Quarterly Review

Winter 2024/5

Issue No. 99

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 appropriate diversification and that we know in detail the risks that we are undertaking on your behalf - not something that we wish 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 doubtful 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:

Church House Investment Management

Church House Investments Limited is authorised and regulated by:

The Financial Conduct Authority

A Quarterly Review

Of the economic and market background to investment, edited by James Mahon, Chairman of the Investment Committee, with additional commentary from a number of Church House managers.

Issue no. 99 - Winter 2024/5

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The US Presidential Election

All that hype around tied opinion polls for the US Presidential Election turned out to be nonsense, something has clearly gone awry with US opinion polling, in the event the betting odds were closer. Donald Trump had a clean sweep of the White House, the Senate and the House of Representatives. In practice though, the results for the Senate and the House were quite close (as below) and I wonder if President Trump will find them to be as compliant as he might wish in all matters. It would be good to see those 'checks and balances' in action.

2024 Election Results	GOP*	Democrat	Margin
Senate	53	47	6.0%
House of Representatives	220	215	1.1%

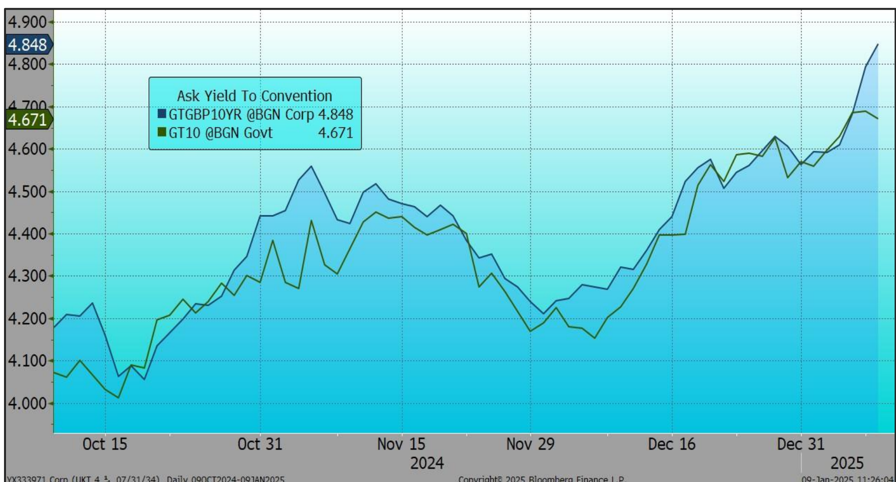
*Grand Old Party, the nickname for the Republican Party

The Cost of Borrowing

Since the Election, American stock markets have been excitable but the cost of borrowing for the US Government has been going up. This matters as servicing their ever-growing debt gets more and more expensive. *Maybe* Elon Musk and his new DOGE (Department of Government Efficiency) will bring about the swingeing cuts in US Government expenditure that they have been talking about. The Federal Government spent around $1.6trn more than it raised in taxes in 2024. Mr Musk's initial target of cutting $2trn from that spending would make a big difference, though he appears to be rowing back from that figure somewhat as reality looms.

The Cost of Borrowing for the US (Green) and UK (Blue) Governments

(US and UK Government Bonds with ten years to maturity)



Source: Bloomberg

THE ECONOMIC & MARKET BACKGROUND

2024 certainly had its moments, now we head into the first year of a second term for Donald Trump, and this time he appears to have control of the legislature as well. As before, he is touting dramatic hikes in trade tariffs, draconian action on immigration and promoting some doubtful loyalists to top jobs in the new administration. American stock markets initially cheered his victory in the hope of lower taxes and regulation, I wonder if this might be a shade premature. As ever, much of the hype appears designed to unsettle (and to be contradictory), the reality promises to be interesting (and volatile!).

The central banks didn't altogether play ball in 2024, the US Federal Reserve and the Bank of England have held rates higher for longer than expected. But it is hard to carp at the Federal Reserve (the Fed), which does appear to have played its hand to perfection and is delivering on the hoped for 'soft landing' for the US economy. The Fed did 'disappoint' with a quarter point cut to 4.5% in their base rate in the last few weeks and a decidedly more 'wait and see' tone to Chairman Powell's comments. With a capricious new President about to move into the White House this looks sensible.

The Bank of England is in a bit of a bind with the economy apparently moribund, while service inflation (and wage growth) remains high enough to deter them from cutting rates any faster. But these are worries/indicators that lag, and companies are less likely to be in the mood for further wage rises after the increase in their National Insurance bill. The Bank of England is likely to resume its cuts over the first quarter.

Rachel Reeves' budget was a bit of an anti-climax after so much trailing of possible personal tax-raising measures, but the new Government continues to disappoint with their 'growth agenda'. As we move into the new year this is developing into something of a mini-crisis with pressure on sterling and higher borrowing costs. They have no one to blame but themselves after 'talking down' the economy so much and focusing all the tax increases on businesses, and this is now being reflected in the actual growth figures. Herein lies a trap, without some positive action on growth (no more 'reviews' please!), the tax take will fall again, and we'd be back to another 'tough' budget.

The more positive side to this is that interest rates do now offer respectable returns over and above inflation and there are some great opportunities emerging in our markets. Equally, it has been pleasing to see/hear a hiatus in the near-constant stream of ghastly geo-political headlines that we saw last year. Maybe this is temporary, but it has been good to see Russia and Iran look foolish.

Happy New Year

James Mahon *January 2025*

The UK Economy and Interest Rates

The best that can be said for our economy at the moment is that it might just be flat rather than actually shrinking, but this will be marginal. With the Government's cost of borrowing going up again the Chancellor's 'fiscal rules' are in danger of being broken. Having promised no more pain from taxation and rather boxed herself in with too many pledges, this leaves little scope to do anything other than reduce spending.

Along these lines, Chief Secretary to the Treasury, Darren Jones, has said that public services will have to "live within their means", though he is also making the Bank of England nervous by saying: "we will put more money in working people's pockets – no matter the hurdles".

The Bank of England (the Bank) did reduce the Base Rate once more in November, it is now down to 4.75%, but the pace of reduction is slower than had been expected. December's meeting of the Bank's Monetary Policy Committee (MPC) saw them vote 6-3 to maintain the rate at 4.75% with the 3 members voting for a further quarter point cut. On the negative side they observed:

> "Most indicators of UK near-term activity have declined. Bank staff expect GDP growth to have been weaker at the end of the year than projected in the November Monetary Policy Report."

But they are worrying about inflation:

> "Since the MPC's previous meeting, twelve-month CPI inflation has increased to 2.6% in November from 1.7% in September. This was slightly higher than previous expectations, owing in large part to stronger inflation in core goods and food. Services consumer price inflation has remained elevated. Headline CPI inflation is expected to continue to rise slightly in the near term."

And much else besides:

> "The Committee continues to consider a range of cases for how the past global shocks that drove up inflation may unwind, and therefore how persistent domestic inflationary pressures may be. The MPC is also monitoring the impact on growth and inflationary pressures from the measures announced in the Autumn Budget, and from geopolitical tensions and trade policy uncertainty. These developments have generated additional uncertainties around the economic outlook."

