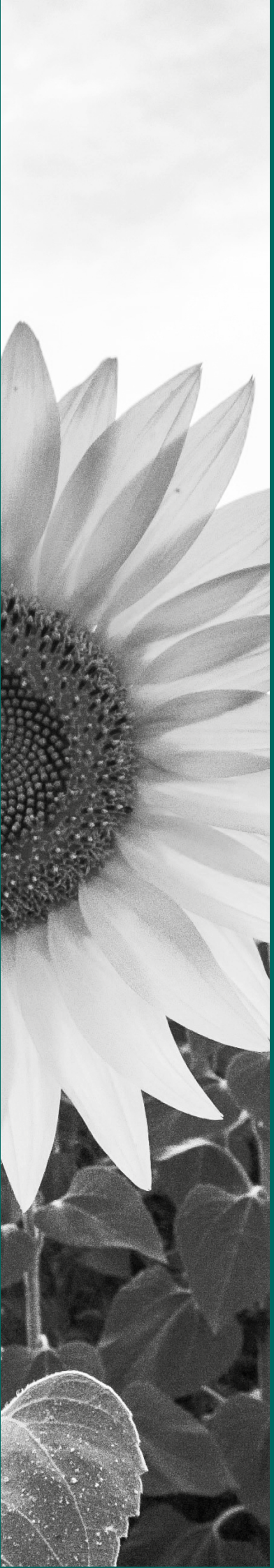
Church House Investment Management

UK Equity Growth Fund

Quarterly Report

Summer 2021



Contents

Note from Managers 3

The Economic & Market Background 4

Stock Overview 5

Asset Attribution 7

UK Equity
Growth Fund

Quarterly Report

Summer 2021

Note from Managers

Whilst the main domestic market remained quiet that did not mean there was little to no action in the portfolio.

Q2 Asset Attribution Review

The second quarter of the year started with a bang and the Spring reporting season full of strong company results.

However, the latter two months of the quarter were remarkably dull as the FTSE 100 stayed range-bound in and around 7000 points. In contrast, the S&P 500 and DAX in Germany continued making all-time highs over the quarter.

Nevertheless, whilst the main domestic market remained quiet that did not mean there was little to no action in the portfolio.

Our Industrials have performed strongly over the quarter; in particular, **Diploma**, **Halma** and **Spirax-Sarco Engineering**. These UK listed names are all global leaders in their fields. Diploma and Spirax-Sarco were especially helped by the fact they operate across sectors, and are in the sweet spot of industrial recuperation as the economy recovers and ongoing healthcare demand.

Similarly enjoying these tailwinds, **Halma** boosted its dividend as it reported full-year profit growth, even though revenue edged down over the financial year.

In May, **Diageo** resumed their share buyback as recovery for the global drinks manufacturer gathers pace. The Guinness brewer and Johnnie Walker distiller saw good recovery across all regions, particularly in North America, whilst off-trade sales in Europe remained robust. With the business's pricing power and customer/brand loyalty, Diageo should continue to outperform as the world gradually returns to 'normality'. **Roche**, one of our international holdings, had a very strong quarter, with share price performance up 15% over the quarter on the back of strong phase III trial data for a drug combatting Alzheimer's disease.

We added two new positions in June. One of the lagging sectors in the UK over the second quarter has been Technology and we took this opportunity to initiate a position in **Kainos**. Kainos is a leading, up-and-coming UK technology business, focusing on providing digital services to much of the UK government agencies and NHS. If you have recently renewed your passport or driving licence, you will have done so via Kainos developed and powered systems.

Secondly, we initiated a new position in **Genus**, a London listed mid-cap business focusing on animal genetics. Genus offers its customers access to best-in-class genetic winners, e.g. the highest yielding pigs and cows for farmers across the world. Genus was founded pre-WWII by the Milk Marketing Board, but was spun out in 1994. It is unique as the only truly scalable animal genetics business in the world, with most of its rivals much more home market focussed and lacking Genus's R&D capacity.

