Church House Investment Management

Quarterly Review

Winter 2025/6

Issue No. 103

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:

UK STEWARDSHIP CODE

Church House Investment Management

Church House Investments Limited is authorised and regulated by:

The Financial Conduct Authority

Quarterly Review

A quarterly review of the economic and market background to investment, written by a number of Church House's managers, compiled and edited by James Mahon, Chairman of the Investment Committee.

Issue no. 103 - Winter 2025/6

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The Long View

Nominally, this was a good year for international equity markets, particularly the dominant US markets. For an interestingly different perspective I am quoting from an excellent article by the *Financial Times* columnist, Katie Martin. In her end-year column, The Long View, she wrote:

Make no mistake, global markets really did change in 2025. American exceptionalism may never be the same again.

[US stocks rebounded when President Trump backed down on tariffs and closed the year up around 16%]. Believers in the notion that the US has won at capitalism will tell you that we can just get back to normal where US assets are all that matters. For US investors, based in US dollars, that is fair enough. But the rest of the world is now clearly looking at the country's markets through an entirely new lens.

"Risk in the US is higher than it was," one senior executive in the Canadian pensions industry told me earlier this year... "There's less certainty in regulatory compliance, in tax. Things we thought were contracts are open to politics. You have to think about risk in a different way."

Some big investors tell me they feel trapped: if they buy US assets, they fear some kind of sanction if they want to sell them again in the future… I have never heard investors talk about "US risk" before. Now it is perfectly normal.

Asset managers are also responding to the cold, hard reality that 2025 was a stinker for overseas investors in US dollar assets.

"The US does not understand that the dollar hit this year was very painful," said Vincenzo Vedda, Chief investment officer at German asset manager DWS. The 16% ascent in the benchmark US S&P 500 this year in dollars is all well and good for domestic investors. The drop in the dollar however means euro-based investors in that same index are up just 2.6% this year.

That's not a typo. They are in negative territory on both the Dow Jones Industrials and on the Russell 2000 Index of smaller US stocks.

What's more, normally, non-American investors can rely on the dollar in times of stress, under the unwritten haven status it has enjoyed for decades. Now, investors no longer trust that this will work, particularly as the president seeks to assert his easy-money doctrine on the Federal Reserve.

As a rule, asset managers are not looking to sell American investments or avoid them entirely. European and Asian markets are often just too small to accommodate really large allocations, and in any case, they still want to ride the wave in artificial intelligence – an all-American success story.

But quite aside from the bubble risk in that sector, which all investors acknowledge to some extent, they need to spread the political and currency risk in a way that they have not done before.

On a recent trip to Asia, bankers, investors and wealth managers told me they were going through exactly the same thought process. Permanent capital parked in the US is "one of the easiest things to weaponise", said Michael Sy, chief executive of the Singapore stock exchange, at a Financial Times event this month.

US asset managers tend to believe that April 2025 was a blip and we are all back to business as usual. The truth is rather different.

Katie Martin, *Financial Times*
27th December 2025

THE ECONOMIC & MARKET BACKGROUND

Stock markets ended 2025 on a bright note and this appears to be continuing despite a hectic start to the New Year from the US President. I rather like the notion that we should be reporting on the end of the first quarter of the 21st Century and not just the fourth quarter of 2025, but maybe that's for another day. As Cranley points out in his piece on the UK economy, growth remains elusive and, so far, the Chancellor only has herself to blame. I suspect that the next six months might bring some relief on this front, the Base Rate is lower, inflation is better than feared, the budget is behind us and companies have had time to adjust. Whether any improvement is enough to make a material dent in the Chancellor's dire arithmetic remains to be seen.

The US economy weathered the tariff chaos surprisingly well, and it remains resilient, but President Trump's relentless attacks on the Federal Reserve are not good. Recent examples of the loss of central bank independence do not bode well for the US dollar. 2025 saw a sharp depreciation in the dollar as a loss of trust in US institutions and a perceived need to hedge against the President's erratic policy making took hold. A loss of Fed independence would make this worse.

As I write, we are waiting for a (delayed) ruling from the US Supreme Court on around half of President Trump's tariffs. If this goes against the US President, the whole wretched process will be in chaos again. One certainty is the mid-term elections due in early November, which includes all 435 seats in the House of Representatives. The President is losing popularity in the US with most Americans now blaming him and his policies for the high cost of living. Expect endless tinkering and economic interference as he attempts to force prices and costs lower and bolster his appeal. The prospect of losing control of Congress to the Democrats might lead the President to all sorts of extremes. As for his more recent international actions, I find it hard to believe that foreign escapades / diversions are what the 'MAGA' faithful signed up for.

I realise that I have almost reached the bottom of this page without mentioning AI, possibly because we did talk about it quite extensively in the autumn. I will just say that there has been an AI capex 'arms race' among major US corporations, which now appear to have committed to around $500bn of annual expenditure. I really cannot see that a decent return on this scale of investment is likely.