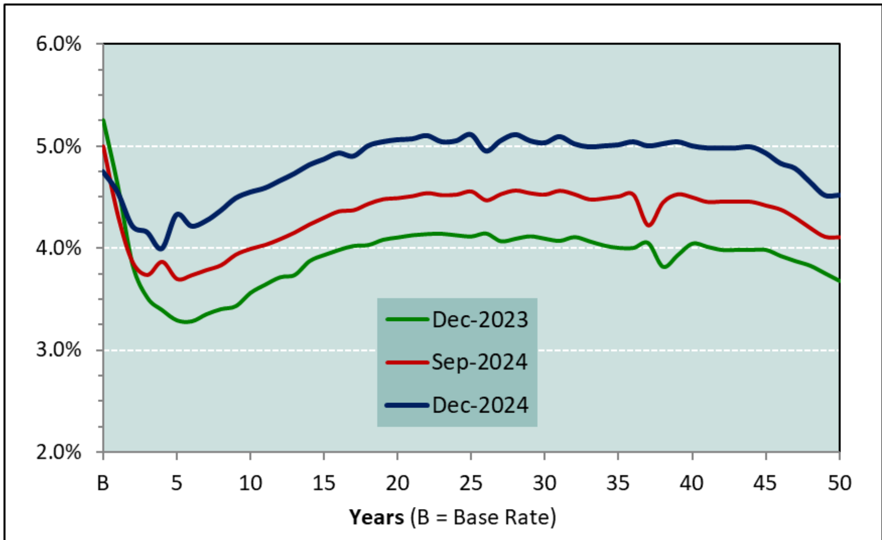
I would suggest that the labour market is actually continuing to ease and that, in turn, will ease wage pressures. Albeit this is somewhat complicated by the introduction of the higher National Minimum Wage (and National Living Wage) on 1st April.

A weakening economy and worries over constraints on Government spending will leave our economy in dire need of a boost from lower Base Rates and I would expect the Bank to move to reduce rates again at their next meeting in early February.

While the Bank has been slowly edging down the Base Rate, longer-term rates have been going up. To fund the budget deficit (the difference between how much the Government spends and how much it raises in tax) the Treasury must borrow, and most of this is borrowing over longer periods. Higher rates means a bigger interest bill, which adds to the budget deficit and so on… Sadly, we are now spending so much on debt interest that it is rapidly catching up with spending on education. It is already much more than is spent on defence, transport, housing…

Our chart of UK interest rates below shows that a year ago the Base Rate at 5.25% was more than 1% higher than rates for longer periods. This has gradually reversed over the year and now the rates for twenty and thirty years hence are higher than the Base Rate. Actually, this is a healthy development for the economy, albeit a painful one for a government wishing to borrow as much as our current government does.

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	4.75%	4.7%	4.2%	4.3%
Longer-Term	10 years	20 years	30 years	50 years
Interest Rate	4.6%	5.1%	5.0%	4.5%

*Source: Bloomberg *Sterling overnight index average.*

CREDIT MARKET COMMENTARY – JEREMY WHARTON

After quite a brutal end to 2024 for risk assets, strong US data has prompted a significant repricing in the timing and depth of rate cuts by the Federal Reserve (the Fed). Recent Payrolls were very strong and University of Michigan inflation expectations were high, so forecasts for the next expected quarter point cut in rates has moved from March to June, and potentially even further out. The US thirty-year Treasury bond is heading for 5% (the twenty-year is already there) and the US dollar continues to strengthen as their economy maintains significant momentum.

All polls, commentators and most betting odds were completely wrong about the US election as incoming President Trump gained a clear majority and a clean sweep, handing him a license to do pretty much what he feels like. His subsequent cabinet appointments show that he has lost none of his ability to surprise, although the appointment of Bessent as Treasury secretary is seen as pro-growth. The 'Tariff man' also lost no time in announcing potential levies on US imports, starting at 10%, 60% on China and up to 100% (?) on neighbouring Mexico. This offers the prospect of a much bigger global trade war than his last effort and can only weigh on global growth prospects. All this before he takes office, helping to keep forecasts for where markets go in 2025 as tricky as ever.

As Trump gets nearer to taking office the shape of his government and extent of his policies becomes clearer. These look to extend far beyond just tariffs and include taxation, the dollar, government spending and the Fed, as well as reform of the Federal government system. The idea is that all these policies together combine to drive the US economy ahead from its already firm footing. In practise these policies are likely to stoke inflation.

The recent Fed meeting produced a 'hawkish' quarter point cut in their base rate but the Fed indicated that the pace of rate cuts is slowing, ruling out a January cut and rates markets are discounting only two more moves for 2025. The Fed (a bunch of 'boneheads' according to Trump) and its Chairman fought back against speculation that he would be sacked, saying he would not step down if asked and it is 'not permitted under the law' for the White House to force him to do so. However, Vice Chairman for bank supervision, Michael Barr, has already announced he is stepping down; politicisation of the institution looks inevitable. Trump has already stated that he should have influence and a say in setting rates and monetary policy. His efficiency czar has also taken aim at the Fed saying it is 'grossly overstaffed'.

The European economy continues to drift with weak growth and political and fiscal uncertainty in its two biggest economies, France and Germany, both now subject to foreign interference, which appears to favour the far right. Continuing weakness in business surveys contributed to fears of recession. German manufacturing continues to decline and their automotive sector is experiencing some seismic shifts.

France remains in political limbo and their bonds have reflected this, the yield gap between French and German bonds is at its widest since the eurozone debt crisis. The ECB delivered a 'dovish' quarter point cut in rates and looks to be prepared to keep on going, forecasts have consecutive cuts until June, bringing their policy rate down to 2%. Assuming both France and Germany can form coherent coalition governments these rate cuts should start to lead to stability and growth. The weakness of the Euro (currently heading towards parity against the US$) should help exports but potentially might invite even more tariffs.

The dismal start by our new UK government continues, as they lurch from one difficult situation to another. Recent GDP numbers showed no growth in the third quarter since they took office and a contraction post budget of -0.1%; you talk down your own economy at your peril. The Bank of England (the Bank) kept rates on hold in the face of inflation rising above target again to 2.6% (although three MPC members voted for a cut). The long-awaited budget was predictably unpleasant, especially for employers (Tesco's bill being estimated at £1bn), but falls far short of funding Labours fiscal plans so the Gilt market will have to bear more of the burden. The funding plans for 2024/25 are now close to £300bn and a fair chunk will be borrowed at the longer-dated end, yields have been rising steadily since the Budget, making the Bank's job even harder.

Subsequently, Gilts have endured a significant move, especially at the long end, as term premium has increased for UK sovereign risk. Yields have largely followed moves in US Treasuries but as the UK has its own set of problems (not least potential for that ugly word, stagflation) the yield premium between the two sovereign curves has widened. Thirty-year Gilts printed yields not seen since the 90's (reaching 5.45%) prompting commentators to rush to compare the situation to late 2022. However, this is not a liquidity crisis or as a result of forced selling by institutions, more a function of the sheer volume of fund-raising needed to come from Gilts to fund deficits. So far there is no lack of demand for UK Sovereign risk and a recent five-year Gilt auction was three times covered. There is however precious little more confidence for Starmer/Reeves than there was in Truss/Kwarteng and sterling has weakened as foreign investors hold fast, (sterling has passed its crown as the strongest G10 currency in 2024 to the dollar).