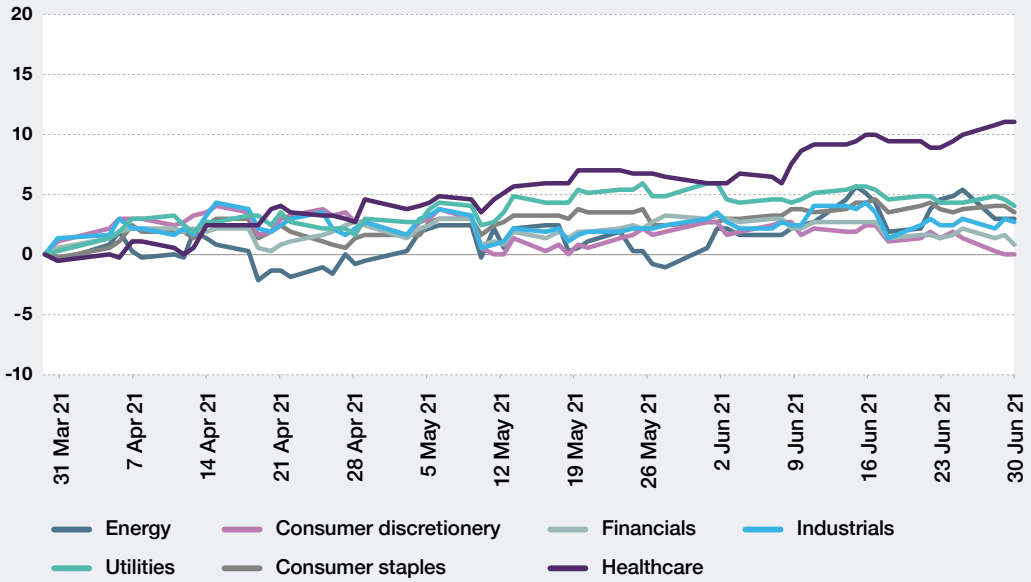
We funded these acquisitions by selling our holding in **Clinigen**. Clinigen had performed exceptionally well for the fund in its five year stint in the portfolio. However, we sold the holding as the stock hit our target price, aiming to diversify into a more specialised animal healthcare (Genus) to complement our other remaining healthcare names (**Roche**, **AstraZeneca**, **Smith & Nephew** and **Dechra**).

Fred Mahon
Fund Manager

Rory Campbell-Lamerton
Fund Manager

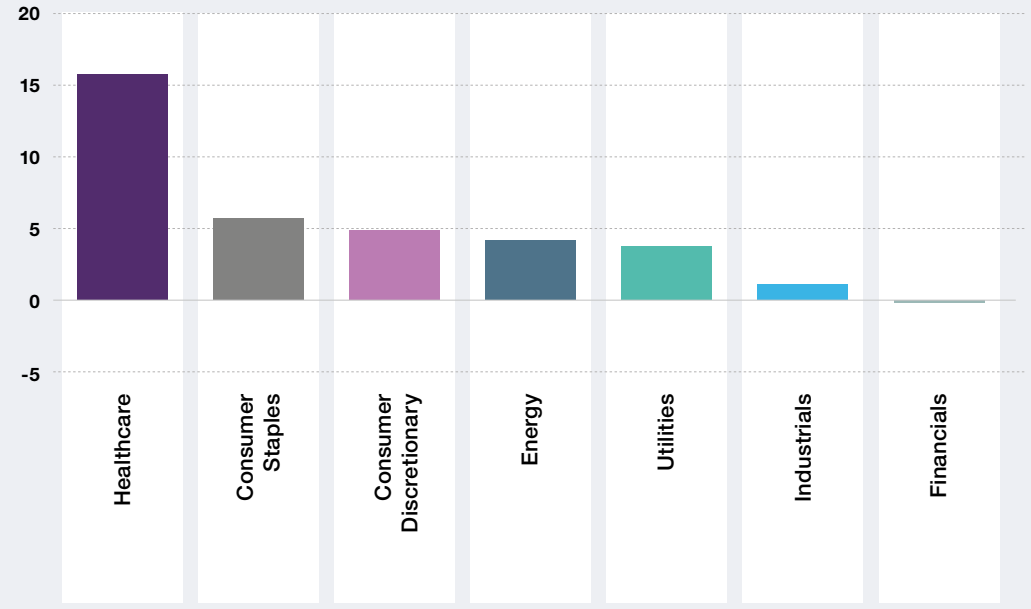
The **Economic** & **Market Background**

UK sector returns Q2/21



Source: Berenberg

UK sector relative returns Q2/21 (%)