But I can understand the stock market's more optimistic take at present. US growth is likely to be stronger this year with lower interest rates and tax handouts and, as above, the UK has scope for better growth and in Europe, Germany is spending again. I don't think that the US is 'exceptional' anymore, but there does appear to be plenty of scope elsewhere.

With Best Wishes for the New Year *(however uncomfortably Orwellian it all feels..)*

***James Mahon**, January 2026*

The UK Economy and Interest Rates

The final quarter of 2025 seemed to be dominated by the Budget. The Labour government spent weeks preparing the ground for what was anticipated to be another tax-raising blockbuster. We were even treated to an unannounced early morning speech from the Chancellor where she suggested that she might need to break an election promise to not raise income tax. As it turned out, the Office for Budget Responsibility found an extra £16bn in tax revenue down the back of the sofa, which neatly offset the impact of their productivity downgrade and shrunk the Chancellor's 'fiscal hole' sufficiently to not raise income tax.

When it came to delivering her budget, Rachel Reeves still announced £27bn of tax increases per year for the remainder of this parliament and put our tax burden up to its highest level since World War II. But it was not as bad as feared. Unfortunately, that fear, together with the level of tax burden, has had an impact on the economy. We do not yet have GDP data for November and December, but companies have reported a tricky Christmas sales season. While the supermarkets enjoyed good food sales, the success of their own-brand ranges appear to be at the expense of not just their branded competitors, but restaurants and other non-food retailers. The picture it paints is of a more cautious consumer.

The latest GDP figures we do have are for October and that was the fourth month in a row with no growth, with Q3 coming in at +0.1%. Anaemic does not do it justice. However, falling inflation figures from the September high of 3.8% to November's reading of 3.2% paved the way for the Bank of England to cut interest rates. It was not a clear-cut decision with the Monetary Policy Committee split 5-4 and Governor Bailey casting the deciding vote.

As the swing voter, it was not surprising that Governor Bailey described the move as a 'hawkish cut'. He said he was swayed by evidence of "more established" disinflation, also noting that "Unemployment, underemployment and flows from employment to unemployment have all risen". There is no reason that the Committee's decisions in 2026 will not remain close fights between fears for a cooling economy and the threat of stubborn inflation.

Market expectations for interest rates in the UK this year have one more cut priced in around the April/June meetings. Around then there will also be the local elections. UK local elections do not tend to be market-moving events, but these will be an important barometer reading on the popularity and authority of the Prime Minister. Given the PM's current ratings on both those counts he will be grateful that it is more difficult to mount a leadership challenge in the Labour Party than in the Conservative. But if the economy has not started to improve, or if the electorate are not feeling more positively about their own situation, dire local election results could be the tipping point.

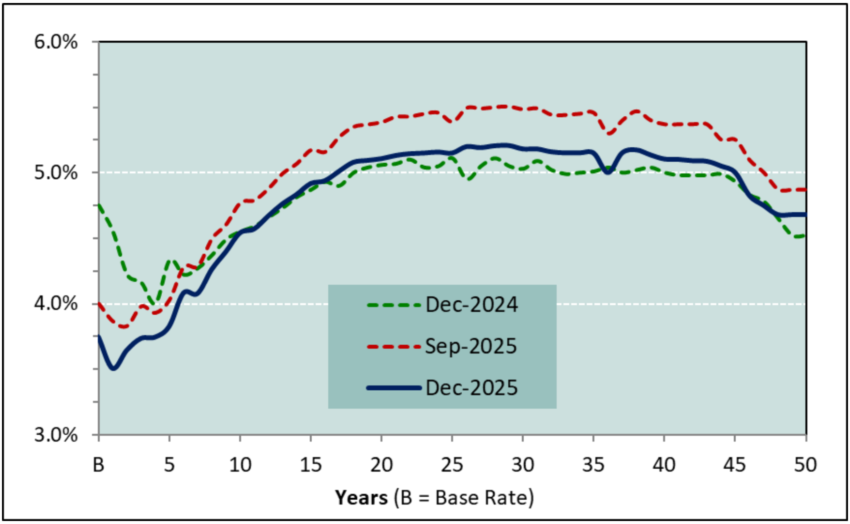
Of course, the difficulties facing this government are not all of their own making. The debt burden that they are facing, as for many G7 economies, has stemmed from the post-GFC monetary policy and the impact of the Covid pandemic. Yet the Government's unwillingness or inability to restrain public sector spending, while at the same time piling pressure on businesses through higher taxation, is not a positive for growth prospects.

Following the rate cut in December, two-year interest rates fell 5bps to 3.7% and the ten-year fell 4bps to 4.5% (see below). This continued the steepening trend that we have seen in the yield curve throughout the year and suggests bond investors are dubious about both the Country's debt burden and the Government's growth strategy to resolve it.

Thankfully, the Bank still has room to ease monetary conditions further, but Starmer and Reeves will be hoping for some better growth figures in 2026, to keep the Gilt market and the electorate on side.

