Church House Investment Management

Quarterly Review

Autumn 2020

Issue No. 82

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, from page 16 onwards, gives information on the Church House fund portfolios that we manage for our clients. Some, or all, of these funds feature in most portfolios and the risk warning above is pertinent to each of them as well as to investment portfolios generally.

It is crucial to our approach to the management of risk to utilise these Church House funds to construct portfolios; each has a specific 'building block' role. This approach ensures 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 fund portfolios are authorised by the Financial Conduct Authority under the Collective Investment Schemes regulations with which we must comply at all times. We are also required to point out that the main risks faced by them 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) and that we review the policies for managing these risks on a regular basis.

As ever, do please get in touch with any questions about your portfolio, this report or any change in your circumstances that you feel we should know about.

Church House Investment Management

www.ch-investments.co.uk

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

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CONTENTS

The third quarter saw shares bouncing around, kangaroo style, between 5800 and 6300 on the FTSE 100 Index, though with a generally downward bias:

FTSE100 Share Index - Third Quarter 2020

Source: Bloomberg, FTSE International

But there have been some big contrasts. Sinking into the red on this (slightly messy) chart were **HSBC**, **BP** and **Rolls Royce** (which more than halved in value), while climbing into the blue go **Rightmove**, **Croda** and **Kingfisher** (all that DIY):

The Ups and Downs

Source: Bloomberg

THE ECONOMIC & MARKET BACKGROUND

In our report for autumn last year, we observed that we must be reaching a peak in uncertainty. Facing, as we were, a difficult UK Election, with the possibility of a Labour administration under Jeremy Corbyn, the final months of Brexit negotiations and the US trade war with China.

Well, that peak feels like something of a hillock at the moment. This autumn, Brexit is back, the US Presidential Election looms, the EU recovery plan is stalled, as is the American recovery plan. And, of course, in many countries, we have a second wave of COVID-19, a pandemic which has already triggered a deep and rapid global recession. As one of our economists puts it: into the autumn fog…

The UK and European economic recoveries are at a delicate point. The resurgence of COVID is giving consumers a reason to back-off their spending, though the industrial recovery appears to be on track. I hope that the clamp-down measures are not so harsh as to choke off the recovery, a fine balancing act is required at the moment while we await a vaccine.

At least the US Presidential race *appears* to be becoming clearer, with Joe Biden moving ahead in the polls, despite US stock markets appearing to go President Trump's way. A disastrous record on COVID-19, his handling of the 'black lives matter' movement, a failure to condemn far right extremist groups, revelations on his tax affairs etc., thankfully, appear to be out-weighing any feelings of prosperity. Markets, along with most observers, are most concerned with the prospect of a close result, which could become extremely acrimonious (probably litigious) and threaten actual civil unrest.

Concerted central bank action continues to support economies and investment markets and, as we observed last quarter, their actions have probably insured that a nasty pandemic-induced recession does not turn into a full-blown financial and economic crisis. There is reason to feel optimistic about the investment outlook as we approach 2021 and an economic recovery and, while the climate is not easy for investors, it is also presenting us with opportunities. As I have mentioned before, access to company managements has improved markedly and the tone of meetings that we have with them is not remotely in the same pessimistic vein as is the diet we are fed by the media.

At Church House, we are pleased to have the new settlement and custody procedures in place and hope that you will begin to see the benefits of these over the next twelve months. We continue to operate as normal with nothing more than a few inconveniences to trouble us, I look forward to the time when we can resume regular face-to-face meetings.

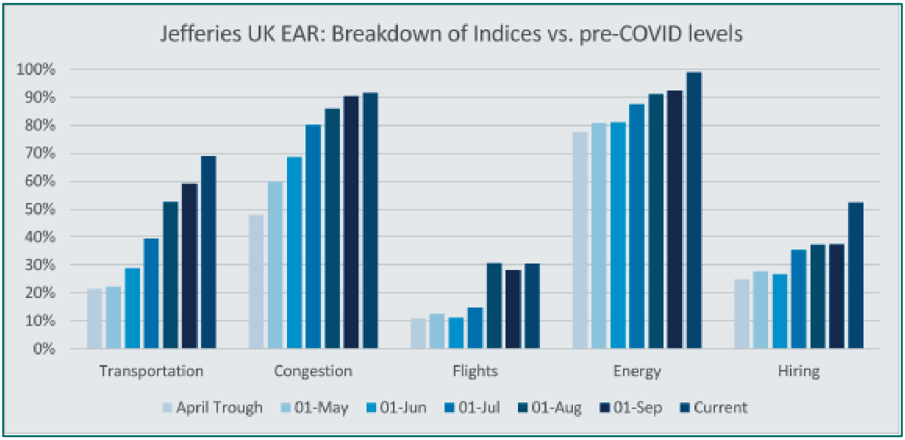
James Mahon *October 2020*

The UK Economy and Interest Rates

As the Bank of England (the Bank) puts it:

> "The outlook for the economy remains unusually uncertain".

Jefferies calculates a UK Economic Activity Radar (EAR), which they publish each week. This measures activity across the economy in transport and congestion, flights, energy consumption, jobs, web traffic in key areas etc. etc. This index is now back up to 68% of pre-COVID levels having fallen to around 38% in early April (incidentally, this compares to around 80% in the US, 75% in the eurozone and close to 100% in China). Here is a breakdown of the progress of some of the UK components, the hiring figures looking particularly encouraging thanks to a rise in new job vacancies being advertised on the various web 'portals':



Source: Jefferies

Our economy is recovering from the trough in April, despite the headlines of 'disappointing' growth in August. Overall, the third quarter is likely to show growth of around 17%, probably pointing towards an overall shrinkage in the economy of around 9% for the year as a whole. But, of course, how this develops will be linked to the extent of further lock-downs and other anti-COVID measures deployed.

Unemployment looks likely to be an increasing problem (depending on those COVID measures) as we head towards year end, but these figures are distorted by the effect of the furlough scheme and its successor, the Job Support Scheme. Brexit negotiations seem likely to drag on (as they usually do). The UK side had attempted to impose a 15th October deadline, but now appear likely to suggest that sufficient progress has been made (except, of course, on fishing) to carry on negotiating. Let's hope that we don't have to prolong the agony too far beyond the beginning of 2021.

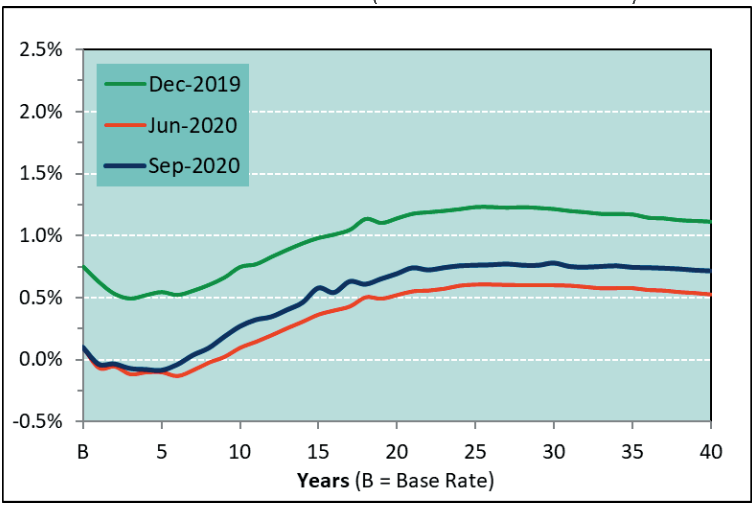
Inflation (CPI measure) slumped to 0.2% over the summer, but, in turn, this was distorted by the (excellent) Eat Out to Help Out scheme. Helpfully, the Bank's Monetary Policy Committee (MPC) tells us:

> "The path of growth and inflation will depend on the evolution of the pandemic and measures taken to protect public health, as well as the nature of, and transition to, the new trading arrangements between the European Union and the United Kingdom. It will also depend on the responses of households, businesses and financial markets to these developments."