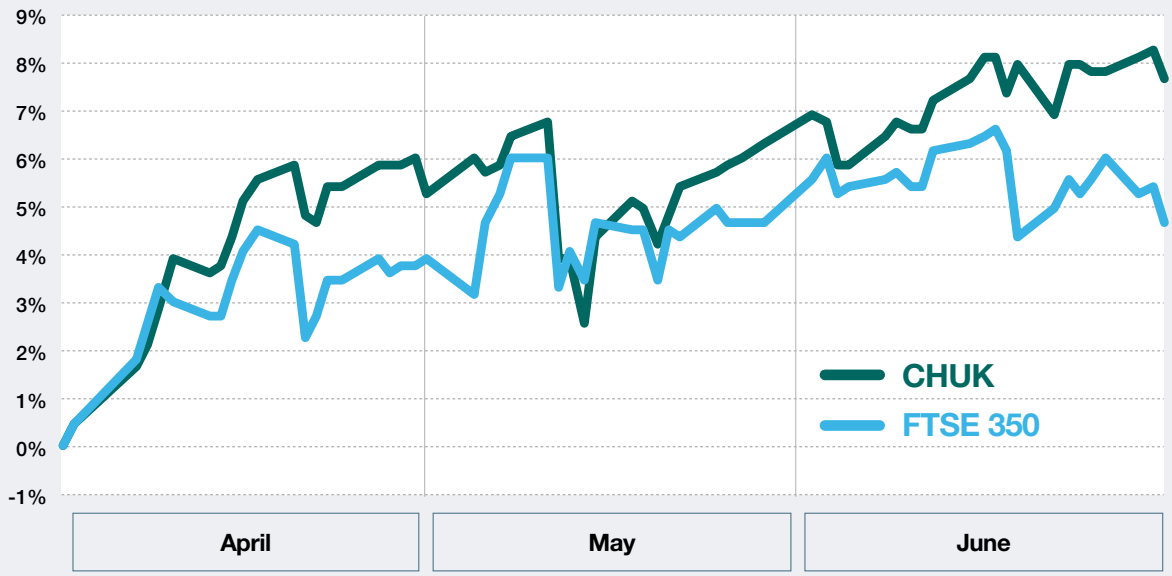


Source: Berenberg

Stock **Overview**

Q2 Performance

CHUK Performance vs FTSE 350



Source: Bloomberg

Q2 Attribution Analysis

Asset Allocation	Stock Selection	Currency	Total Attribution
0.34%	2.61%	0.12%	2.84%

Top 5
Contributors to Return

		Contribution to Return	Average CHUK Weighting
1	**Diploma**	+0.67%	4.85%
2	**Spirax-Sarco Engineering**	+0.65%	3.36%
3	**Diageo**	+0.63%	4.19%
4	**Roche**	+0.54%	3.42%
5	**Halma**	+0.52%	4.02%

Diploma continued its presence in top 5 best contributors to return for the fund. The business delivered promising half-year results in May and we had an encouraging meeting with management. The business is enjoying being in a sweet-spot of ongoing Healthcare demand and increasing recovery in the Industrials sector. Their big acquisition of Windy City Wiring is going well so far and management are now guiding for revenue to be +40% in 2021.

Also operating across the themes of industrial recovery and increasing healthcare demand is ***Spirax-Sarco Engineering***. The steam and peristaltic pump engineer raised their 2021 forecasts after a better than expected performance in the start of their financial year. Global industrial production was better than management had predicted as economies recovered faster than expected. Similarly enjoying these tailwinds, Halma boosted its dividend as it reported full-year profit growth, even though revenue edged down over the financial year.

In May, ***Diageo*** resumed their share buyback as recovery for the global drinks manufacturer gathers pace. The Guinness brewer and Johnnie Walker distiller saw good recovery across all regions, in particular in North America, whilst off-trade sales in Europe remained robust. With the business's pricing power and customer/brand loyalty, Diageo should continue to outperform as the world gradually returns to 'normality'. ***Roche***, one of our international holdings, had a very strong quarter, with shares up 15% over the quarter on the back of strong phase III trial data for a drug combatting Alzheimer's disease.