Cranley Macfarlane, *January 2026*

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	3.75%	3.7%	3.7%	3.9%
Longer-Term	10 years	20 years	30 years	50 years
Interest Rate	4.5%	5.1%	5.2%	4.7%

*Source: Bloomberg *The Bank of England's Sterling overnight index average.*

Credit Markets

A solid end to 2025 as equity indices explored new highs, rates and credit spreads were steady amidst cuts from the Fed and the BoE, the ECB remaining on hold. The FTSE 100 Index has joined in, breaching 10,000 for the first time. There are signs that the rally in the US is broadening out from AI/Tech leadership. There is also lots of talk about how the AI trade itself needs to broaden out and this is the year for it to start to 'deliver' rather than continue purely as an arms race. The AI tech story is spreading into other asset classes as expansion using equity funding is replaced by debt funding. 2025 saw big tech companies issuing record amounts of debt, >$250bn, and one forecast has expansion in AI and datacentres needing $1.5tn by 2028.

New bond issues by **Alphabet** ($25bn), **Meta** ($30bn) and **Oracle** ($18bn) have all been snapped up, with Meta gaining a book size of $125bn. Issuing that scale of debt into previously lightly geared balance sheets does have consequences and formerly conservative Oracle has seen its Credit Default Swaps (the cost of insuring its debt) jump to levels not seen since 2022, and now six times the cost of insuring US Treasuries.

There are more forecasts for 2026 than ever. In a recent podcast, TS Lombard condensed more than sixty-five of them into a consensus that 2026 will be a rerun of 2025. 10% up for US equities, inflation falling back to target, growth remaining steady, interest rates reaching neutral, so, a 'Goldilocks' picture. Let's see, a Trump dominated Fed could easily lead to a policy mistake.

Geopolitical risk is back to the fore (a 'new world order') as Trump started the year with aggression towards neighbouring Venezuela. Framed as dealing with 'narco-terrorists', and bizarrely the use of machine guns (?), apparently it is about their reserves of heavy oil, which the US, despite being a net oil exporter, does not have. China is the biggest consumer of Venezuelan oil and has lent the country more than $70bn in oil-backed loans. Greenland remains in Trump's sights, and it is probably only a matter of time before he acts.

Stability in US job growth has enabled the Fed to focus more on inflation, however, fiscal dominance means Treasury and Presidential pressure remains intense on the FOMC to cut rates further. The Justice Department is politicised too and has launched a criminal investigation into the Fed Chairman, Jerome Powell, over building renovations, prompting a widespread show of support for Powell. The FOMC did deliver a consensus 25bp cut, although it was accompanied by dissents amongst the committee and a hawkish press conference to play down further easing. Overall, the cut looks to have been less hawkish than anticipated and Powell was more upbeat about prospects for 2026 than expected.

Attention now turns to the appointment of Powell's successor as Fed Chairman in May and the future composition of the FOMC. If heavily political, as expected, we could face the prospect of a Trump inspired/directed series of further cuts in the face of an accelerating economy which might unsettle markets and provoke volatility. Kevin Hassett, currently Director of Trump's National Economic Council, is favourite and appears to have changed long held views to suit Trump's agenda. Recent strong growth figures had nominal GDP rising 8.2% annualised, hardly an environment to justify further cuts.

US debt in the meantime topped $30tn for the first time, doubling since 2018. The servicing of this debt mountain is running at around $1.2tn a year and even though Trump's tariffs have reduced their budget deficit to around $1.8tn a year these numbers are uncomfortable to say the least.

The ECB remains in a holding pattern as EU growth comes in better than expected. Core inflation remains sticky and with more robust growth it looks as though there might be no change to the 2% deposit rate throughout 2026. Activity in the German economy is finally beginning to tick up as the stimulus of government spending begins to feed through. However, meagre German growth of 0.3% GDP in 2025 and a forecast 0.7% in 2026 remains pretty anaemic.

In the UK, Gilts have rallied recently as CPI fell more than expected and some fiscal worries receded. GDP came in better than expected at 0.3% for November despite our Chancellor's best efforts. Budget 'Purdah' was abandoned and flying kites of its content to test the water was a source of volatility. The trailing of manifesto breaking income tax rises was replaced by a retraction (lamely and latterly justified by a mooted upgrade to prospective growth by the OBR) and this has continued to make the longer end of the Gilt curve a volatile place. Fiscal realities, along with a record ex Covid Public Borrowing Requirement (a mere £10Bn more than expected), mean that we have seen a 2025 range for the thirty-year Gilt yield from 5.0% to 5.7%, then back to 5.2%, a move of 8% in capital terms. The OBR recently downgraded growth for 2026 and every year of this parliament.

Goldman Sachs issued the biggest ever bond sale by a US Bank, printing a $16bn six-part multi tranche. Supply of new bonds over 2026 is expected to break all records and the primary market has had a busy start; we even saw six sterling issues on the first proper day of trading. Globally credit spreads have fallen to their tightest since 2007 as the economic outlook remains stable.