European bond sales set a new annual record at over €1.7trn in 2024, sterling corporate bond sales were a healthy £45bn with more than £70bn forecast for 2025 (partly influenced by a clutch of redemptions), fairly evenly split between financials and corporates. The outperformance of credit versus government bonds has been stark. Sterling credit, in particular, has been strong, underpinned by high demand and limited supply. The start of this year has been busy in the primary market despite the rates volatility and corporate bond sales in the first week broke records in $ and €.

Jeremy Wharton, *January 2025*

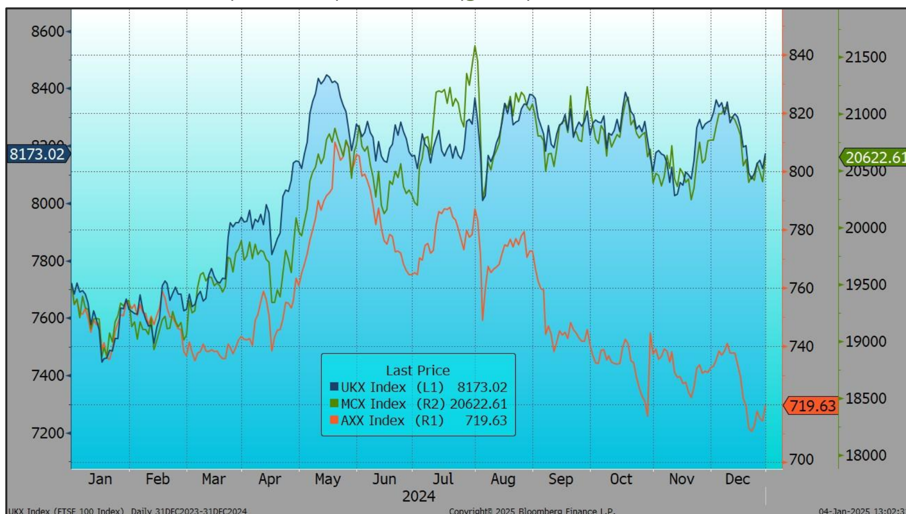
UK Equity Markets

Index:	31 Dec 2024	30 Sep 2024	Quarter	2024
FTSE All-Share	4468	4511	-1.0%	+5.6%
FTSE 100	8173	8237	-0.8%	+5.7%
FTSE 250	20623	21053	-2.0%	+4.7%
FTSE Small Cap	6844	6941	-1.4%	+6.5%
FTSE AIM All-Share	720	739	-2.6%	-5.8%

Source: Bloomberg

The final quarter of the year saw UK shares vacillate with little overall direction. The excitement for the year took place over the first six months, since when the indices have shown little movement overall. Once again, the smaller companies that make up the AIM market indices fared worst and remain lower over the year:

FTSE 100 (dark blue), **FTSE 250** (green) and **AIM Indices –2024**



Source: Bloomberg, FTSE International

Beneath the surface it was a different story as several of the more UK focussed sectors suffered, most noticeably the housebuilders but also a number of the retailers. The budget was taken badly by the housebuilders and the subsequent increase in longer-term interest rates piled on the angst. **Persimmon** fell around 27% over the quarter with **Taylor Wimpey** also down by a quarter but shares in **Vistry Group** (Bovis etc.) suffered the most (more than halving in value) as they issued a profits warning, after revealing that costs had been 'understated' at one of their divisions. Among the retail groups, **Frasers** sank 27% and **Kingfisher** 23% (unfortunately reversing all the gain of the previous quarter) while **JD Sports** fell 38% after warning that their profits would be at the lower end of their previous expectations.

Also weak were the big pharmaceutical companies, **AstraZeneca** and **GSK**, both were down by around 10%. But this was not unique to the UK as practically all their international peers suffered over the quarter with the prospect of Robert Kennedy Jr as US Health Secretary. **Smith & Nephew** also had a poor quarter, but this was more specific to them as their results disappointed and they cut their growth forecast. In a generally dull Mining and Materials sector, **DS Smith** stood out with a gain of 17% as they succumbed to the bid from **International Paper**.

On the more positive side, the banks have again been a positive feature, **Barclays** and **NatWest** gaining 19% and 17% respectively and the more internationally focused **HSBC** and **Standard Chartered**, which showed similar gains. The laggard here being **Lloyds Banking**, which fell around 7%, hit by an Appeal Court ruling on car loans and commissions paid to intermediaries. The bank most exposed here is **Close Brothers**, which fell 40% over the period.

There was no particular sector bias to the other winners over the quarter, **International Consolidated Airlines** (British Airways) jumped nearly 50% after announcing good figures, though this does only get their shares back into the 2015/2019 range. Similar optimism led to a 22% gain for **Intercontinental Hotels Group**, though this one is building on strength. **Sage Group** gained nearly 25% after announcing much better figures than expected along with a buy-back of their shares. Cigarette and e-cigarette manufacturer, **Imperial Brands**, were another feature after their figures.

Fundamental Valuation Indicators

Corporate earnings forecasts for the year ahead are beginning to be marked up, helped by the strength in the US dollar but principally as companies are expecting to see an improvement in trading. With the corporate mood souring a shade recently with continued lacklustre economic growth and higher National Insurance I wonder if this will last. With the earnings yield over 9%, UK shares remain inexpensive in an international context.

FTSE All-Share Estimates*	31 Dec 2024	30 Sep 2024	29 Dec 2023
Earnings (per Share)	415	398	397
Price / Earnings Ratio	10.8X	11.4X	10.7X
Earnings Yield	9.3%	8.8%	9.4%
Dividends (per Share)	187	181	190
Dividend Yield	4.2%	4.0%	4.5%
Dividend Cover**	2.2X	2.2X	2.1X

**Bloomberg aggregate earnings estimates for the year ahead **Company earnings as a multiple of the dividend paid out to shareholders*

INTERNATIONAL EQUITY MARKETS

Index:	31 Dec 2024	30 Sep 2024	Quarter*	2024*
US - S&P 500	5882	5762	+2.1%	+23.3%
US - NASDAQ	19311	18189	+6.2%	+28.6%
UK – FTSE All-Share	4468	4511	-1.0%	+5.6%
Germany - DAX	19909	19325	+3.0%	+18.8%
France - CAC 40	7381	7636	-3.3%	-2.0%
Switzerland - SMI	11601	12169	-4.7%	+4.3%
Japan - TOPIX	2785	2646	+5.2%	+17.7%
Brazil - Bovespa	120283	131816	-8.7%	-10.4%
China – Shanghai Comp.	3352	3337	+0.4%	+12.7%
Hong Kong – Hang Seng	20060	21134	-5.1%	+17.7%
Australia – ASX 200	8159	8270	-1.3%	+7.5%

*Source: Bloomberg *Change in local currency*

The final quarter was much more mixed for international equity markets as doubts crept in around the likely course for inflation and interest rates and, of course, the impact of the new President's policies. American markets jumped on the news of Trump's victory, and they still lead for the year, but the gain has a very narrow base as close to half came from just five stocks, that is unhealthy:

S&P 500 (green) and **EuroStoxx** (brown) **– 2024**

Source: Bloomberg

FOREIGN EXCHANGE

	Cross Rate:	31 Dec 2024	30 Sep 2024	Quarter	2024
£	US $ / £ sterling	1.252	1.340	-6.6%	-1.6%
	Euro € / £	1.209	1.202	+0.6%	+5.1%
	£ Exchange Rate Index	84.4	85.7	-1.5%	+3.4%
$	US$ / € euro	1.035	1.114	+7.5%	+6.4%
	Yen ¥ / US $	157.2	143.2	+9.8%	+11.1%
	Renminbi / U S$	7.34	7.02	+4.6%	+3.4%
	$ Exchange Rate Index	108.5	100.7	+7.7%	+7.1%

Source: Bloomberg

Following Donald Trump's victory, the quarter in the foreign exchange markets has, of course, all been about the US dollar, which has gained against all the major currencies. Bearing the brunt of the move were the euro and the yen, which lost 7.5% and 10% respectively in value versus the dollar. Sterling was also weaker against the dollar but, at this stage, not as weak as the others. Latterly, the more 'wait and see' stance from the US Federal Reserve has served to bolster the dollar's gains.