Bottom 5
Contributors to Return

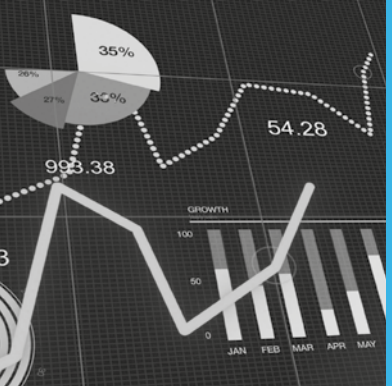
		Contribution to Return	Average CHUK Weighting
1	**Trainline**	-0.79%	1.79%
2	**Shaftesbury**	-0.18%	1.54%
3	**Barclays**	-0.15%	1.77%
4	**Judges Scientific**	-0.14%	1.58%
5	**Melrose Industries**	-0.12%	1.87%

Trainline had a turbulent quarter as investors jumped to the worst possible conclusions from the Williams-Shapps rail review published in May. This stated that Great British Railways would create its own mobile and online ticketing platform, clearly a threat to Trainline. We feel that the market overreacted to the news and, in fact, added to our investment on weakness. We are sceptical that the Government (or quasi Government) will be able to replicate a platform of Trainline's quality (just look at how expensive and tricky Track and Trace has been) and it might even be that Trainline is called upon to white-label their offering to GBR. We believe that Trainline's technology, experience and platform are all valuable and that this is being overlooked at present.

Shares in West End landlord ***Shaftesbury*** remain depressed, surprisingly in our opinion as footfall in their estates is clearly improving and consumer demand is healthy. A return of overseas tourists will be the next step to really kick-start trading as and when this is allowed. ***Barclays*** shares have come back somewhat after rallying strongly in Q1, despite encouraging recent trading.

Shares in ***Judges Scientific*** and ***Melrose*** both also retrenched somewhat after running-up into the end on 2020. Long-term, our investment case for both businesses remains unchanged and we are confident that shares will retain momentum in time.