So that clears that up then.

UK base rates remain stuck at 0.1%, as they have been since mid-March, though the Bank continues to tease us with the possibility of negative interest rates and "the range of actions that could be taken to deliver its objectives". But they do stress that they have no intention to tighten monetary policy (essentially, raise interest rates) until there is "clear evidence that significant progress is being made". Short-term interest rates (out to five years) remain negative, rates for longer periods have edged a shade higher:

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



Source: Church House, Bloomberg

Short-term:	Base Rate 0.1%	3-mnth LIBOR 0.1%	SONIA* 0.1%.

Longer-term:						
Gilt maturing in:	2 years	5 yrs	10 yrs	20 yrs	30 yrs	50 yrs
Yield**	-0.0%	-0.1%	0.2%	0.7%	0.8%	0.7%

*Source: Bloomberg *Sterling overnight index average. **The yield to maturity, taking into account interest received and price paid.*

Credit Market Commentary – Jeremy Wharton

As the US election takes centre stage, the likely result has become much clearer. Joe Biden's 'Blue Wave' appears to be gathering more support and the likelihood of a clear win would remove any justification for his opponent to dispute the final result. Whatever the outcome, this election is doing much (along with the past few years) to demean and dilute the respect previously held for the post of US President. Both sides have similar plans to provide the fiscal support needed by the US economy but, of course, differ on exact size and mode of execution enabling plenty of political bickering to continue.

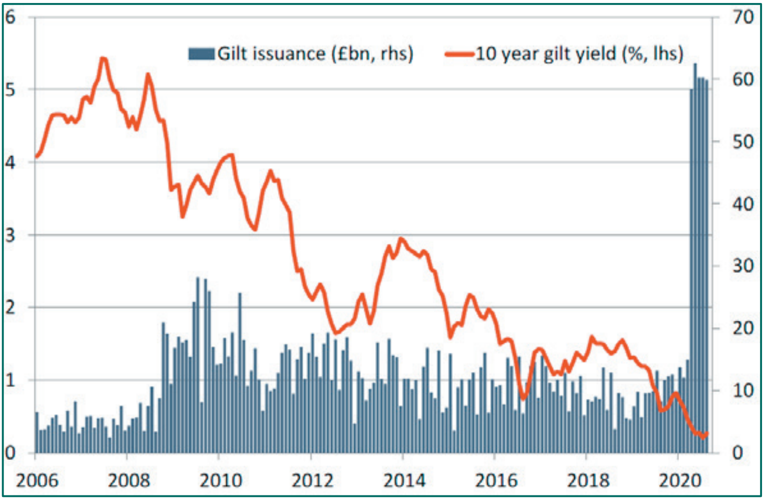
The EU/UK talks regarding 'the deal' continue to be painful, with no concrete progress; it still seems illogical that tiny industries remain a huge stumbling block but some of these divisions are historic and go back to way before the EU came into existence. As the virus reappears across Europe, it is apparent that complete lockdowns are to be avoided due to the severity of the economic damage that they inflict, but governments are certainly having a hard time getting their measures right or implemented. The number of people not surviving seems a more rational measure to focus on rather than the number that test positive.

The damage inflicted first time round shows up clearly in the numbers and, whichever way you look at it, double digit reductions in GDP are dramatic. Forecasts by economists keep being readjusted, I'm not sure that they have much value. The Bank's MPC certainly has a wide range of views and Governor Bailey has been rattling his toolbox again consulting banks on the effect of negative rates, quickly reiterating that he does not intend to actually implement them; I hope he consults building societies too. One MPC member maintains that negative rates have been a positive elsewhere, but I don't think the moribund banking systems of the Eurozone and Japan are evidence confirming that view.

Against this grim backdrop, credit markets remain well supported and the premium that companies need to pay over prevailing gilt interest rates to borrow money, the credit spread, touched new post-March low levels this month, before retreating a little. The primary market continues to produce a steady stream of new issues for investors to consider and 'difficult' names, such as **Heathrow Funding** and **InterContinental Hotels**, came to market and find strong support. Despite being poorly handled, a multi tranche 'high yield' issue from **Rolls Royce** received huge support (the sterling tranche attracting 350+ investing institutions and was, apparently, ten times over-subscribed). **Just Group** recently came to the market with a new issue that was apparently 'green', cue much market wonder as to how lower-tier capital for an insurance company qualifies for such an accolade. We did see an inaugural sustainable GBP bond from **Enel** with a coupon explicitly linked to future renewable capacity, if their renewable generation is below 60% at end December 2021 the coupon steps up by 0.25%.

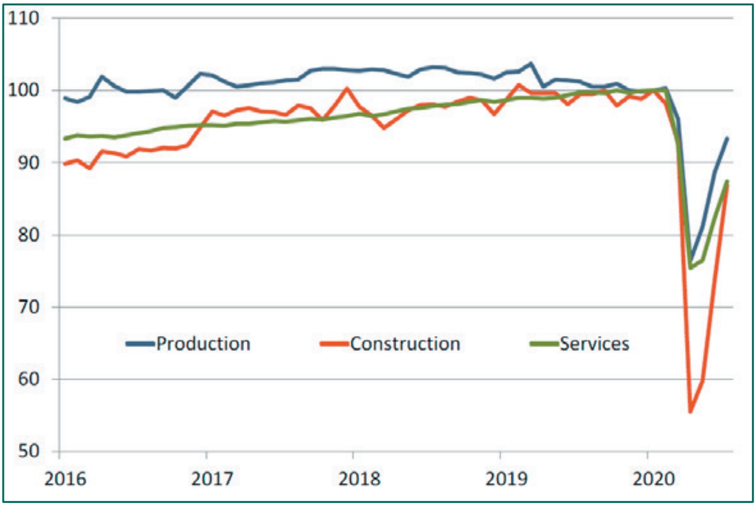
The UK Gilt market continues to function efficiently and the cost of funding our national debt continues to decline. These are both important factors now that UK Public Sector Debt has climbed over £2trillion, up £227billion from a year ago. The Office for National Statistics stated that the end of July marked the first time that the UK's debt was more than its gross domestic product (at 100.5%), since 1961.