The US Dollar Index (dixie) – Five Years

Source: ***Bloomberg***

Sterling's Exchange Rate Index is up modestly for the year as a whole, reflecting a cautious Bank of England and (relatively) stable Government since the General Election. The euro has been under pressure from French and German politics and the perception that the European Central Bank (ECB) would, of necessity, be cutting their interest rates faster than the other central banks.

Church House Investment Grade Fixed Interest

	31 Dec 2024	30 Sep 2024	Quarter	2024
CH Investment Grade* - Inc.	107.0	107.9	-0.8%	-0.2%
iBoxx AA Corporate 5-15 year	76.4	78.3	-2.4%	-4.6%
CH Investment Grade - Accum.	188.4	187.7	+0.4%	+4.7%
iBoxx £ ABS 5-10 year TR**	340.8	344.9	-1.2%	+1.9%

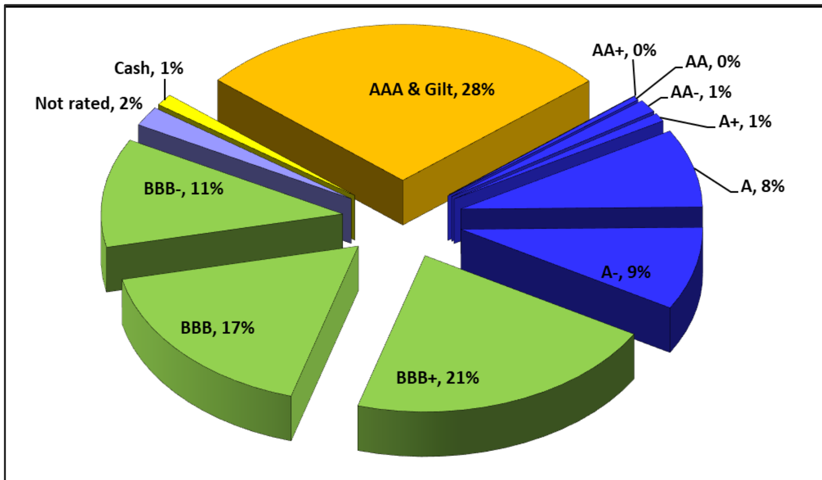
*Source: Bloomberg *bid price to bid price, excluding income. **Total Return Index.*

The Investment Grade Fixed Interest portfolio moved to an even shorter-dated profile over the quarter. This was clearly in response to the difficult markets for longer-dated bonds, which have been suffering significant falls, and the duration** of the portfolio moved down again in consequence:

CH Investment Grade Fixed Interest	Dec 2024	Sep 2024
Short-dated Securities (less than 7 years)	78%	71%
Medium-dated Securities (7 to 15 years)	18%	25%
Long-dated Securities* (over 15 years)	4%	4%
Duration of Portfolio**	3.2	3.4
Volatility*** (past year)	3.6%	4.6%
Number of Holdings	118	113
Yield (historic)	4.8%	4.8%
Portfolio Value	£375m	£363m

**Long-dated includes infrastructure holdings **Duration is defined on page 35*
****Volatility is annual standard deviation expressed as a percentage*

CH Investment Grade Fixed Interest – by Credit Rating – 31 December 2024



Source: Church House

Top 15 Holdings - 31 December 2024	
United Kingdom Treasury Bill 0.000%	2.7%
Standard Chartered LTII 5.125% 06/2034	1.9%
Bank of America 7.000% 07/2028	1.8%
Goldman Sachs Group Inc 7.250% 04/2028	1.7%
SSE Hybrid 01/14/49 3.740% 01/2026	1.7%
IFC 4.500% 10/2028	1.6%
BP Pnc5 6.000% 11/2029	1.6%
EIB (SONIA) 5.969% 09/2025	1.5%
EIB 4.000% 02/2029	1.5%
John Deere 5.125% 10/2028	1.4%
Segro 2.375% 10/2029	1.4%
EIB FRN 1/2027	1.4%
Pacific Life 5.375% 11/2028	1.4%
New York Life 4.95% 12/2029	1.3%
Barclays 5.85% 3/2035	1.3%

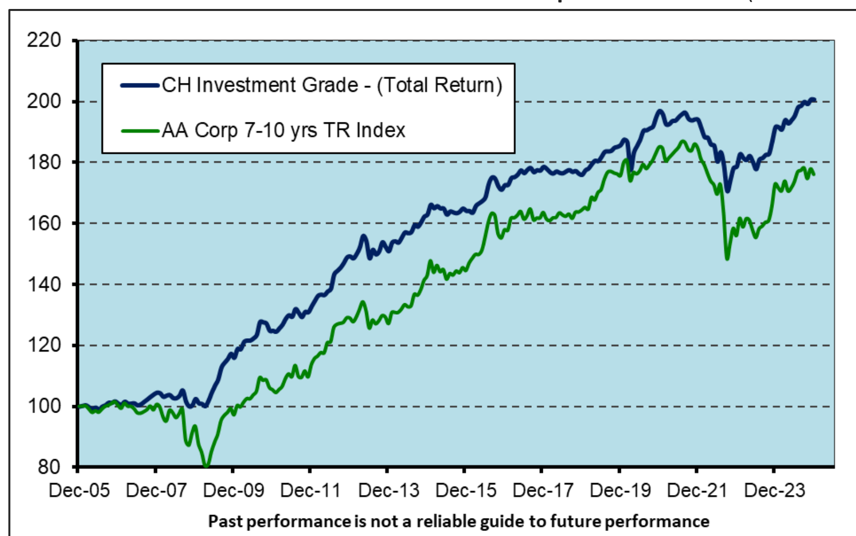
To the top of the list of principal holdings in the portfolio jumps a **UK Treasury Bill**. Effectively the lowest risk asset in the sterling bond universe, this is a useful home for our money while longer-dated bonds settle/adjust to higher interest levels. Dropping out of the list are the **Société Générale** 5.75% 2032 bonds that were previously the third largest holding along with the fifth largest, **Lloyds** 4.875%, which reached maturity during the quarter.

Calendar Year Performance:

2024	2023	2022	2021	2020	2019
+4.7%	+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

	31 Dec 2024	30 Sep 2024	Quarter	2024
CH UK Equity Growth*	204.8	213.2	-3.9%	+4.1%
FTSE All-Share Index	4467.8	4511	-1.0%	+5.6%
FTSE 250 Index	20623	21053	-2.0%	+4.7%

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

Rory Campbell-Lamerton writes: The final quarter of 2024, in particular December, took the gloss off what would have been a good year for our UK Equity Growth portfolio as we returned to Trumpian rhetoric and continued fallout from Labour's budget.