Source: Bloomberg

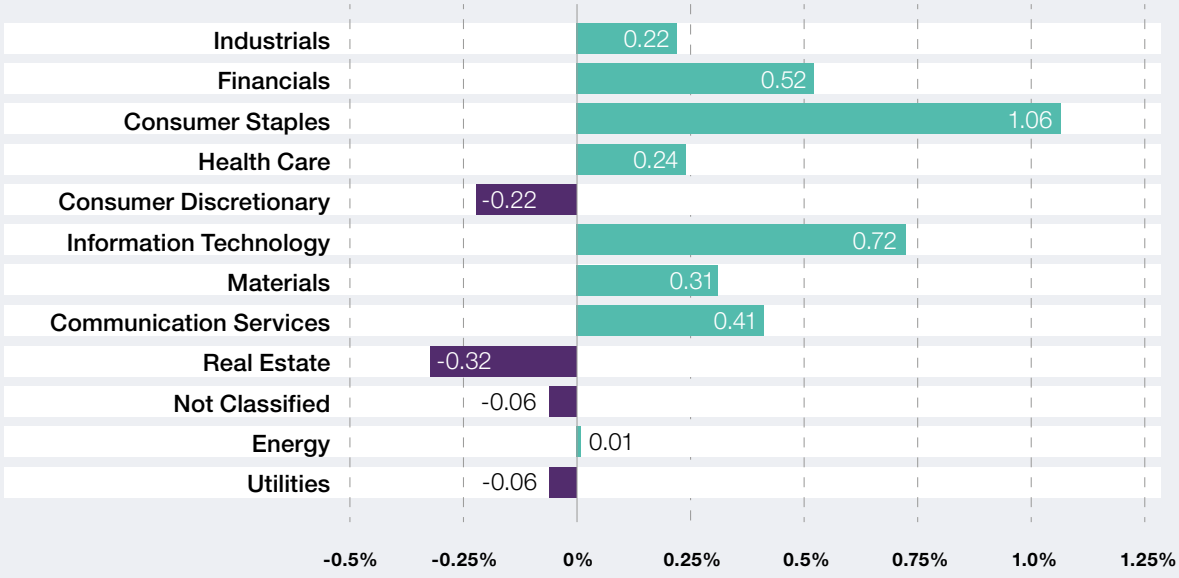


Asset **Attribution**

Q2 Performance

Attribution Summary

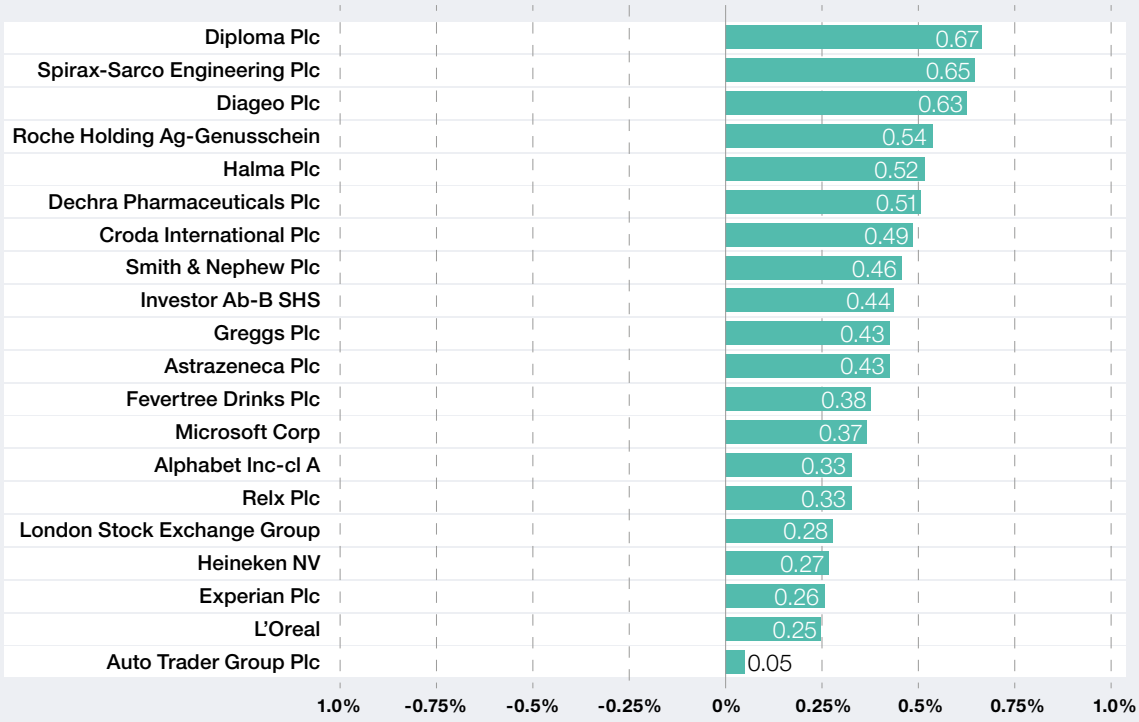
Total attribution
CHUK: 2.84%



Source: Bloomberg

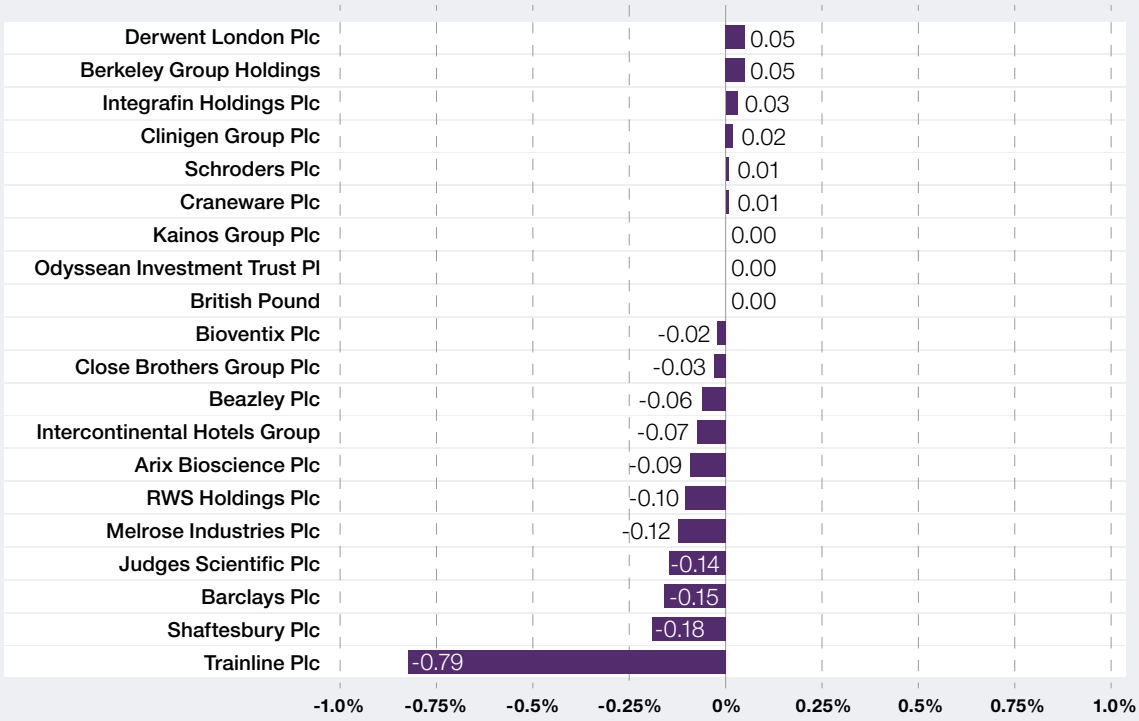
	Average Weight (%)			Total Return (%)			Contribution to Return (%)			Allocation Effect (%)	Selection Effect (%)	Currency Effect (%)	Tot Attr (%)
	Port	Bench	+/-	Port	Bench	+/-	Port	Bench	+/-				
CHUK	100.00	100.00	0.00	8.33	5.49	2.84	8.33	5.49	2.84	0.34	2.61	0.12	2.84
Industrials	19.70	11.98	7.72	7.74	7.35	0.39	1.55	0.88	0.67	0.15	0.06	0.00	0.22
Financials	17.87	16.80	1.07	3.66	0.49	3.17	0.67	0.12	0.55	-0.07	0.50	0.04	0.52
Consumer Staples	15.33	15.44	-0.11	12.93	5.86	7.07	1.92	0.90	1.03	0.02	1.04	0.02	1.06