Borrowing costs remain at historic lows despite record debt issuance



Source: Berenberg / Debt Management Office / Bank of England

Monthly real GDP by sector (Jan 2020=100)



Source: Berenberg / ONS

Jeremy Wharton *October 2020*

UK Equity Markets

Index:	30 Sep 2020	30 Jun 2020	Quarter
FTSE All-Share	3285.0	3419.4	-3.9%
FTSE 100	5866.1	6169.7	-4.9%
FTSE Mid 250	17314.0	17152.5	+0.9%
FTSE Small Cap	5044.8	5011.7	+0.7%
FTSE AIM All-Share	958.9	883.0	8.6%

The headline UK equity indices had a dreary quarter, thanks to the poor performance of some of the heavyweight companies, as mentioned earlier. As the table demonstrates, it was almost a case of the smaller the company the better the performance. The chart of the AIM market's progress this year looks remarkably close to that of the American S&P 500 Index shown overleaf.

FTSE 100 (dark blue) and AIM 100 Indices –2020

Source: Bloomberg, FTSE International

Fred Mahon writes:

"On the face of it, the third quarter of 2020 was one to forget for UK equities. From the lockdown lows of late-March, global markets bounced strongly over the second quarter and the FTSE 100 made its post-COVID high in early June. Since then, UK markets have moved lower again, with the FTSE 100 down 5% over the quarter. The FTSE is the worst performing major global stock index this year, reflecting investor nervousness surrounding Brexit and the FTSE's heavy weighting to struggling sectors such as oil & gas, banks and airlines.

It is not all doom and gloom though. There has been a wide dispersion of performance at the individual stock and sector level in London markets, with areas such as healthcare, technology and industrials generating good returns for investors. It has been a seminal year in so many ways and moments such as **Royal Dutch Shell** being knocked-off the top of the FTSE 100 by **AstraZeneca**, **Fevertree** (AIM listed) overtaking **Rolls-Royce** in market capitalisation terms and the value of **Apple** exceeding the *ENTIRE* UK stock market capitalisation are a clear sign that the times are not just a-changin', they have already changed.

There is a gaping divide between the winners and losers in 2020. The FTSE's 22% fall over the year is a weighted average that disguises the fact that some sectors, such as mining, healthcare and technology, have in fact had an excellent year, while the likes of the banks and oil and gas companies have had a year to forget. **Royal Dutch Shell** and **HSBC** had reigned as the largest companies listed in London for many years, and their being toppled off the top spots by **AstraZeneca** and **GSK** was a seminal moment. Further down the list, **Ocado** move above **Lloyds** in market value and **Just Eat** exceeded the value of **Imperial Brands** (Tobacco). There has been a clear changing of the guard across the market and I view this as a permanent shift."

It is noticeable how a number of major UK companies are underperforming their US counterparts at the moment. **Smith & Nephew** are down around 17% over the year v. **Stryker Corp**, which are up 6% and commanding a significantly higher rating. Much more of this (and/or weakness in sterling) and we can expect more of UK Plc to disappear over the Atlantic.

Earnings estimates for the year ahead are continuing to fall, along with the expectations for dividends. It is noticeable that the dividend cover (company earnings/dividend payments) is increasing as companies remain cautious and, of course, some sectors (e.g. banks) are constrained from making any dividend payments at all at the moment.

Fundamental Valuation Indicators

FTSE All-Share Estimates*	30 Sep 2020	30 Jun 2020	31 Dec 2019
Earnings (per Share)	251.5	260.5	329.2
Price / Earnings Ratio	13.1	13.1	12.7
Earnings Yield	7.7%	7.6%	7.8%
Dividends (per Share)	132.8	144.0	189.6
Dividend Yield	4.0%	4.2%	4.5%
Dividend Cover	1.9X	1.8X	1.7X

**Bloomberg aggregate earnings estimates for the year ahead*

INTERNATIONAL EQUITY MARKETS

Index:	30 Sep 2020	30 Jun 2020	Quarter*
US - S&P 500	3363.0	3100.3	+8.5%
US - NASDAQ	11167.5	10058.8	+11.0%
UK – FTSE All-Share	3285.0	3419.4	-3.9%
Germany - DAX	12760.7	12310.9	+3.7%
France - CAC 40	4803.4	4936	-2.7%
Switzerland - SMI	10187	10045	+1.4%
Japan - TOPIX	1625.5	1558.8	+4.3%
Brazil - Bovespa	94603	95056	-0.5%
China – Shanghai Comp.	3218.1	2984.7	+7.8%
Hong Kong – Hang Seng	23459	24427	-4.0%
Australia – ASX 200	5815.9	5897.9	-1.4%

**Change in local currency*

With what appears to be monotonous regularity, American markets led the way again this quarter. Unfortunately, UK equities trail the pack, in company with Hong Kong (though China had a strong quarter). European markets were mixed while Japan was positive. The chart shows that US stocks in general are ahead for the year, though trailing the big technology companies in the NASDAQ Composite Index, which had risen by 25% over the year to the end of September:

S&P 500 and NASDAQ Composite Indices - 2020

Source: Bloomberg

Most international markets followed a similar pattern to the UK, drifting steadily down through the end of July as 'second waves' began to appear and governments pushed-back on re-opening plans, prior to a rally in early August. China was the outlier, up around 10% after regulators gave the nod to fresh buying and trading on 'margin' (essentially borrowing to buy shares). The state-owned China Securities Journal noted that:

> "In the post COVID-19 world, the economy needs a healthy bull market more than ever" and: "Cultivating a healthy bull market is important for creating new opportunities".

We don't see this sort of stuff from the Financial Conduct Authority very often…

Leadership in American stocks came principally from the technology (in the broadest sense) sectors. **Apple** roared ahead after strong quarterly figures at the end of July, while **Facebook** also jumped after its figures and their statement that they are less dependent on their biggest advertisers than expected. After the 10% jump in Apple's stock price at the end of July, it carried on to gain a further 30% to the peak on 2nd September prior to an 18% correction during September. Dramatic moves for a company of this scale.

As in the UK, it has been a miserable period for 'big oil'. **Exxon Mobil**, for so long the world's biggest company, has slumped and is now capitalised at less than **NextEra Energy** who provide sustainable energy generation and distribution. A company that we don't often talk about is **Walmart**, but they have had a good year, gaining customers over the period of the pandemic and recently announcing the launch of a subscription service to rival Amazon Prime. Their stock has behaved more like a NASDAQ star than a food retailer this year, up by 27% to the September peak.

Meanwhile, **Amazon** is investing heavily in warehouse expansion and their stock cruised on, while **Alphabet** and **Microsoft** were ahead, but only modestly so, as was the case with **Netflix**. **Intel** fell sharply after reporting production delays, in stark contrast to rival **Advanced Micro Devices** whose stock leapt 50%. **Salesforce** has been another of the 'winners' of this period, in August, they reported a bumper quarter and rosy outlook, leading to a 26% jump in their stock price. On this side of the Atlantic, the luxury goods companies, **LVMH**, **Moncler**, and **Kering** all put in a solid performance.

September saw a change in the mood and a sharp sell-off in the NASDAQ – quite satisfactorily correcting by 10% from the 2nd September peak. The S&P 500 followed suit with a 7% fall. Other markets were less exciting, European shares were little changed, though Germany looked the happiest as the major car companies (**BMW**, **Volkswagen**, **Daimler**) continued to recover. The Japanese market was led by **Nintendo** (computer gaming), **Softbank**, **Keyence Corp** (instrumentation) **Nidec** (miniature precision motors) and, interestingly, **Recruit Holdings**.