Jeremy Wharton, *January 2026*

UK EQUITY MARKETS

Index:	31 Dec 2025	30 Sep 2025	Quarter	2025
FTSE All-Share	5350	5062	+5.7%	+20%
FTSE 100	9931	9350	+6.2%	+22%
FTSE 250	22470	22016	+2.1%	+9%
FTSE Small Cap	7538	7271	+3.7%	+10%
FTSE AIM All-Share	766	783	-2.2%	+6%

Source: Bloomberg

The FTSE 100 Index had an exceptional 2025, within touching distance of 10,000 points and outpacing the S&P500 and the Dow Jones indices. Internationally it was only beaten by the German Dax (+23%) and Japan's Nikkei 225 (+26%) out of its developed indices peer group. Smaller companies did not do so well:

FTSE 100 (dark blue), **FTSE 250** (green) and **AIM Indices –2025**

Source: Bloomberg, FTSE International

Leading the market over the quarter was the little-known **Airtel Africa**, the continent's leading telecommunications and mobile money business, whose share price tripled as they announced that they would IPO their money transfer business following excellent growth. Airtel Africa was an outlier in the Media & Telcos sector as **Auto Trader Group** and **Rightmove** had a tough quarter amidst the supposed threat of AI to their business models. Rightmove fell 13% on the day of their results as they announced that they would use their profits to invest in AI for the property portal. **RELX** was also under pressure again from the perceived pressure from the threat of AI to their data led businesses.

The Consumer Staples companies had a mixed quarter with **Diageo** and **Marks & Spencer** the laggards. **Unilever** spun out **The Magnum Ice Cream Company** (including perennial problem child Ben & Jerrys), whilst the supermarkets had quiet periods in the run up to Christmas. **Games Workshop** and **Next** were the leaders in the Consumer Discretionary space, whilst apparel retailers **JD Sports Fashion** and **Frasers** continued to feel the squeeze as discretionary spending slows down.

The leading sectors over the year were the traditional FTSE names, the tobaccos, banks, big pharma and utilities. **British American Tobacco** and **Imperial Brands** had quieter quarters after they reported robust earnings and upbeat outlook in their continued shift to smoke-free. **Barclays** and **Standard Chartered** performed particularly well as higher interest rates drove strong net interest income and their investment banking revenues increased over the course of the recent market volatility. Among the Pharmaceuticals, **AstraZeneca** delivered strong performance underpinned by double-digit growth in oncology and respiratory & immunology sales, whilst **GSK** weren't to be left behind in speciality medicines and vaccines growth. In utilities, **SSE** delivered a strong results statement as regulated networks and clean-energy assets drove value.

Industrials had a weaker quarter on the whole. **BAE Systems** gave up a lot of it's early year momentum as investors checked the company's valuation and **IAG** (British Airways) popped on the news that the government had backed Heathrow's third runway (again).

The Miners had an excellent quarter as the price of gold, silver and copper skyrocketed. Standout performers were **Antofagasta** and **Rio Tinto** in the base metal markets and **Fresnillo** in precious metals (who also took the prize for the top-performing FTSE 100 company over the year, being up 450%!)
***Rory Campbell-Lamerton**, January 2026*

Fundamental Valuation Indicators

Earnings and dividend forecasts have edged back up again for the year ahead:

FTSE All-Share Estimates*	31 Dec 2025	30 Sep 2025	31 Dec 2024
Earnings (per Share)	425	400	415
Price / Earnings Ratio	12.6X	12.7X	10.8X
Earnings Yield	7.9%	7.9%	9.3%
Dividends (per Share)	200	187	187
Dividend Yield	3.7%	3.7%	4.2%
Dividend Cover**	2.1X	2.1X	2.2X

**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 2025	30 Sep 2025	Quarter*	2025*
US - S&P 500	6846	6688	+2.4%	+16%
US - NASDAQ	23242	22660	+2.6%	+20%
UK – FTSE All-Share	5350	5062	+5.7%	+20%
Germany - DAX	24490	23881	+2.6%	+23%
France - CAC 40	8150	7896	+3.2%	+10%
Switzerland - SMI	13267	12109	+9.6%	+14%
Japan - TOPIX	3409	3138	+8.6%	+22%
Brazil - Bovespa	161125	146237	+10.2%	+34%
China – Shanghai Comp.	3969	3883	+2.2%	+18%
Hong Kong – Hang Seng	25631	26856	-4.6%	+28%
Australia – ASX 200	8714	8849	-1.5%	+7%

*Source: Bloomberg. *Change in local currency*

2025 was universally a good year for the major global equity indices. US markets dominate (US equities now make up 72% of the MSCI World Index vs UK at a mere 4%) and so, rightly, get the headlines, with the S&P 500 up 16% for the year. Relatively less attention has been paid to Euro Stoxx 50 and Shanghai Stock Exchange, both up 18%, Tokyo Stock Exchange +22% and Korea Stock Exchange delivering a remarkable +76% in local currency terms, to pick just a few examples.