The effect of the budget on UK businesses cannot be underestimated whether micro or massive. The rise in National Insurance Contributions is going to cost every business. At one end of the scale, **Tesco** face a bill of more than £1bn over the next four years, according to analysts at Morgan Stanley. Whilst at the other end, **Young's**, whose CEO we met at the end of November, has forecast a bill of c.£11m for the increased NIC (and increase in the Minimum Wage levels) while **Greggs** has a £45m a year pill to swallow. Just at the moment, it is hard to see where domestic growth is going to come from.

However, all is not lost for the UK investor. As is well known, the FTSE 100 is a majority US dollar earning index and the last quarter has thrown up some opportunities. We initiated in one of these, **Sage Group**, in November. Sage is a Newcastle-upon-Tyne based (like our top 10 holding, **Greggs**), multinational enterprise software company, and one of the largest technology companies in the UK. After **Oracle** and **SAP**, it is the world's third largest supplier of enterprise resource planning software (think payroll, finance and accounting etc.) and the largest supplier to small businesses worldwide. With attractive fundamentals, it has delivered strong sales growth and increased profit margins despite its competitive sector. Once a customer (company) is fully embedded with Sage's software it is a long, complicated, and tedious process to switch to a competitor, hence recurring revenues are so strong (at 97%). We initiated in the business just below £10 in late October and early November, and they have since gained back their year-to-date losses after a strong results statement at the end of November, where they maintained revenue growth and forward guidance, but delivered strong beats in operating margin. We will continue to add to this holding as and when opportunities arise.

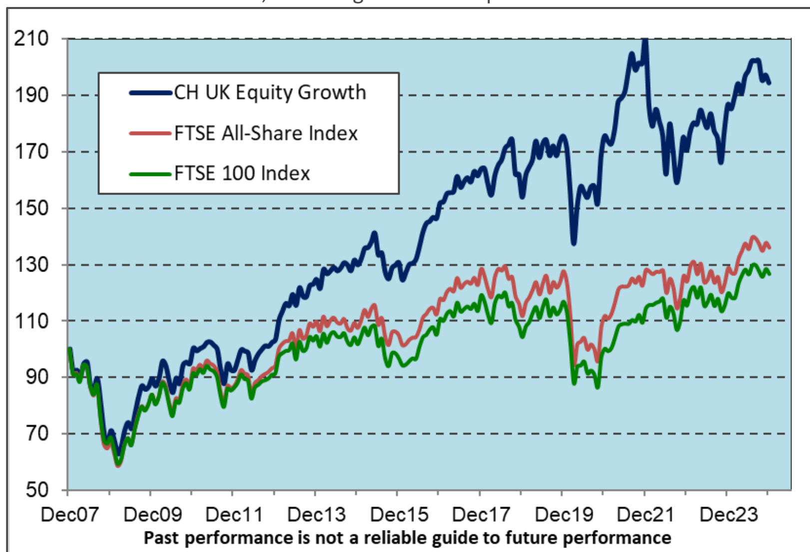
Top 15 Holdings - 31 December 2024	
RELX	7.6%
Diploma	7.4%
Halma	5.9%
Microsoft	3.8%
Greggs	3.8%
London Stock Exchange	3.8%
Unilever	3.7%
Diageo	3.6%
Auto Trader Group	3.4%
Beazley	3.4%
Alphabet Inc	3.3%
Intercontinental Hotels	3.2%
Judges Scientific	3.2%
AstraZeneca	3.2%
Spirax Group	3.2%

Our new holding in **Sage** was funded by some profit-taking in multinational outsourced caterer **Compass Group** and two of our international names (**Microsoft** and **Investor AB**) which had all performed strongly in 2024. We also decided to close our positions in **Fever-Tree Drinks** and **Young & Co's Brewery**, (though both are still retained in our smaller companies portfolio). Top performers over the quarter (and the year) were **Trainline, InterContinental Hotels Group** and **Beazley** who were able to demonstrate resilient earnings despite the macroeconomic difficulties.

Calendar Year Performance:

2024	2023	2022	2021	2020	2019
+4.4%	+10.0%	-18.6%	19.7%	0.4%	15.7%

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



Source: Church House, Bloomberg

Church House Balanced Equity Income

	31 Dec 2024	30 Sep 2024	Quarter	2024
CH Balanced Equity Income*	175.2	186.9	-6.3%	+1.4%
FTSE All-Share Index	4468	4511	-1.0%	+5.6%
FTSE Higher Yield Index	3800	3805	-0.1%	+5.3%
FTSE Index-Linked All Stocks	467	499.8	-6.6%	-9.0%
Composite Benchmark**	117.6	119.1	-1.3%	+3.5%

*Source: Bloomberg *Bid-to-bid price, excluding income payments (capital performance)*
***46% FTSE All-Share, 42% FTSE Higher Yield, 12% FTSE Index-Linked All-Stocks Indices.*

Craig Elsworth writes: A challenging quarter for the Balanced Equity Income portfolio, which, like most funds with a UK equity income bias, has had to grapple with the fallout from a less than helpful inaugural Labour budget. Despite this, the portfolio returned +4.7% on a total return basis for the calendar year.

The Chancellor's heavy-borrowing budget caused a sell-off in the Gilt market, with the ten-year and thirty-years yields reaching their highest levels for years. Combining that with increasing National Insurance Contributions, substantial public sector pay awards and a rise in the Minimum Wage, create all the ingredients for problems. It was incredibly naïve of the Chancellor to think businesses would just absorb this into their margins and not pass on additional costs. I write this not to sound 'bearish' but to outline the inputs that have caused some sectors of the portfolio to struggle over the quarter. Higher Gilt yields feed directly into the pricing of infrastructure assets and are the determining factor in mortgage rates, which effect the demand for property.

The housebuilders **Bellway** and **Berkley Group** both struggled because of this and we added to Bellway on weakness. Despite the above, supply side government reform should aid growth in the sector over the medium-long term. National Insurance threshold changes and a rise in the national living wage hit the performance of consumer discretionary stocks, where a large percentage of the workforce are impacted by the above. **Greggs** and **Kingfisher** (B&Q / Screwfix) suffered as a result and we have added to Kingfisher. This company remains highly cash generative, despite its cyclicality and is structured to benefit from an uptick in demand.

Having started the quarter with a healthy cash position we also added to: **Croda International**, which despite having a tough year has refocused its offering and is seeing renewed demand in some end markets, **Diageo** the owner of prestigious brands such as Guinness and Johnnie Walker, and to **Schroders** the well diversified investment business. We initiated a new position in **NB Private Equity Partners** at a discount of ~-25% to its Net Asset Value and at a healthy 4.7% dividend yield. This company has a US-focused portfolio of private equity co-investments, which is positioned to benefit from a potential recovery in the IPO market, they have compounded return at ~13% over ten years, across various market cycles.