Foreign Exchange

	Cross Rate:	30 Sep 2020	30 Jun 2020	Quarter
£	$/£	1.292	1.237	+4.4%
	euro/£	1.101	1.100	+0.1%
	£ Exchange Rate Index	77.4	75.5	+2.5%
$	US$/euro	1.173	1.125	-3.7%
	Yen / US$	105.5	107.8	-3.7%
	Renminbi / US$	6.79	7.06	-3.8%
	$ Exchange Rate Index	93.7	97.3	-3.7%

Source: Bloomberg

As usual in the foreign exchange markets, it is really all about what is happening to the US dollar (USD). The USD surged ahead in March against all the major currencies, returning to its 'safe haven' role, most of these gains were held through to the end of May after which it began a steady fall through to the end of August. September saw a recovery but the currency looks likely to remain volatile now until after the Presidential Election.

As the table above shows, the USD was still down quite markedly against other currencies over the quarter as a whole, and this is reflected in the positive move for sterling v. USD over the period. In contrast, sterling has barely moved against the euro over this quarter.

Commodities

	30 Sep 2020	30 Jun 2020	Quarter
Oil – Brent (barrel)	$40.8	$41.2	-1.0%
Gold (troy ounce)	$1896.1	$1782.5	+6.4%
Copper (25 metric tons)	$6672	$6015	+10.9%
Commodity Price Index	148.5	138.0	+7.6%

Source: Bloomberg

For a change, it was a quieter period for the price of oil, torn between uncertain production cuts among OPEC members and a patchy recovery in demand. As above (and opposite), copper presents a more encouraging picture, along with the other base metals, aluminium, nickel, tin and zinc, which have all recovered well from the spring low points. The price of gold, along with the other precious metals, platinum and silver, has also increased, though this appears to have faded somewhat over the past month.

After recovering from the low levels in the spring, sterling has begun to be infected by Brexit concerns again:

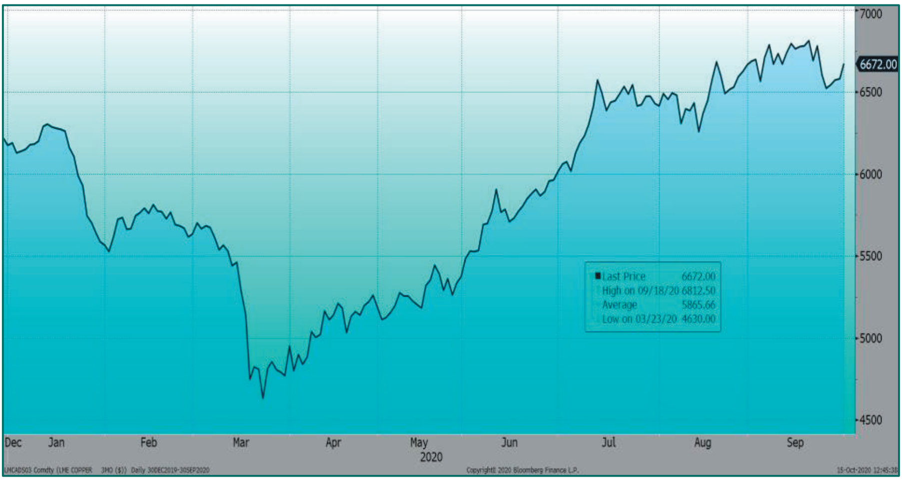
Sterling (GBP) v. US dollar (USD) – Three Months

Source: Bloomberg

While copper prices present a slightly more encouraging picture of the recovery in world demand, which has been led by an industrial recovery:

Copper USD per ton – 2020 year-to-date

3-month forward contract on the London Metal Exchange



Source: Bloomberg

IS THERE AN OVER-RELIANCE ON ESG RATINGS?

Socially responsible and sustainable investing has notably outperformed more straightforward peers since the pandemic struck earlier this year. Over this period, it been helped by being overweight in technology and underweight in energy and industrials, given the shift in technology and collapse in oil and industrial stocks brought about by the recession. This outperformance has accelerated the existing long-term trend towards sustainable investment.

The rise in popularity has been fuelled by increased investor appetite for socially conscious investing, alongside greater returns. Net global inflows for funds aligned to ESG principles amounted to over $7 trillion between April and June - more than the total inflows in the five years prior, according to The Financial Times.

While the spotlight has previously been on the 'E' (Environmental) side of ESG, the 'S' (Social) angle has now been brought to the foreground. A focus on how companies have responded during this difficult time in relation to corporate responsibility, namely the well-being of their employees, communities and supply chain management, alongside robust long-term strategies for this, have been increasingly highlighted. In turn, this has facilitated investors in differentiating between companies which view their stakeholders as long-term assets and those focused on short-term profitability.

While ESG and sustainable funds have been thriving, the criticisms of this investment approach's over-reliance on ESG ratings has also been brought to the surface. Outsourcing ESG ratings to external agencies, without sufficient first-hand research, carries certain problems, such as the awarding of potentially unjustifiably high scores to some companies. A recent example includes fast fashion clothing company, **Boohoo Group**, which, until June, was rated AA by MSCI with 8.4/10 for labour standards in their supply chain - substantially higher than the industry's average of 5.5. These high scores led many sustainable funds to have Boohoo among their largest holdings, until news broke in July of allegations of poor working practices, with workers in Leicester being paid a mere £3.50 an hour.

Complex ESG scoring structures from ratings providers, which can allow for poor scoring in one area to be compensated by strong scoring elsewhere, can overlook red flags in crucial areas, such as human rights and health & safety. Chasing high ESG scores could perhaps be creating an unfounded bubble for certain companies and draw fund managers down a misleading path. Significant high costs for third-party ESG research and ratings also needs to be taken into consideration.

© Shutterstock

Another issue with ESG ratings is their lack of consistency with no standard method of evaluation yet established, as well as variances due to subjectivity impacting the weighting of factors; the same company can score highly with one ratings agency and poorly with another. These discrepancies in ratings with low correlations between top providers can be seen with **Tesla**, which is rated among the bottom 10% of businesses by JUST Capital vs an 'A' rating from MSCI; the difference in this case is attributable to the importance weighting given to workers' rights vs carbon footprint.

For this reason, preference is moving towards raw ESG data rather than ESG scores. Smaller companies are also more susceptible to their ESG ratings being non-representative due to lower disclosure. Reliance on companies to be aware, accountable and disclose data is also something to be mindful of.

At Church House, we conduct our own primary ESG research and analysis. We recognise that the materiality of ESG issues varies by company and industry and believe that we can best implement these principles by adopting a holistic view and engaging in regular dialogue with investee companies. We find the best way of gauging these ESG concerns is by getting out on the road, visiting companies and meeting management teams.

The movement towards those wishing to have their money invested in sustainable companies with healthy working practices is positive and a welcome opportunity in driving much needed change for the better, alongside increased accountability and transparency. Sustainable investment allows for more resilient societies and businesses and ultimately protects both returns and our environment.