S&P 500 (green) and **NASDAQ Composite** (red) **– 2025**

Source: Bloomberg

We mentioned the strength of **Alphabet** (Google) last quarter. Their shares have just kept going, taking their market capitalisation over $4tn, extraordinary numbers. This is all on the back of market excitement surrounding Alphabet's progress in AI, notably with their Gemini platform. Other major beneficiaries of the AI enthusiasm were semiconductor giants **Nvidia, Broadcom** and **Taiwan Semiconductor**. There was also a remarkable period of excitement for **Oracle** in the late summer when news of their growing AI backlog sent shares up close to 40% in a day, before worries about excessive leverage crept into investor sentiment, leaving the shares down sharply over the final quarter:

Oracle Corp – 2025 - the highs and lows.. (or, Volatility in Action...)

Source: Bloomberg

It was a year to remember for banks, as the prospect of higher long-term interest rates (leading to higher profits for banks) buoyed sentiment and earnings. Shares in the US mega banks (**JPMorgan Chase, Bank of America, Morgan Stanley**, etc) rose handsomely, but mention must go to London-listed **Barclays**, **Lloyds** and **Standard Chartered** who have shaken off the shackles of many years left out in the cold to deliver returns ranging from 77% to 84% over twelve months.

At the other end of the spectrum, it was a dull year for the Consumer Staples sector, as squeezed customers were in no mood to splash out on alcohol, food or cosmetics. The spirits' market was particularly hard hit, with the likes of **Diageo**, **Rémy Cointreau** and **Pernod Ricard** all at multi-year lows. The least discretionary areas, such as supermarkets and cleaning products, have been less bad but there is no escaping that it is a tough market to be a retailer.

***Fred Mahon**, January 2026*

Church House Investment Grade Fixed Interest

	31 Dec 2025	30 Sep 2025	Quarter	2025
CH Investment Grade* - Inc.	108.9	108.1	+0.7%	+2%
iBoxx AA Corporate 5-15 year	77.8	76.6	+1.6%	+2%
CH Investment Grade - Accum.	200.9	197.2	+1.9%	+7%
iBoxx £ ABS 5-10 year TR**	370.4	359.2	+3.1%	+9%

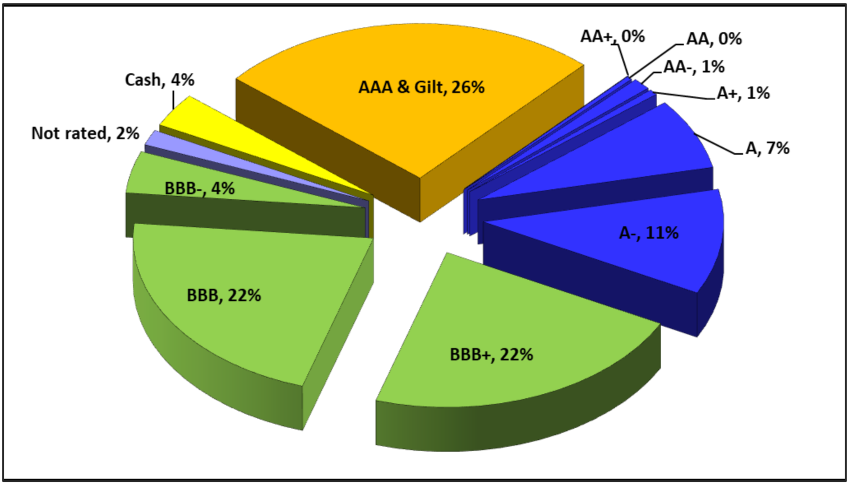
*Source: Bloomberg *bid price to bid price, excluding income. **Total Return Index.*

The table below shows the overall stance of the Fixed Interest portfolio, which is just marginally longer dated. 13% of the portfolio is still invested in floating rate notes, which all have top triple-A credit ratings and despite a cut in the base rate from 4% to 3.75% in December, they still pay interest rates of around 4.25%:

CH Investment Grade Fixed Interest	Dec 2025	Sep 2025
Short-dated Securities (less than 7 years)	75%	77%
Medium-dated Securities (7 to 15 years)	19%	18%
Long-dated Securities*** (over 15 years)	6%	5%
Duration of Portfolio**	3.5	3.3
Volatility* (past year)	1.9%	2.6%
Number of Holdings	124	126
Yield (historic)	4.6%	4.7%
Portfolio Value	£419m	£404m