Top 15 Holdings - 31 December 2024	
AstraZeneca	5.3%
RELX	5.1%
Unilever	4.6%
Barclays	4.1%
Sage Group	3.5%
GSK	3.3%
Bunzl	3.0%
BAE Systems	2.9%
Aviva	2.9%
National Grid	2.9%
Diageo	2.8%
Rio Tinto	2.7%
Halma	2.6%
BT Group	2.3%
Cranswick	2.3%

On a positive note, **Sage Group** and **Barclays** move up the list having returned 24.3% and 19.4% respectively, which helped to offset the poorer performance from **AstraZeneca** and **GSK**. Pharmaceutical stocks came under pressure during the quarter, owing to the controversial nomination of Robert Kennedy Jr as health secretary, in Donald Trump's cabinet. There is plenty of reason for optimism, the UK stock market remains 'cheap' (sorry to sound like a broken record) vs international peers and given that a significant portion of large UK companies revenues are generated internationally - this portfolio isn't overly exposed to the domestic UK economy.

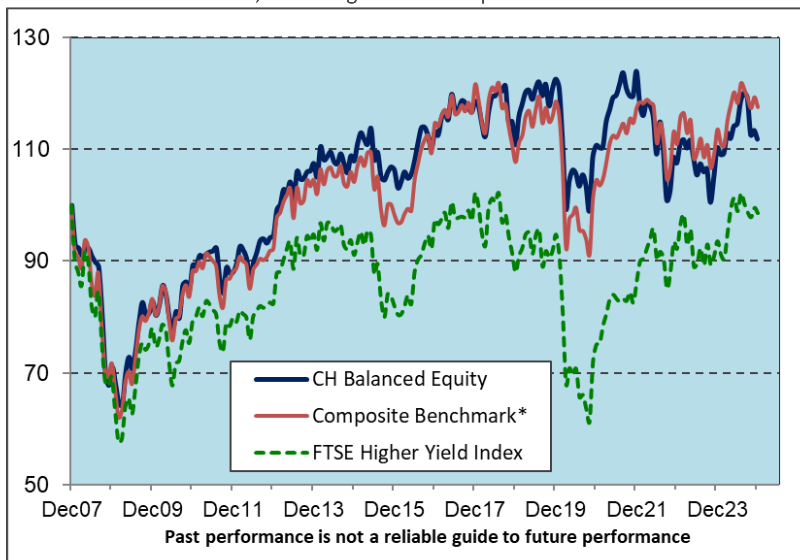
Calendar Year Performance:

2024	2023	2022	2021	2020	2019
+4.7%	+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 *46% All-Share, 42% FTSE Higher Yield, 12% Index-Linked All-Stocks*

Church House UK Smaller Companies

	31 Dec 2024	30 Sep 2024	Quarter	2024
CH UK Smaller Companies*	147.3	150.0	-1.8%	+5.1%
FTSE All-Share Index TR	9913	9948	-0.4%	+9.7%
FTSE AIM All-Share TR	879	900	-2.3%	-3.7%

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

Rory Campbell-Lamerton writes: Our Church House UK Smaller Companies portfolio had a dull quarter, weathering the fiscal effects of Labour's budget. The scale back in IHT relief from 100% to 50% hammered the AIM market, leaving it with a bleaker future when it comes to new listings and capital raisings.

The standout performers for the portfolio were the non-AIM and bigger companies we hold. **Games Workshop**, the manufacturer of table-top fantasy world Warhammer with its Orcs and Space Marines (see picture), is a business we picked up in 2022 as it's market cap dipped below £2bn. Just over two years later, the share price has more than doubled, and the company has just entered the FTSE100. It is now bigger than **easyJet** and **Entain** (Labrokes and Coral). Games Workshop has recently signed impressive licensing deals with a video games developer and with **Amazon** to bring their content to the big screen over the next couple of years. They released consensus beating results and statements over the past two years, as more and more people are buying, building, painting and playing with their figurines. They now aim to expand in North America and Europe.

Beazley and **Trainline** both performed well for us over the year with consistently resilient results. We met management of both over the last six months and in particular with Trainline, remain reassured that they will not be derailed by any impending nationalisation of the UK rail network. Their business is their platform (app and website) and with continued international growth, we hope to see continued diversification away from the UK. Our tech holdings in **Raspberry Pi** and **Trustpilot**, waved the flag globally for the UK sector. Raspberry Pi was the UK's best performing IPO last year (up over 100% since listing) and Trustpilot has really reversed its fortunes, quadrupling its share price since summer 2023. The review aggregator raised guidance over the autumn as they reported an 18% increase in recurring revenue, coupled with a £20m share buyback that still leaves it with a healthy balance sheet.

We re-initiated a position in **Craneware**, the US focused healthcare software company. We have held their shares previously and have always admired the software platform that US hospitals can use to cut surplus costs and streamline businesses. After meeting management in the autumn, we reinitiated and will look to add to the position over the course of the year.

Top 15 Holdings - 31 December 2024	
Diploma	6.1%
Beazley	5.5%
Judges Scientific	5.2%
Trainline	4.8%
Greggs	4.7%
Raspberry PI	4.6%
Porvair	4.5%
Cranswick	4.1%
Somero Enterprises	3.7%
Ashtead Technology	3.3%
Trustpilot	3.1%
Young & Co's Brewery	3.1%
Softcat	2.9%
Big Yellow Group	2.8%
Fuller Smith & Turner	2.6%

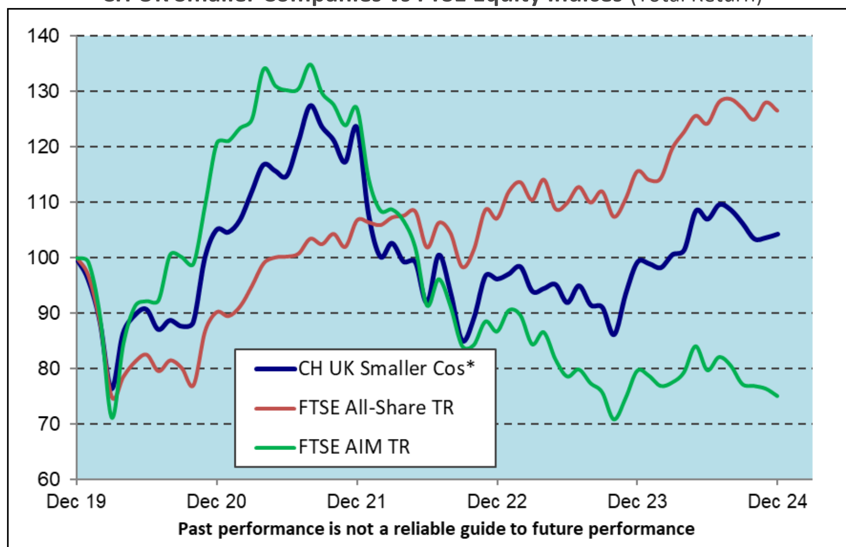
Our property holdings (**Big Yellow**, **Helical, Primary Health Properties** and **Shaftesbury**) all had a tough year, encumbered by poor sentiment, red tape and high costs of capital. Consumer Staple and Discretionary names were hit and miss, with **Pets at Home** feeling the big bricks and mortar squeeze, whilst Irn-Bru maker, **AG Barr**, and pork producer, **Cranswick**, both had good years with return to growth. We have 9% of the portfolio in cash on the back of the takeover of **Keywords Studios** in late October. We will be looking to redeploy this back into existing holdings, plus a couple of new ones over the coming months.