Harriet Evans *August 2020*

Church House Investment Grade Fixed Interest

	30 Sep 2020	30 Jun 2020	Quarter
CH Investment Grade* - Inc.	117.9	116.2	+1.5%
iBoxx AA Corporate 5-15 year	103.5	103.1	+0.4%
CH Investment Grade - Accum.	179.5	175.9	+2.0%
iBoxx £ ABS 5-10 year TR**	347.0	343.2	+1.1%

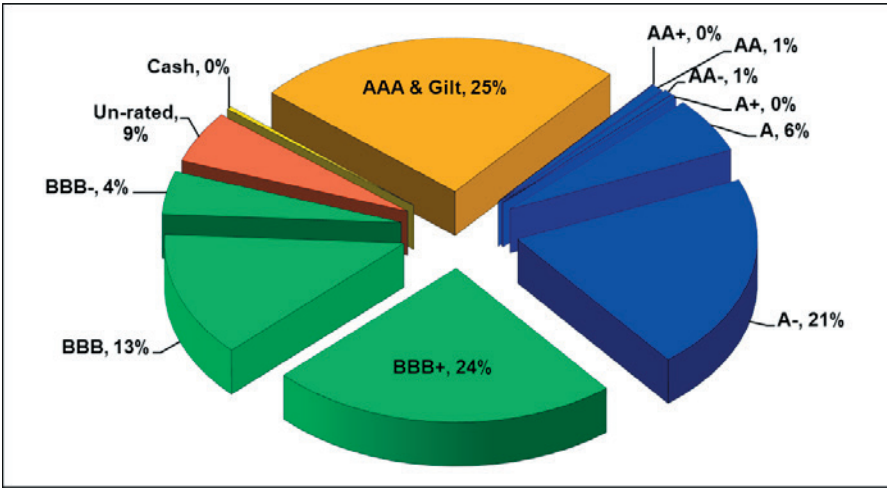
**bid price to bid price, excluding income. **Total Return Index.*

After the (comparatively) dramatic activity of the second quarter, there has been much less of a seismic shift in the Investment Grade Fixed Interest portfolio this time. The profile looks little changed:

CH Investment Grade Fixed Interest	Sep 2020	Jun 2020
Short-dated Securities (less than 7 years)*	51%	53%
Medium-dated Securities (7 to 15 years)	34%	33%
Long-dated Securities (over 15 years)	15%	14%
Duration of Portfolio	5.3	5.2
Volatility (past year)	6.1%	6.1%
Number of Holdings	113	114
Yield	2.2%	2.2%
Portfolio Value	£366m	£360m

Volatility is annual standard deviation expressed as a percentage

CH Investment Grade Fixed Interest – by Credit Rating – 30 September 2020



Source: Church House

Top 15 - 30 September 2020	
Canada Pension Plan 1.125% 12/2029	2.5%
Bank of America 7% 07/2028	2.5%
Goldman Sachs Group Inc 7.25%	2.3%
ANZ Covered 1.144% 01/2022	1.9%
Royal Bank of Canada (SONIA) 0.891%	1.9%
GCP Infrastructure 8% 12/2044	1.8%
M&G Plc 5.625% 10/2031	1.8%
AP Moller-Maersk 4% 04/2025	1.8%
III Group 3.75% 06/2040	1.7%
Barclays Plc (Holdco) 2.375% 10/2023	1.7%
Southern Water Services 2.375%	1.7%
Yorkshire B/S Covered (SONIA) 0.882%	1.7%
Orange SA Hybrid 22/49 5.875%	1.6%
Citigroup 5.15% 05/2026	1.6%
SSE Hybrid 01/14/49 3.74% 01/2026	1.5%

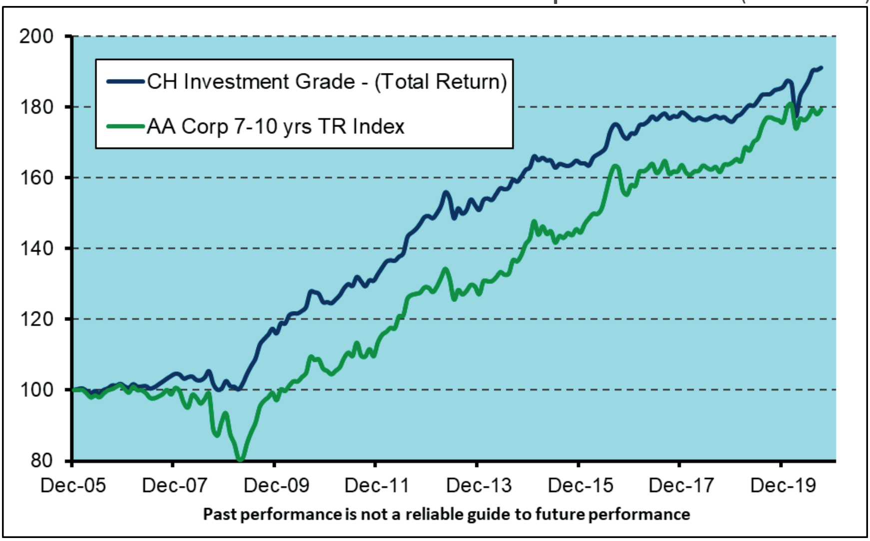
Jumping to the top of the list is the **CPPIB Capital** 1.125% stock maturing in December 2029. Not a name that springs to mind, its parent is the Canadian Pension Plan Investment Board, which has a triple-A rating from all the rating agencies. The rest of the top fifteen is little changed, further down the list we sold the **GlaxoSmithkline** 1.25% 2028, **Hammerson** 3.5% 2025 and **Legal & General** 5.875% 2031 stock, which had served their purpose, while adding to two of the infrastructure holdings: **HICL Infrastructure** and **International Public Partnerships**.

Calendar Year Performance:

2020ytd	2019	2018	2017	2016	2015
3.0%	5.6%	-1.5%	3.3%	4.6%	0.1%

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

CH Investment Grade Fixed Interest vs AA rated Corporate Securities (Total Return)



Source: Bloomberg, Church House

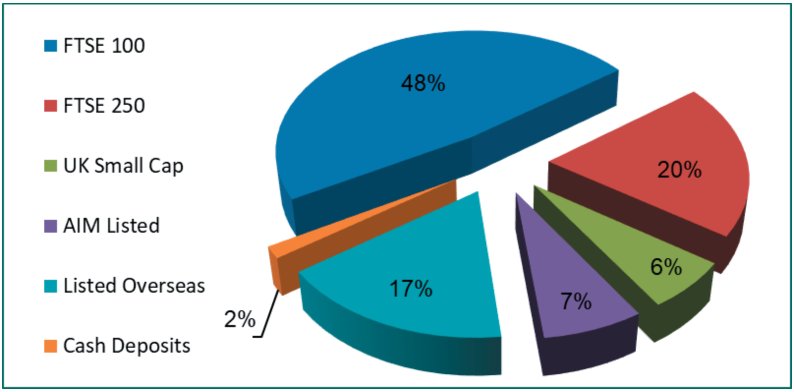
Church House UK Equity Growth

	30 Jun 2020	30 Jun 2020	Quarter
CH UK Equity Growth*	166.3	164.2	+1.3%
FTSE 100 Index	5866.1	6169.7	-4.9%
FTSE All-Share Index	3285.0	3419.4	-3.9%

** Bid price to bid price, excluding distributions of income (capital performance)*
Management fees are charged to income.