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

CH Investment Grade Fixed Interest – by Credit Rating – 31 Dec 2025



Source: Church House

Top 15 Holdings - 31 Dec. 2025	
Standard Chartered LTII 5.125% 06/2034	1.8%
Barclays PLC 5.851% 03/2035	1.7%
Bank of Novia Scotia Covered (SONIA)	1.6%
SSE Hybrid 01/14/49 3.740% 01/2026	1.5%
Goldman Sachs Group Inc 7.250% 04/2028	1.5%
BP Pnc5 6.000% 11/2029	1.5%
IFC 4.500% 10/2028	1.5%
EIB 4.000% 02/2029	1.3%
Segro 2.375% 10/2029	1.3%
Whitbread Green 3.000% 05/2031	1.3%
John Deere 5.125% 10/2028	1.3%
Santander UK PLC 5.250% 02/2029	1.2%
Pacific Life 5.375% 11/2030	1.2%
Credit Agricole SA 5.500% 07/2032	1.2%
New York Life 4.950%	1.2%

There is little change in the top holdings from the end of September. We sold our second largest holding, **Bank of America** 7% 2028 to make room for a **Barclays** 5.851% 2035 holding and we took advantage of weakness in longer-dated maturities to purchase a bond from **3i**, expiring in 2040 with a yield to maturity of 6%. We also invested in a new issue of stock from **BUPA Finance** paying 6.625% and maturing in 2045.

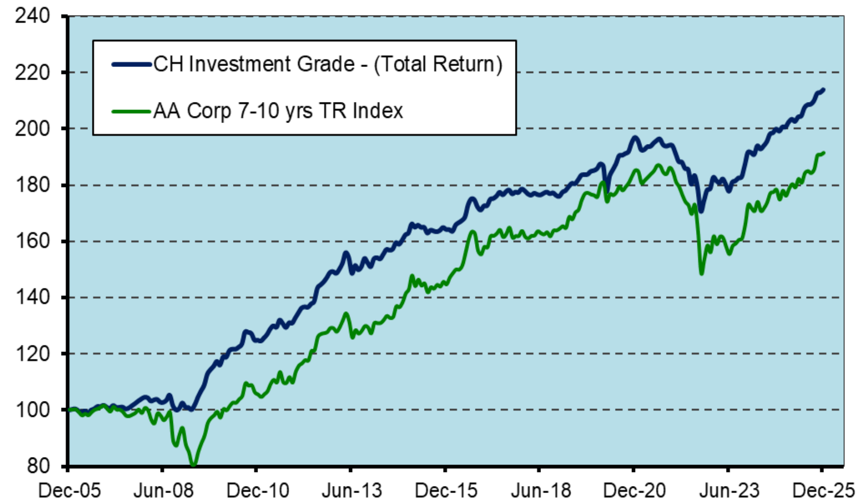
***Lucy Abel Smith**, Jan. 2026*

Calendar Year Performance:

2025	2024	2023	2022	2021	2020
+6.6%	+4.7%	+7.4%	-7.9%	-1.5%	6.0%

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

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



Past performance is not a reliable guide to future performance

Source: Bloomberg, Church House

Church House UK Equity Growth

	31 Dec 2025	30 Sep 2025	Quarter	2025
CH UK Equity Growth*	202.5	203.0	-0.2%	-1%
FTSE All-Share Index	5350	5062	+5.7%	+20%
FTSE 250 Index	22470	22016	+2.1%	+9%

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

There is no hiding that this has been a disappointing year for our UK Equity Growth portfolio, making no headway against strong performance from the leading UK equity indices. Most of the top performers in the market have been among the miners, the tobacco companies and, notably, the big banks – which we don't own. We don't invest in these businesses as they don't meet our 'quality growth' objectives. 2025 has generally been poor for quality stocks and the gap between them and 'value' stocks is at its highest in over twenty years. It has generally been a tough environment for quality growth in the UK, but we believe that for long-term returns it is the right style to remain invested in the highest quality companies with the strongest balance sheets and best brands, intellectual property and barriers to entry. At present, these companies are as attractively priced as we have seen in over two decades.

Despite market sentiment, the UK is littered with forgotten/overlooked quality, diamonds in the rough, that are still quietly doing their thing. For example, **Halma**, the life-saving technology and devices manufacturing company, who announced first half results in November. They delivered record revenue and profit and continued to cherry-pick acquisitions, as has been their style for many years. They acquired two new businesses and benefitted from the outperformance of their 2011 purchase of Avo Photonics whose revenues jumped by 50% as 'hyperscalers' continued to use their solutions in the construction/operation of AI super-datacentres.

AI has certainly been the watchword for the last 24 months or so, with picks and shovels businesses such as Halma and data vendors such as **LSEG**, **RELX** and **Experian**, being perceived as benefitting or losing out to this nascent technology. With the latter three businesses, the AI trade has been against them, but we still believe in the long run that these businesses which own the data and the IP have valuable treasure troves, which they will continue to be able to monetise successfully. We added to RELX as they saw further share price weakness. On the other hand, not all management teams who pivot to more AI enjoy instant success and share price performance and **Rightmove** learnt this the hard way. We bought our first holding in Rightmove in late September after share price weakness but in early November they unveiled plans to accelerate investment in AI capable technologies indicating that higher spending would slow profit growth in the near term. Their shares fell ~20% on this announcement as analysts calculated profit growth to fall to around 3-5% rather than the forecasted 9%. We added to the position.

