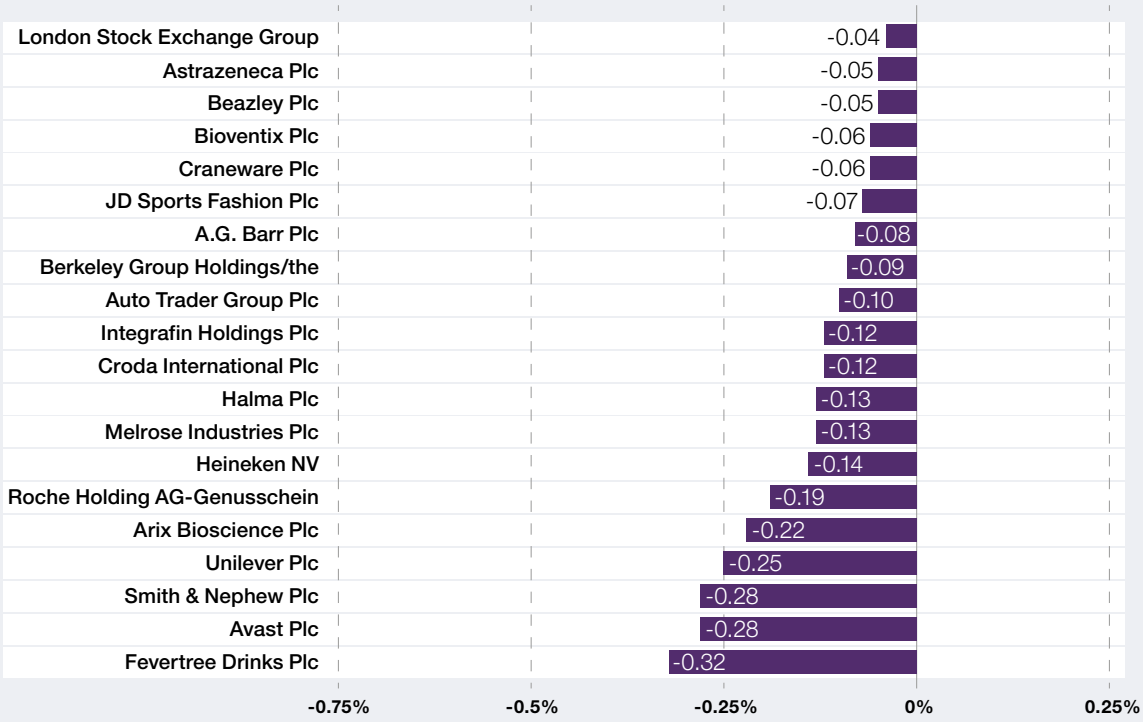
	Average Weight (%)			Total Return (%)			Contribution to Return (%)			Allocation Effect (%)	Selection Effect (%)	Currency Effect (%)	Tot Attr (%)
	Port	Bench	+/-	Port	Bench	+/-	Port	Bench	+/-				
CHUK	100.00	100.00	0.00	1.68	5.03	-3.34	1.68	5.03	-3.34	-0.57	-1.87	-0.67	-3.34
Industrials	19.46	11.92	7.54	4.59	3.90	0.69	0.85	0.48	0.37	-0.05	0.09	0.00	0.04
Financials	17.99	16.71	1.28	4.61	9.21	-4.61	0.81	1.51	-0.71	0.04	-0.56	-0.20	-0.78
Consumer Staples	15.06	15.68	-0.62	-3.96	0.00	-3.97	-0.61	-0.02	-0.59	0.07	-0.48	-0.15	-0.57
Health Care	13.43	8.95	4.48	-3.30	-0.90	-2.39	-0.47	-0.10	-0.37	-0.24	-0.02	-0.27	-0.56
Consumer Discretionary	12.46	9.38	3.08	5.71	6.33	-0.63	0.68	0.59	0.09	0.05	-0.04	0.00	-0.07
Information Technology	9.48	1.84	7.64	-1.46	5.12	-6.57	-0.14	0.10	-0.23	0.01	-0.11	-0.03	-0.62
Materials	4.58	12.25	-7.67	0.12	10.57	-10.45	0.02	1.25	-1.23	-0.35	-1.29	0.00	-0.88
Communication Services	3.13	4.32	-1.19	5.79	7.86	-2.08	0.18	0.34	-0.16	-0.03	-0.05	-0.02	-0.10
Real Estate	2.79	2.59	0.20	9.08	3.13	5.95	0.24	0.08	0.16	0.00	0.16	0.00	0.16
Not Classified	1.64	5.10	-3.46	8.18	-0.26	8.45	0.13	-0.01	0.14	0.19	0.43	0.00	0.33
Energy	0.00	7.98	-7.98		10.72	-10.72		0.79	-0.79	-0.42	0.00	0.00	-0.42
Utilities	0.00	3.30	-3.30		0.63	-0.63		0.02	-0.02	0.15	0.00	0.00	0.15