The UK Equity Growth portfolio put in a positive performance over the quarter. The overall disposition has shifted a shade towards mid and smaller companies:

CH UK Equity Growth – Disposition – 30 September 2020



Source: Church House

Rory Campbell-Lamerton and Fred Mahon write: "We are pleased that the Equity Growth portfolio had a relatively good quarter, thanks to some encouraging performance at a number of the individual companies. To pick a couple of highlights, **Diploma**, the distribution business specialising in 'must have' consumables in healthcare and industry, from surgical equipment to seatbelts, was our best performer: in September they announced a game-changing purchase of Windy City Wire Cable & Technology Products, sending the stock up 27% over the day. Our favourite Yorkshire stalwart, **Croda International**, best known for making the active ingredients used in natural skincare products also enjoyed a strong quarter, it seems that, lockdown or no lockdown, people still use their anti-ageing cream. On the other hand, our investments in financial businesses had a difficult quarter. We sold our positions in **Standard Chartered** as the latest money-laundering scandal at **HSBC** tipped us over the edge. Insurer **Beazley** also had a tough time as worries about the amount of COVID-related insurance claims ahead have mounted. We believe that Beazley is one of the best in the business and are encouraged by their strong balance sheet and the fact that rates are moving higher at a rate of knots. We added to this holding recently, as we believe that the market is undervaluing the long-term prospects for the business."

Top 15 - 30 September 2020	
RELX PLC	4.8%
DIPLOMA PLC	4.7%
UNILEVER PLC	4.5%
HALMA PLC	4.4%
DIAGEO PLC	4.2%
ROCHE HOLDING AG-	4.1%
SPIRAX-SARCO ENGINEERING	3.8%
SMITH & NEPHEW PLC	3.7%
CRODA INTERNATIONAL PLC	3.2%
MICROSOFT CORP	2.8%
INVESTOR AB	2.8%
SCHRODERS PLC	2.4%
RIO TINTO PLC	2.4%
INTERCONTINENTAL HOTELS	2.2%
FEVERTREE DRINKS PLC	2.2%

We sold down the holding in **BHP Billiton** over the period and this has now gone from the portfolio entirely, leaving us with **Rio Tinto** as our only mining exposure in the portfolio now. The majority of the transactions undertaken were gradual additions to existing mid and smaller capitalisation holdings as we perceived opportunities. These included **AG Barr**, **Bioventix**, **Trainline**, **Judges Scientific**, **TT Electronics** and **Greggs**. We were not ignoring our favourite larger companies where there still appear to be bargains to be found, we made additions to the holdings in **Diageo**, **Relx** and the Swiss company, **Roche Holding**.

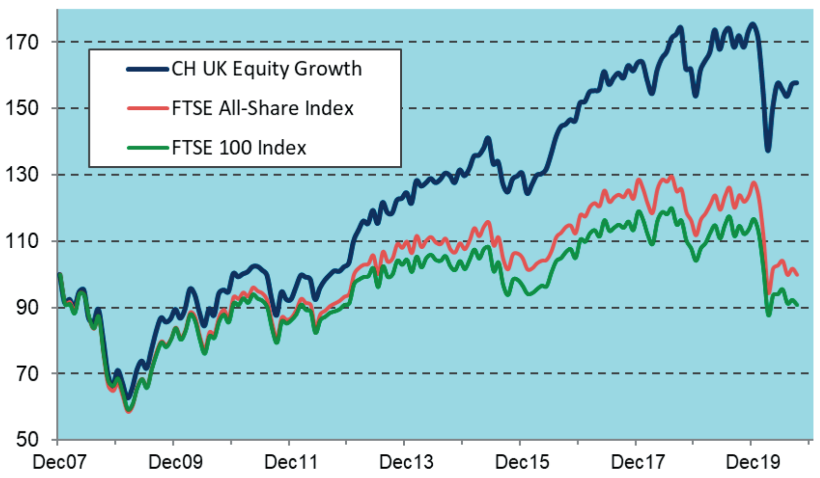
Calendar Year Performance:

2020ytd	2019	2018	2017	2016	2015
-9.9%	15.7%	-5.1%	9.0%	17.6%	1.7%

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

CH UK Equity Growth vs FTSE Equity Indices

Bid Prices, excluding income – Capital Performance



Past performance is not a reliable guide to future performance

Source: Church House, Bloomberg

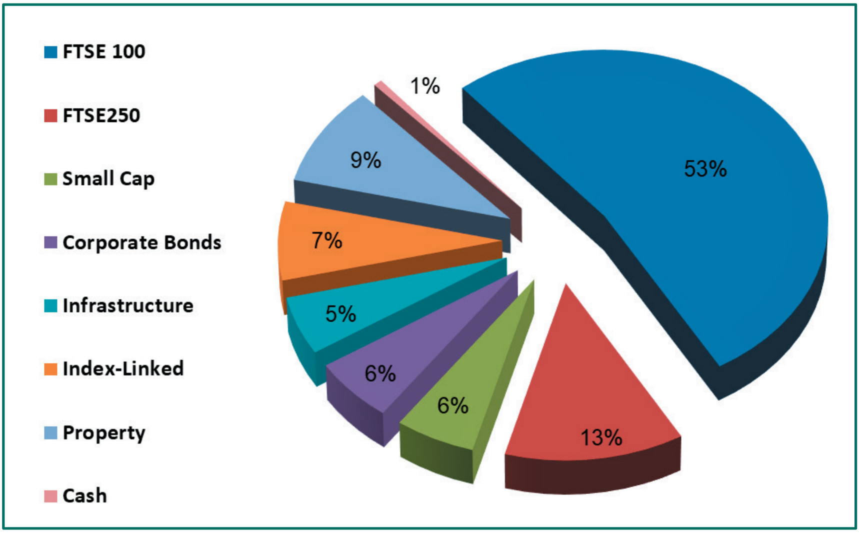
Church House Balanced Equity Income

	30 Sep 2020	30 Jun 2020	Quarter
CH Balanced Equity Income*	162.1	165.5	-2.1%
FTSE Higher Yield Index	2456.7	2725.9	-9.9%
FTSE All-Share	3285.0	3419.4	-3.9%
FTSE Index-Linked All Stocks	742.9	760.3	-2.3%
Composite Benchmark**	93.8	99.6	-5.8%

**Bid price to bid price, excluding income payments (capital performance)*
***34% FTSE Higher Yield, 43% FTSE All-Share, 23% FTSE Index-Linked All-Stocks Indices. The management fee in CHBE is split 50/50 between capital and income.*

The Balanced Equity Income portfolio continues to battle the poor performance of so many major companies, traditionally those paying good dividends, as a further 10% fall in the FTSE Higher Yield Index demonstrates. This was the disposition at the end of the quarter:

CH Balanced Equity Income – Disposition – 30 September 2020



Source: Church House

July saw us facing some tricky decisions as to which companies would be more likely to resume or restore dividend payments and which had the better resources to do this. This led us to rationalise in a number of areas. **Lloyds Bank**, **Marks & Spencer**, **Meggitt**, **Micro Focus International** and **Vodafone** were all sold in favour of increased holdings in **BAE Systems**, **British Telecom**, **Sage Group** and **Unilever**. Through the latter two months we also added to **Diageo** and **Britvic** in the beverages area along with **Greggs** and **Close Brothers Group**.