Health Care	13.58	8.94	4.64	14.83	16.55	-1.71	1.93	1.41	0.53	0.48	-0.19	0.06	0.24
Consumer Discretionary	12.18	9.63	2.54	-0.75	-0.17	-0.58	-0.07	-0.01	-0.06	-0.15	-0.02	0.00	-0.22
Information Technology	9.27	1.91	7.36	13.29	5.57	7.72	1.21	0.11	1.10	0.01	0.15	0.00	0.72
Materials	4.40	12.29	-7.89	13.87	5.82	8.05	0.59	0.71	-0.12	-0.02	0.94	0.00	0.31
Communication Services	3.43	4.42	-0.99	16.89	5.26	11.63	0.57	0.23	0.34	0.00	0.52	0.00	0.41
Real Estate	2.71	2.65	0.06	-4.57	6.66	-11.23	-0.12	0.17	-0.30	0.00	-0.31	0.00	-0.32
Not Classified	1.54	4.99	-3.45	4.69	6.34	-1.65	0.07	0.32	-0.25	-0.03	-0.07	0.00	-0.06
Energy	0.00	7.61	-7.61		5.31	-5.31		0.41	-0.41	0.01	0.00	0.00	0.01
Utilities	0.00	3.34	-3.34		7.43	-7.43		0.25	-0.25	-0.06	0.00	0.00	-0.06