Top 20 Contribution to Return



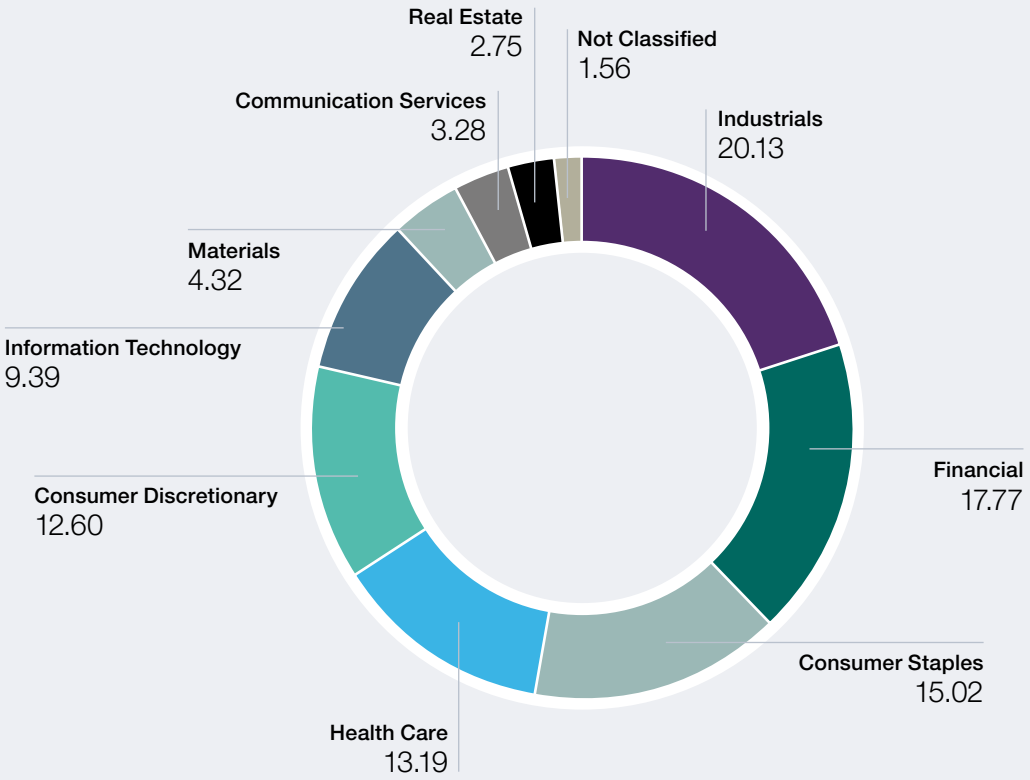
Source: Bloomberg

Bottom 20 Contribution to Return



Source: Bloomberg

Portfolio Allocation



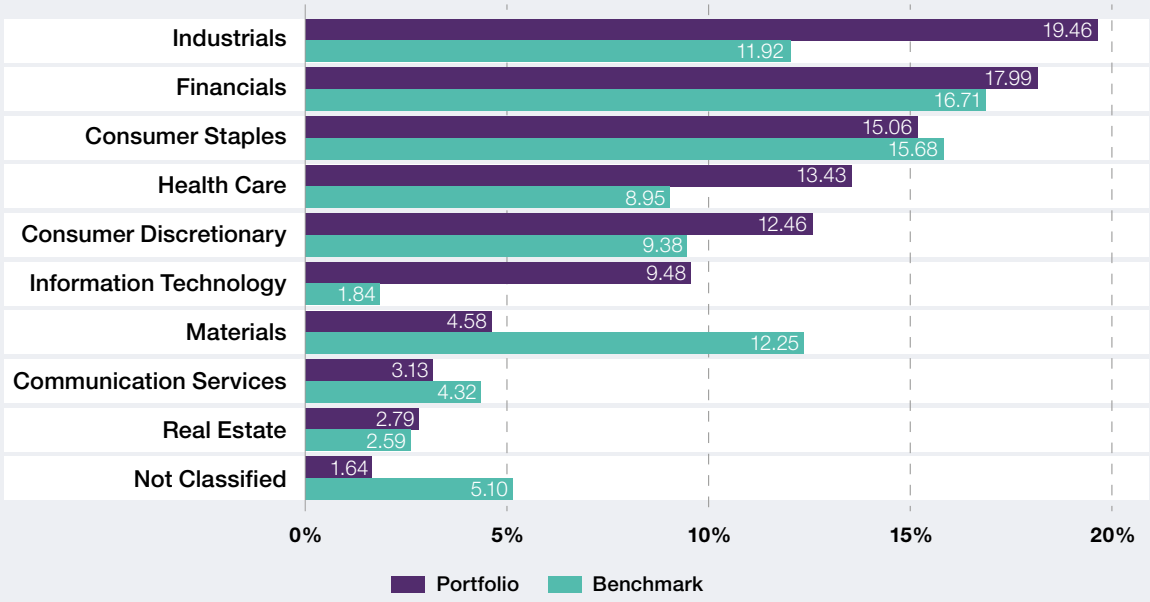
Source: Bloomberg

Sector	Port	Bench	+/-
Not Classified	1.56	5.07	-3.51
Real Estate	2.75	2.60	0.15
Communication Services	3.28	4.39	-1.11
Materials	4.32	12.07	-7.75
Information Technology	9.39	1.98	7.41
Consumer Discretionary	12.60	9.85	2.75
Health Care	13.19	8.56	4.63
Consumer Staples	15.02	15.42	-0.41