Top 15 - 30 September 2020	
GLAXOSMITHKLINE PLC	3.5%
ASTRAZENECA PLC	3.2%
UNILEVER PLC	3.2%
HALMA PLC	3.2%
RELX PLC	3.1%
Barclays 3.75% 2030	3.0%
CRODA INTERNATIONAL PLC	3.0%
SAGE GROUP PLC/THE	2.8%
SMITH & NEPHEW PLC	2.6%
DIAGEO PLC	2.5%
RIO TINTO PLC	2.5%
BHP GROUP PLC	2.4%
CIVITAS SOCIAL HOUSING	2.1%
SDCL ENERGY EFFICIENCY	2.1%
PRIMARY HEALTH PROPERTIES	2.0%

The property sector has seen very mixed performance and some notable casualties, but all is not awry and we added to two of our holdings in July. The first was **Standard Life Investment Property**, whose management we are in regular contact with, they had raised capital in the far-off days of February and are now investing again. We also added to **Target Healthcare REIT**, which invests in modern purpose-built care homes. Target's annual results were released in the last few days, they are not having problems with their rental income, are maintaining a strong balance sheet and have increased their dividend, quite refreshing at the moment.

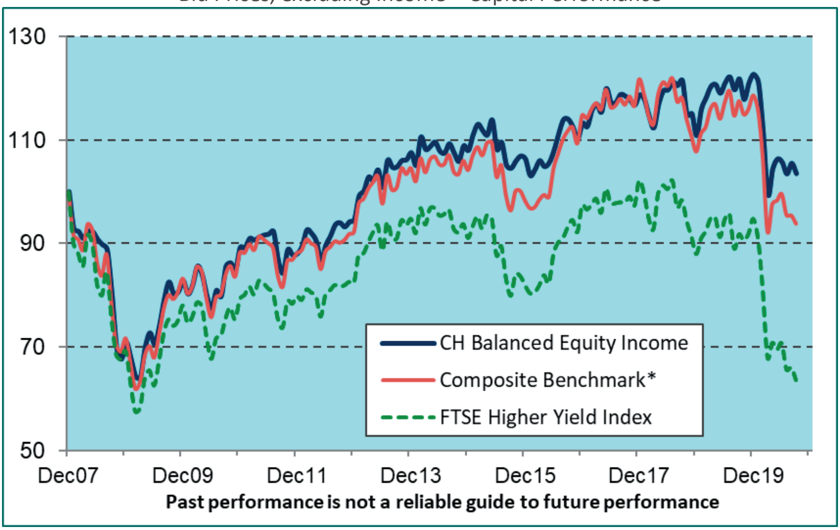
Calendar Year Performance:

2020ytd	2019	2018	2017	2016	2015
-14.4%	14.2%	-3.6%	8.3%	10.3%	2.0%

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 *34% FTSE Higher Yield, 43% All-Share, 23% Index-Linked All-Stocks*

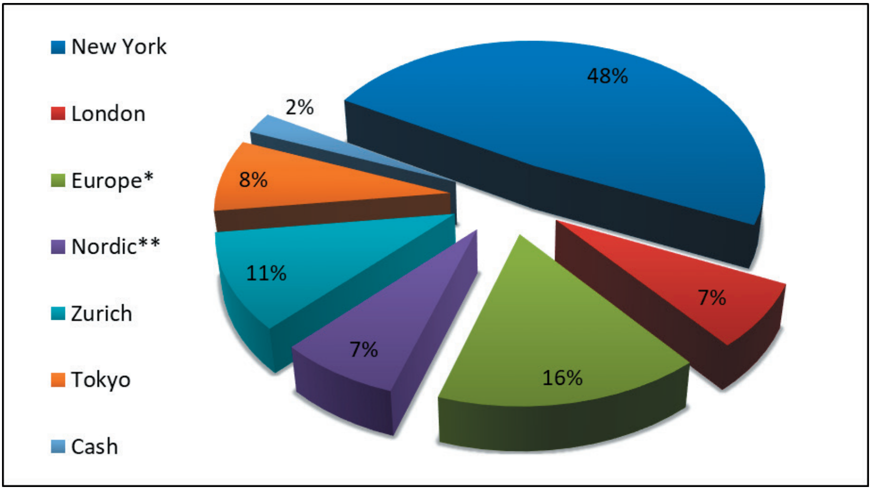
CH Esk Global Equity

	30 Sep 2020	30 Jun 2020	Quarter
CH Esk Global Equity*	333.3	321.9	+3.5%
CH Global Index in £	1047.4	1020.1	+2.7%
FTSE 100 Index	5866.1	6169.7	-4.9%

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

After the heightened level of activity during the second quarter, we were much quieter in the Esk Global Equity portfolio this quarter. The overall disposition is broadly the same as at the end of June:

Esk Global Equity Constituents by City of Listing – 30 September 2020



Source: Church House *Amsterdam, Paris, Frankfurt* **Copenhagen, Stockholm*

During July, the portfolio benefitted from international trends with gains coming from the major technology holdings, notably, **Amazon**, **Microsoft**, **Alphabet** and **Apple**. But there were good moves in a number of areas, our Japanese holdings had a good period with **M3 Inc**, **Nidec** and **Sony** all performing well. Most of our pharmaceutical holdings fared well with **Lonza Group** a stand-out feature, but **Novartis** drifted lower again and we sold this holding. It was a quiet period for transactions, but we added further to the new holding in **Essity** when their stock dipped again mid-month and, modestly, to the holding in **LVMH** (still the company that we most want to own in the luxury goods arena), when their stock came off at the end of the month. August saw a better performance from the staple goods companies, led by **Unilever** after their figures were significantly better than expected, boosted by hygiene products and demand for ice cream. In an otherwise dull pharmaceutical sector, **M3 Inc**. provided a dramatic feature, with a rise of close to 30% after first quarter figures beat the highest estimates, we have subsequently reduced this holding by 30%.