Top 20 Contribution to Return



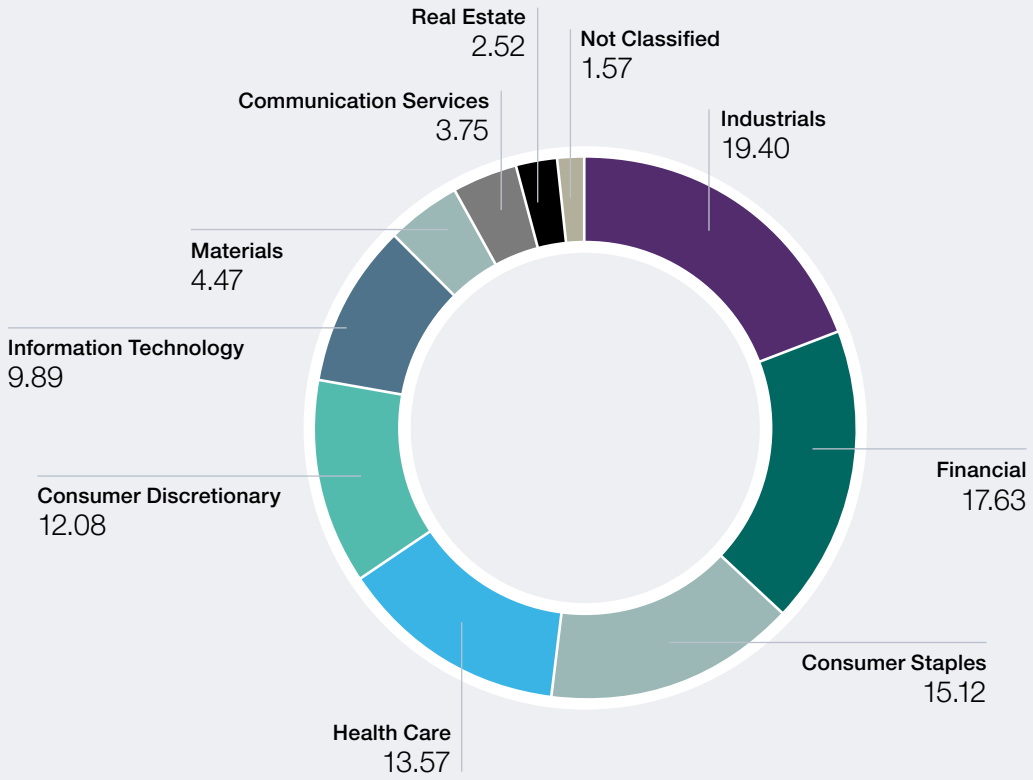
Source: Bloomberg

Bottom 20 Contribution to Return



Source: Bloomberg

Portfolio Allocation



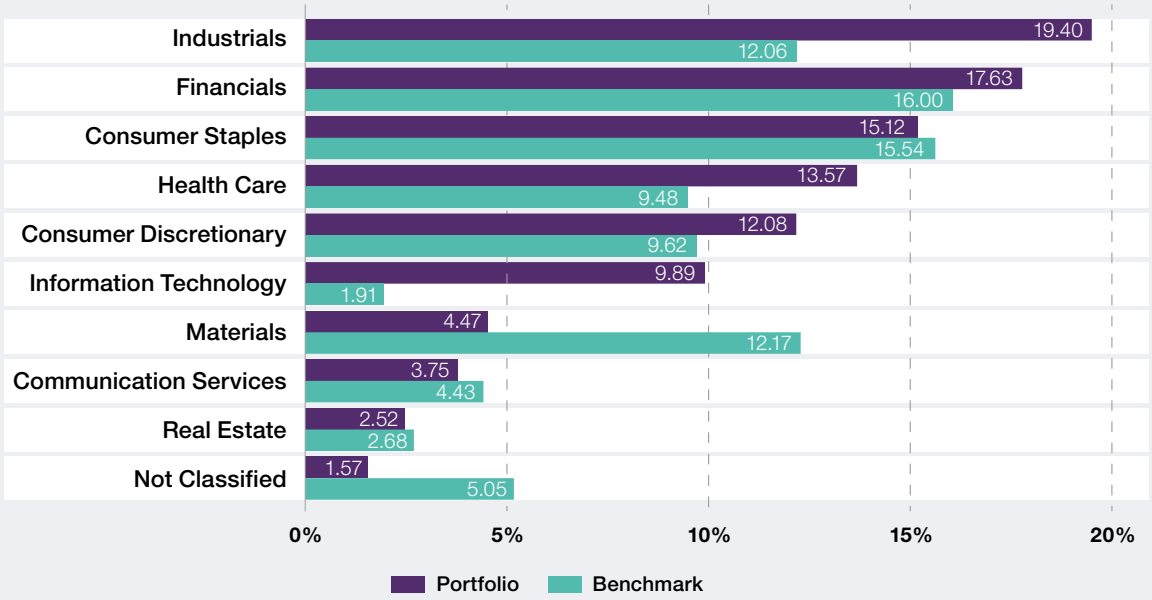
Source: Bloomberg

Sector	Port	Bench	+/-
Not Classified	1.57	5.05	-3.48
Real Estate	2.52	2.68	-0.16
Communication Services	3.75	4.43	-0.68
Materials	4.47	12.17	-7.70
Information Technology	9.89	1.91	7.98
Consumer Discretionary	12.08	9.62	2.46
Health Care	13.57	9.48	4.10
Consumer Staples	15.12	15.54	-0.42
Financials	17.63	16.00	1.63
Industrials	19.40	12.06	7.34
Energy		7.84	-7.84
Utilities		3.23	-3.23