Top 15 Holdings - 31 Dec. 2025	
Diploma	8.9%
Halma	8.1%
RELX	6.7%
AstraZeneca	4.6%
Microsoft	4.2%
Investor AB	4.0%
Beazley	3.7%
Unliever	3.6%
Intercontinental Hotels	3.5%
Alphabet Inc.	3.3%
London Stock Exchange	3.3%
Spirax	3.2%
Ashtead Group	3.1%
Experian	3.1%
Compass Group	2.7%

The market isn't all AI… **Games Workshop** showed that there is still value and return elsewhere, even if the main business is the manufacture of figurines. Their shares jumped 12% as management guided for profits to be above consensus, (even more impressive as 2024 was a year dominated by Licensing revenue which will halve this year). We took some profits from **Roche** and **Alphabet** on the back of strong performance to invest back into UK listed stocks. We topped up **Coca-Cola EuroPacific Partners** over the quarter as we continued to bring this new holding up to weight.

***Rory Campbell-Lamerton**, January 2026*

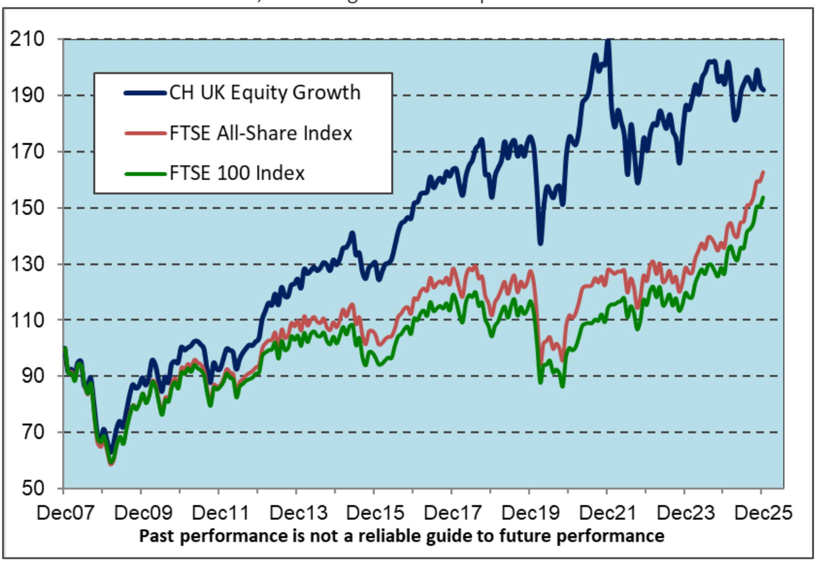
Calendar Year Performance:

2025	2024	2023	2022	2021	2020
-1.0%	+4.4%	+10.0%	-18.6%	19.7%	0.4%

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

CH UK Equity Growth vs FTSE Equity Indices

Bid Prices, excluding income – Capital Performance



Source: Church House, Bloomberg

CHURCH HOUSE BALANCED EQUITY INCOME

	31 Dec 2025	30 Sep 2025	Quarter	2025
CH Balanced Equity Income*	195.2	190.4	+2.5%	+11%
FTSE Higher Yield Index	4627	4302	+7.6%	+22%

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

A solid quarter for the portfolio, albeit we lagged the headline FTSE Higher Yield Index, as oil, tobacco stocks and banks performed strongly. Interestingly, **British American Tobacco** and **Imperials Brands**, which we do not own, make up c.8% of the index, returned 56% and 30% respectively over the course of the year.

UK economic growth remained subdued, with official data showing modest expansion across the economy. Service and consumption contributions were marginal, business investment was mixed and continued loosening of the labour market signalled softer demand conditions. The Autumn Statement came and went without consequence, with most of the disruption incurred in the leadup to the event. UK equities outperformed the real economy, with the FTSE 100 reaching record highs, highlighting a divergence between financial markets and underlying economic activity.

In portfolio activity, we took some profits in **Barclays**, whose price-to-book valuation reached a level last seen in 2008. The bank has been an exceptional performer for the portfolio over the past couple of years and in this quarter alone returned 25%. **Unilever** spun off **The Magnum Ice Cream Company** into a stand-alone listed business, we decided to sell this small holding. **DCC**, a diversified energy sales, marketing and distribution group, reported solid numbers and gave a positive update regarding the streamlining of its operations - we added to the holding. We also continued to build our new position in **Rotork**, a global leader in flow control and actuation solutions. They provide intelligent actuators, gearboxes and valve control products. Given product complexity, service revenue is growing and 'sticky'. Their products will be in high-demand for data centre and small-modular reactor infrastructure.