Calendar Year Performance:

2024	2023	2022	2021	2020
+5.1%	+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

	31 Dec 2024	30 Sep 2024	Quarter	2024
CH Esk Global Equity*	485.5	467.7	+3.8%	+11.7%
CH Global Index in £	1664	1568	+6.1%	+17.8%
MSCI World in $	3708	3723	-0.4%	+17.0%
FTSE 100 Index	8173	8258	-1.0%	+5.7%

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

Fred Mahon writes: Volatility returned to global markets in December on the back of a 'hawkish' quarter point cut in rates from the Federal Reserve, accompanied by commentary from various FOMC members lowering expectations for the number of further rate cuts during 2025. With American stock markets currently trading just off all-time highs and confidence in the economic might of America marching on into 2025, one would be forgiven for complacency, but bond markets are painting a different picture right now.

Who would have thought that in a year where all the major central banks cut rates and the longest duration equity assets (high growth technology stocks) were so strong that the yield on ten-year US treasuries would rise as much as it has. At the headline level, equity investors are believing in the AI-driven tech boom continuing, while fixed interest markets are taking a more sceptical view of the economy, nervous of persistently high inflation, global budget deficits and slowing growth outside of the US. We do not have the luxury of a crystal ball but would say that there appears to be a lot of enthusiasm priced-in to US equities here, so it would not be a surprise to see them disappoint over 2025.

Against this backdrop, Esk continues to maintain a relatively lower weighting towards the Technology sector and always to focus on the highest quality names where we are owners of tech. For example, we have been investors in **Microsoft, Apple** and **Alphabet** (Google) for comfortably over a decade, while we continue to steer clear of **Nvidia, Tesla** and **Meta**. Recent headlines surrounding Meta's change of content screening rules has reminded us why we have always steered clear of the business – we don't envy anyone the job of navigating the moral/social responsibility of operating a network of their scale and importance.

Top 15 Holdings - 31 December 2024	
Alphabet	5.7%
Microsoft Corp	4.8%
Amazon.com	4.4%
Mastercard	4.0%
Apple	4.0%
Stryker Corp	3.5%
Oracle	3.5%
RELX	3.2%
Investor AB	2.8%
Ferrari	2.7%
Intuit	2.7%
LVMH	2.6%
Hermès	2.5%
Sumitomo Mitsui	2.5%
Euronext	2.5%

We have been steering new money towards less glamorous sectors in recent months such as Consumer Staples and Healthcare and expect to continue to do so while current market conditions persist. Within Consumer Staples, we initiated a new position in Canadian-listed **Alimentation Couche-Tard**. Couche-Tard own and operate around 17,000 convenience stores and petrol stations, mostly under their Circle K brand across North America and, increasingly, mainland Europe. Alain Bouchard, Couche-Tard's founder and Chief Executive, opened his first convenience store in 1980 in Quebec and from these humble beginnings, it has grown into a £43bn business (by market cap). We see value in Couche-Tard shares at currently levels and so have begun building a position. On the other hand, we sold our small position in **Remy Cointreau** after a short and turbulent time as investors in the cognac producer. We feel that Remy's heavy reliance on Chinese luxury spend is problematic given China's economic woes and that was before that latest round of tariffs slapped on the import of EU alcohol in China.

Portfolio Statistics

Number of holdings	43	Volatility*	6.7%
Portfolio Value	£75.3m	Income yield	0.3%

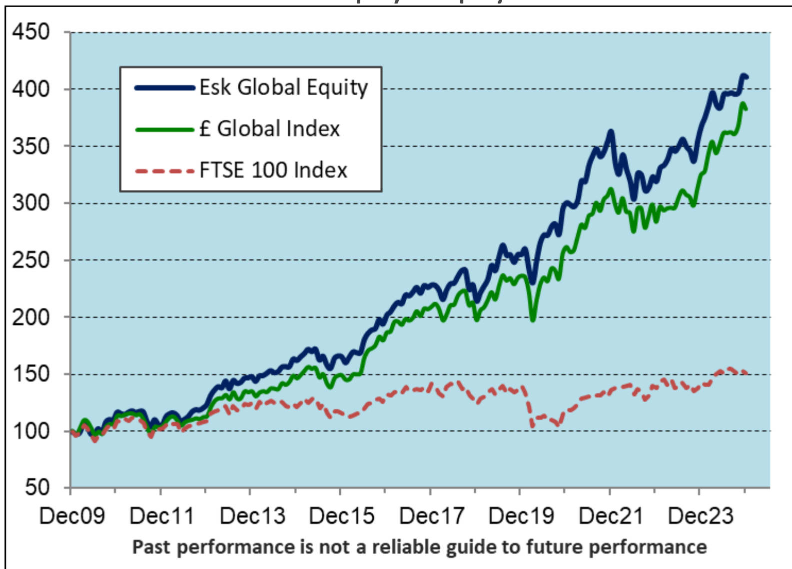
**Annual standard deviation of monthly capital returns expressed as a percentage, past year*

Calendar Year Performance:

2024	2023	2022	2021	2020	2019
+12.0%	+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 Human Capital

	31 Dec 2024	30 Sep 2024	Quarter
CH Human Capital*	98.7	100.9	-2.2%

*Source: Bloomberg *Bid-to-bid price*

Fred Mahon writes: The final quarter of 2024 was a noisy period for global events. For the Human Capital Fund, it was (and always is) a matter of keeping our heads down and not letting Mr Market distract us from our objective, namely, to deliver high returns via a focused portfolio of exceptional 'human capital' businesses.

During the quarter we added US-listed **Tetra Tech** to the portfolio. With Los Angeles fighting wildfires, this water-focused business appears more relevant than ever. Tetra traces its origins to the 1960s, advising the US Navy how to protect against extreme weather. Today, Tetra works on water projects around the globe. For example, Tetra are currently working with Californian authorities on how better to collect rainfall that runs straight off sun-baked soil and into the Ocean. In the UK, Tetra recently won a contract to *'support the improvement of river health across the North West of England'*.

Top 15 Holdings - 31 December 2024	
Lagercrantz Group AB	5.1%
Diploma plc	5.0%
Lumine Group Inc.	5.0%
Lifco	4.8%
Indutrade AB	4.6%
Chapters Group	4.5%
Kelly Partners	4.5%
Vitec Software	4.5%
Addtech AB	4.5%
Addnode Group AB	4.4%
Topicus.com Inc.	4.3%
Brown & Brown	4.1%
Bergman & Beving	4.1%
Siteone Landscape	4.1%
Judges Scientific	3.9%

In addition to growing end markets, what struck us about Tetra was how well-run it is. Since IPO in 1991 Tetra equity has compounded at more than 16%. Most of the workforce may be water 'geeks', but their management have a laser-focus on delivering returns. We particularly liked the longevity of their leaderships – the Chief Executive, Dan Batrack, joined in 1980 and cut his teeth as an oceanographer before swapping his wetsuit for a tie in head office. At their recent investor day, Tetra stated their target to triple their earnings by 2030 – we are backing them to do just that.