Top 10 Holdings	Value
Diploma Plc	4.79
Relx Plc	4.33
Diageo Plc	4.20
Halma Plc	4.07
Unilever Plc	3.74
Roche Holding Ag-Genusschein	3.62
Spirax-Sarco Engineering Plc	3.54
Smith & Nephew Plc	3.31
Greggs Plc	3.20
Croda International Plc	3.14

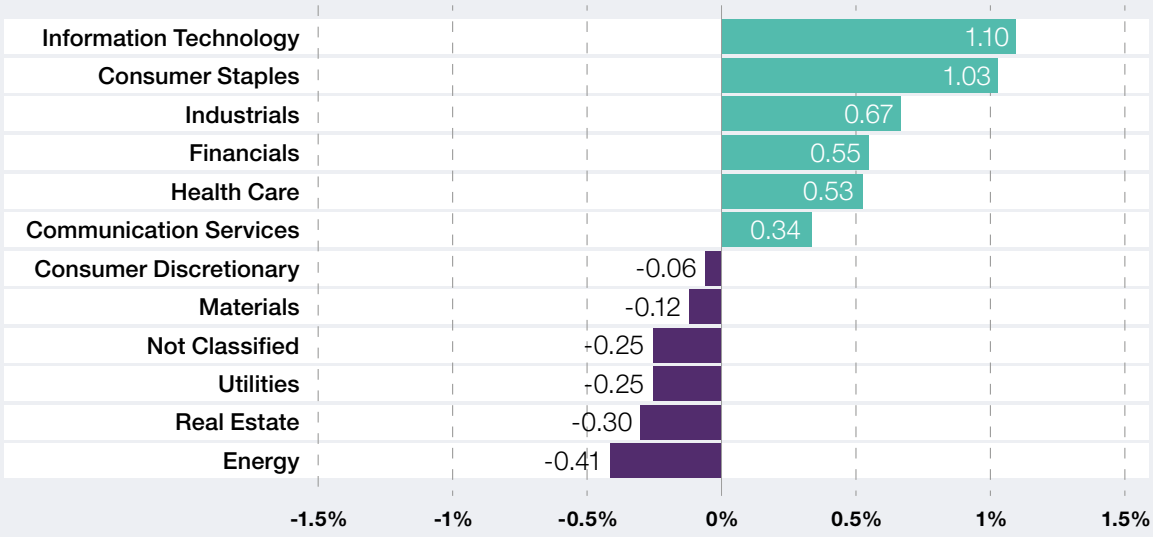
Allocation

Benchmark and portfolio



Source: Bloomberg

Relative



Source: Bloomberg

Church House Investment Management

This report is for Professional clients, distributors and existing unitholders only ('relevant persons'). It is not intended to represent investment advice nor does it constitute an offer or a solicitation to any person in any jurisdiction to purchase or sell any investment.

The value of investments and the income from them may fall as well as rise and there is no guarantee that any investor will get back the full amount invested. The opinions expressed in this report are those held by Church House Investments Limited (CH) at the time of going to print and are subject to change. Any forward-looking statements contained in this report regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. No reliance should be placed on any forward-looking statements, which speak only as at the date of this report. This report should not be construed as a recommendation relating to the acquisition or disposal of investments referred to within it.

This report based on CH's understanding of the law and regulation as at 30 June 2021. This report is issued in the United Kingdom by CH to relevant persons only and, as such, has not been approved as a financial promotion for the purposes of section 21 (2)(b) of the Financial Services and Markets Act 2000 by CH or the Financial Conduct Authority.

Church House Investment Management is the trading name of Church House Investments Limited which is authorised and regulated by the Financial Conduct Authority (No. 190548)

Registered office: York House, Sherborne, Dorset DT9 4JW

Church House Investments Limited is authorised and regulated by The Financial Conduct Authority

London Office

50 Grosvenor Street
Mayfair
London
W1K 3HW
United Kingdom

020 7534 9870
enquiries@church-house.co.uk

www.ch-investments.co.uk