Top 15 - 30 September 2020	
MICROSOFT CORP	3.9%
AMAZON	3.3%
NESTLE SA	3.1%
ROCHE HOLDING AG	3.1%
RIO TINTO PLC	2.9%
STRYKER CORP	2.9%
ALPHABET INC	2.9%
LONZA GROUP AG	2.8%
UNILEVER NV	2.7%
L'OREAL	2.7%
LVMH	2.6%
MASTERCARD INC	2.5%
JOHNSON & JOHNSON	2.4%
INTUIT INC	2.4%
MCDONALD'S CORP	2.3%

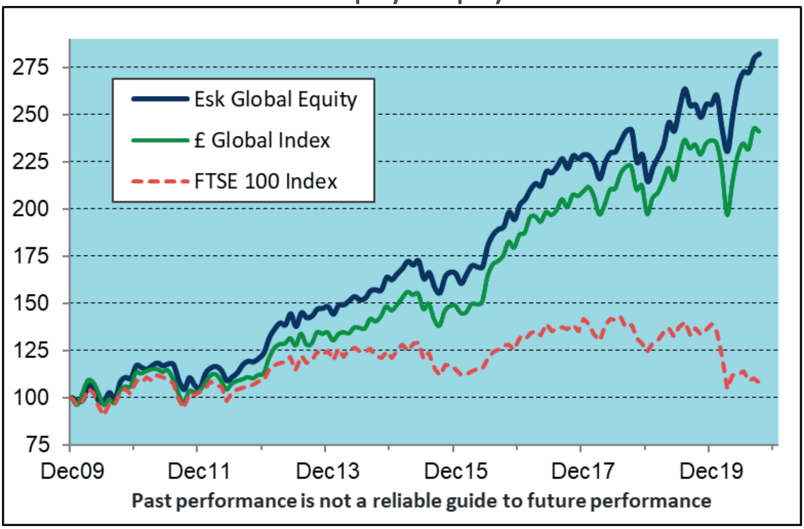
The setback for US stocks in early February took the shine off the technology stocks but other sectors picked-up. In the Materials sector, **Novozymes** rose 15% as their CEO shook-up the management team and bought more stock for himself, **Shin-Etsu** continued their strong run, up a further 10%, and **Rio Tinto** continued to climb despite sacking their CEO after the debacle of the destruction of the Juukan Gorge caves in Western Australia. The industrial holdings also provided some positive features: **Nordson** after Q3 figures, **Nidec Corp** continuing their run, along with the Swedish holding companies, **Investor AB** and **Industrivarden**.

Calendar Year Performance:

2020ytd	2019	2018	2017	2016	2015
+10.5%	20.2%	-5.6%	13.9%	23.1%	3.0%

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)

CH Tenax Absolute Return Strategies

Quarter and Calendar Year Performance	30 Sep 2020	30 Jun 2020	Quarter
CH Tenax Absolute Return Strategies	157.1	155.8	+0.8%

2020 ytd	2019	2018	2017	2016	2015
+0.1%	3.4%	-1.7%	2.5%	7.6%	1.3%

Source: Church House, NAV to NAV, 'A' accumulation shares - Portfolio value: £494m

The Tenax Fund is now positive for the year to date, albeit modestly! The table at the bottom of this page shows that the changes in allocation to the various asset classes have been less significant this quarter than over the first half. Essentially, the trend has been the same, with a gradual reduction in the lowest-risk assets at the top of the table funding additions to the other classes as we saw opportunities.

August is traditionally the quietest month in the markets, this year it started early. July saw the flow of new issues in the corporate fixed interest markets slow to a trickle, but we still find these markets attractive and added to existing holdings in **Legal & General** and **Canadian Pension Plan** bonds. We shuffled the pack of equity holdings a shade in response to some sharp moves, while adding quietly to **Shaftesbury** in the property sector, which remains deeply out of favour. We participated in a 'tap' issue of new stock from **HICL Infrastructure** (a long-term holding), which was well received, while **Hipgnosis Songs** went for a 'C' share issue to raise further funds in which we also participated. This table shows the development of our broad asset mix over the quarter and since January (in that far off pre-COVID time):

CH Tenax Fund – Allocation to Asset Classes

	31-Jan-20	*30-Jun-20*	*30-Sep-20*	*Since January*
Cash	0.7%	1.2%	2.1%	1.4%
Treasury / T-Bill	9.1%	3.2%	0.0%	-9.1%
FRN (AAA)	47.0%	33.6%	31.2%	-15.8%
Floating Rate	5.2%	3.1%	2.9%	-2.2%
Fixed Interest	17.8%	33.1%	35.9%	18.0%
Index-Linked	0.3%	1.2%	1.1%	0.7%
Infrastructure	3.6%	4.9%	5.4%	1.7%
Convert / ZDP	8.4%	9.3%	9.3%	0.9%
Alternative / Hedge	0.0%	0.0%	0.8%	0.8%
Property / Real	1.5%	1.4%	2.1%	0.5%
Equity	6.3%	9.0%	9.3%	3.0%

Source: Church House

August was a quiet month for transactions, we completed twelve in Tenax, a few more than the nine completed last August, but it was not a month for major shifts. Remaining positive on credit markets, we added to two short-dated holdings in this area from **Credit Suisse** and **InterContinental Hotels Group**. But it was not all one-way traffic in the area, we also took profit from our holding in the higher-coupon (and longer-dated) **British Telecom** 5.75% stock 2028. A modest level of activity in the zero dividend preference share market allowed us to add to some of the existing ZDP holdings on favourable terms.

The US dollar had been weakening all summer, having fallen more than 5% against the euro since June, but was beginning to look steadier mid-month. The move has also helped sterling to rally strongly from the March lows around $1.155, touching $1.32. With the Brexit negotiations looming (and progress sounding to be non-existent), this move looked questionable, and we began to add to our US dollar position.

UK property remains an unloved area for investment at present, with the notable exception of some of the companies focussed on distribution and 'sheds', such as **Segro**. While accepting that a number of companies are struggling, this is not universal and there is value to be found, particularly in the companies focussed on Central London such as **Derwent London**, **Great Portland** and **Shaftesbury**. We edged the exposure up again to 2.2% of the portfolio, though we also have exposure via convertible securities.

US equity markets continued to lead equity markets in August with the S&P 500 making new highs again, but the UK and European markets drifted down, worrying about COVID. This presented us with a few opportunities in listed 'closed-end' funds (investment trusts in the UK) at both the smaller companies and international ends of the spectrum and we added to three existing holdings.

September saw activity levels rising again, along with the set-back for US equities, a recovery for the US dollar and an apparent resurgence of COVID 19 across the UK and Europe. We reduced our AAA floating rate note exposure again with the sale of one of the **Royal Bank of Canada** issues. Otherwise, we were quiet in the credit markets simply switching between two issues from **Credit Suisse** for an improvement in return.

Prices for UK-focussed infrastructure assets moved lower during the month, possibly concerned about the impending budget (since cancelled), we added to our exposure to **International Public Partnerships** and, modestly, to **HICL Infrastructure**. We also supported another issue from **Hipgnosis Songs** following an interesting 'capital markets day' that they held during the month. In the equity markets, we are still finding value in some of the closed-end funds, notably the more economically sensitive 'value' funds such as **Aberforth Smaller Companies**. We added further to these and, again, to the international exposure.

The 59th US Presidential Election

The two masked men competing in the 59th US Presidential Election on 3rd November, Joseph R. Biden (77) and Donald J. Trump (74):

© Getty Images

A quick Presidential Election refresher from Rory Campbell-Lamerton:

Each US state has a certain number of electoral college votes (ranging from 3 for Wyoming to 55 for California), with 538 in total up for grabs. So, the winning threshold is 270 or more. But, key to this is that all but two-states (Maine and Nebraska) have a winner-takes-all rule, so that whichever candidate wins the highest number of votes in the particular state is awarded all of that state's electoral college votes.

President Trump won the 2016 poll with a total of 304 votes to 227 for Hilary Clinton, though she actually gained the most individual votes. According to pollsters, the key battleground swing states will be North Carolina (15 votes), Florida (29), Michigan (16), Wisconsin (10) and Arizona (11).

Church House Investment Management

www.ch-investments.co.uk

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