Communicating concise financial goals to the market such as these from Tetra is a feature that we really like to see in a business. To pick a few pithy examples of financial targets stated by companies that we hold in the portfolio:

- **Lagercrantz**: have two goals (that is all!):
    1. Grow profit (EBT) by 15% annually
    2. Maintain return on equity > 25%

- **Addtech**: also have two goals:
    1. Grow profit (EBT) > 15% annually
    2. Profit/Working Capital > 25%

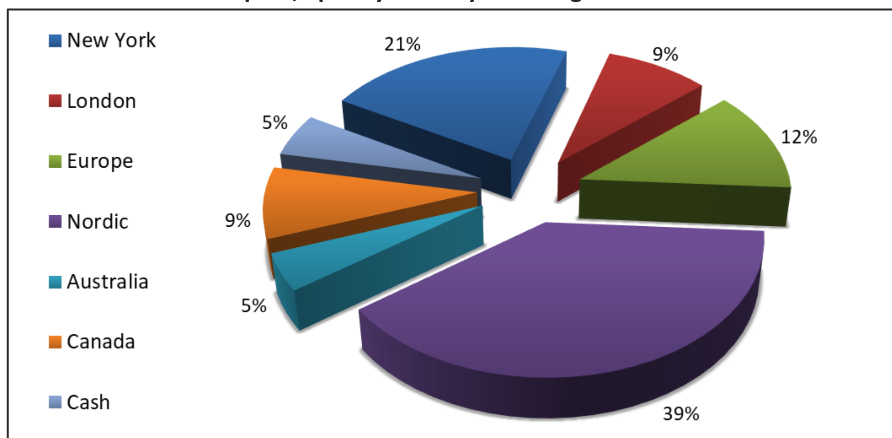
- **Savaria**: are targeting
    1. Revenue of $1bn by 2026 (+10% compounded)
    2. EBITDA margin increasing from 15% to 20% by 2026

These goals keep management teams focused and, besides the stock markets and investors like us, demonstrate to their workforce what they, collectively, are working towards.

In terms of overall performance, the NAV of Human Capital accumulation shares stood at 98.7p at the year-end. Given that we have no direct exposure to the 'Magnificent Seven', the remarkable market rally after the Presidential Election largely passed the Fund by.

Some of our US investments weakened in December when the Russell 2000 (index of US smaller companies) fell out of favour – there were no fundamental changes to our underlying US investments in this period, so we took the opportunity to add to a few of them during this period. Overall, we continue to see exceptional long-term growth ahead for our Human Capital businesses and with the portfolio currently standing on an earnings multiple of 17.2x, one is not paying a hefty premium to the market for this growth.

CH Human Capital, Split by Country of Listing – 31 December 2024



Source: Church House

CHURCH HOUSE TENAX ABSOLUTE RETURN STRATEGIES

	31 Dec 2024	30 Sep 2024	Quarter	2024
CH Tenax Absolute Return*	170.6	169.8	+0.5%	+5.2%
Cash Return (SONIA)**	113.3	111.9	+1.2%	+5.2%

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

The Tenax multi-asset portfolio was quietly positive over the final quarter and its volatility has been lower.

With tricky fixed interest markets over this period, we reduced the life of the bonds in the portfolio even more and the overall duration* is down below 3.0 again. To make this number a shade more meaningful (we hope): a short-dated Gilt, e.g. UK Treasury 4.125% stock maturing in July 2029, has a duration of 4.1 while the current ten-year Gilt has a duration of 7.5. So, our risk level is low and likely to remain that way for the moment.

Our table of the allocation between different assets over the year also shows that we reduced the amount invested in fixed interest over the final quarter. We sold several complete holdings including the German **Pfandbriefbank** bonds (German property is under something of a cloud) and several lower coupon issues. **Whitbread** 2.375%, **Ospraq** (Anglian Water) 2% and **NatWest** 2.15% stock, all due in 2027 and 2028 have gone in their entirety. These bonds with lower coupons (interest payments) tend to be rather more volatile. Here is the overall allocation, showing the change over this final quarter and the year as a whole:

CH Tenax Fund - Allocation to Asset Classes – 2024

2024	29-Dec-23	28-Mar-24	28-Jun-24	30-Sep-24	31-Dec-24	Year
Cash	0.2%	1.1%	3.7%	0.7%	0.5%	0.4%
Gilt / AAA Fixed	2.1%	1.4%	1.6%	1.1%	1.2%	-0.9%
FRN (AAA)	12.6%	11.8%	10.3%	10.5%	11.5%	-1.1%
Floating Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fixed Interest	51.6%	54.7%	56.3%	58.9%	55.5%	3.8%
Index-Linked	0.6%	0.6%	0.7%	0.7%	0.8%	0.2%
Infrastructure	5.9%	4.5%	5.6%	5.3%	5.7%	-0.2%
Convert / ZDP	10.2%	7.4%	3.9%	4.0%	4.4%	-5.8%
Alternative / Hedge	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Property / Real	5.0%	5.3%	4.3%	4.6%	4.5%	-0.5%
Equity	11.8%	13.1%	13.8%	14.1%	15.9%	4.1%

Source: Church House

**Duration is defined overleaf on page 35*

The commercial property and infrastructure investments have been almost universally weak, worried, principally, by rising long-term interest rates, their assets also being long term in nature. The only real exception to the poor performance being **Harmony Energy Efficiency**, which has effectively put all its assets up for sale and their shares have rallied.

Equity exposure in the portfolio is higher thanks to some solid performance from the bank holdings, **Barclays** and, particularly, **Standard Chartered**. We did sell our remaining holding in **National Grid** during the period, which had done well for us. The international equity holdings have also gained, and it is good to see the investments in **Caledonia** and **RIT Capital Partners** beginning to pick up, their stock still looks to be exceptionally good value.

Ending as usual with this more complex table, which shows the duration* and redemption yield** figures for the FRN and Fixed Interest portions (around 68% of the portfolio at present), as they have developed over the year. The duration has come down as described above and, of course, with the passing of another three months. this is quite a confusing number, the average time to maturity of this portfolio of bonds is around 4¾ years, the duration of 2.9 reflects the high coupon (interest) stream that the portfolio will be receiving in the meantime.

2024	29-Dec-23	28-Mar-24	28-Jun-24	30-Sep-24	31-Dec-24
Overall Duration*	3.2	3.1	3.1	3.0	2.9
Redemption Yield**	6.2%	6.0%	6.0%	5.8%	5.7%
Fixed Interest Duration*	3.9	3.8	3.7	3.5	3.4
Portfolio Running Yield	4.4%	4.4%	4.4%	4.4%	4.4%

Source: Church House

Calendar Year Performance:

2024	2023	2022	2021	2020	2019
+5.2%	+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.*

Greenland

The Pituffik Glacier, Greenland

NASA Ice

Rose Taylor writes: Donald Trump's renewed interest in taking over Greenland from Denmark, possibly by force, has sparked a justified reaction. The North-Atlantic Island, home to 56,000 inhabitants (around the same number as Weymouth), has long shown a desire for independence, but Greenland's Prime Minister may decide that working more closely with the American superpower could come with advantages. With its 52bn barrels of oil reserves and second largest supply of rare metals after China, the country is in a strong position to negotiate.

Geographically, it sits between America and Russia, making it a highly strategic location for the U.S. Greenland also houses the American Pituffik Space Base, an important missile and space surveillance centre, which plays a key role in Arctic defence. A bill has been drawn up and, if passed, President Trump will be able to move quickly in discussions with Denmark.

Church House Investment Management

www.ch-investments.co.uk

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