Financials	17.77	17.14	0.63
Industrials	20.13	12.05	8.07
Energy		7.53	-7.53
Utilities		3.35	-3.35

Top 10 Holdings	Value
Diploma Plc	4.78
Relx Plc	4.48
Diageo Plc	4.11
Halma Plc	4.05
Unilever Plc	3.88
Roche Holding AG-Genusschein	3.43
Spirax-Sarco Engineering Plc	3.38
Croda International Plc	2.99
Smith & Nephew Plc	2.96
Greggs Plc	2.73

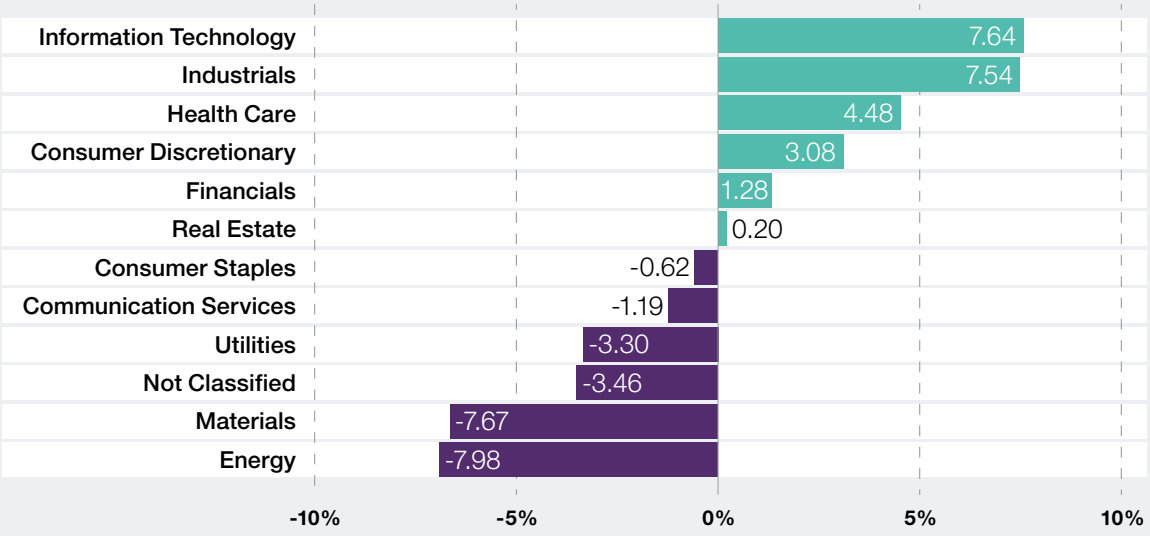
Allocation

Benchmark and portfolio



Source: Bloomberg

Relative



Source: Bloomberg

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