Having initiated a holding in **B&M European Retail** in the previous quarter, we were less than impressed with the subsequent news that the CFO would be resigning having failed to properly account for freight costs – leading to a profit guidance downgrade. Despite this, we continued to add to the position on weakness, believing in the long-term strategy of the new CEO and their shares look historically cheap. Finally, in the fixed interest book, we purchased a new issue in **Aroundtown**, a European real estate company, paying a 5.25% coupon, with a gross redemption yield of 5.6%.

AstraZeneca regained its position as the biggest holding in the portfolio following a strong run up in its share price over the quarter, a move mirrored across the wider healthcare sector, which also saw **GSK** perform strongly.

Top 15 Holdings - 31 Dec. 2025	
AstraZeneca	5.8%
Barclays	5.0%
GlaxoSmithkline	4.1%
Aviva	3.9%
BAE Systems	3.6%
Lloyds Banking	3.5%
National Grid	3.2%
RELX	3.2%
Unilever	3.0%
Rio Tinto	3.0%
Sage Group	2.7%
Phoenix Group	2.6%
IG Group	2.4%
Schroders	2.4%
Halma	2.2%

Besides the banks, the other financials in the portfolio continue to thrive, with **IG Group Holdings** reporting increased user growth through its acquisition of **Freetrade**. **Rio Tinto** performed strongly, achieving several operational milestones, as well as being a beneficiary of price appreciation in base metals, notably copper. **BAE Systems** was the biggest detractor as investor sentiment weighed on defence stocks after a strong run (the long-term case remains unchanged). **RELX** continued to be a drag as AI uncertainty weighs on the business case for some products. We consider that RELX has a significant competitive and intellectual property moat.

***Craig Elsworth**, January 2026*

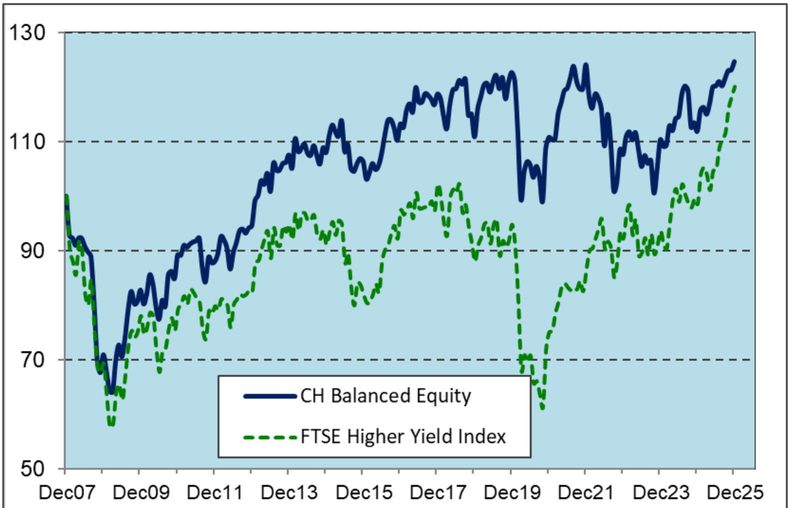
Calendar Year Performance:

2025	2024	2023	2022	2021	2020
+15.0%	+4.7%	+6.4%	-10.6%	14.9%	-7.0%

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

CH Balanced Equity Income vs. FTSE Higher Yield Index

Bid Prices, excluding Income – Capital Performance



Past performance is not a reliable guide to future performance

Source: Church House

Church House UK Smaller Companies

	31 Dec 2025	30 Sep 2025	Quarter	2025
CH UK Smaller Companies*	136.2	138.2	-1.4%	-8%
FTSE All-Share Index TR	12295	11557	+6.4%	+24%
FTSE AIM All-Share TR	954	970	-1.6%	+9%

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

We are having a tough time in our UK Smaller Companies portfolio. A recent market screen that we ran through Quest (an analytical tool that we use) showed that the current market shift that we have seen worldwide, away from 'quality growth' investing in favour of the so-called value and growth styles has been more acute in UK smaller company markets than almost anywhere else. We have certainly felt this in our UK smaller company investments, where our focus on smaller but fundamentally robust and growing businesses has yielded negative returns of late.

Looking through our top holdings, we remain confident in the outlook for these companies and, in some cases, are astounded that the market continues to rate them as lowly as it does. Private equity will be watching with interest. Starting on a positive note, our top two positions, **Diploma** and **Porvair**, both had a strong 2025 and are now (deservedly) trading at record levels. Diploma, the acquirer of niche distribution businesses, are having a particularly successful time with their sales into the booming US data centre market, while Porvair, who manufacture and sell industrial filters used on everything from air conditioning units to nuclear power plants, recently reported that their results (due next month) will be ahead of expectations and updated on an interesting new acquisition in Germany.

Shares in technology stocks **Craneware** and **Raspberry Pi** were down over the period as any tech names not seen as direct beneficiaries of the "AI Revolution" are being given the cold shoulder. We think this is jumping to conclusions – for example, Craneware are a crucial cog in the mechanism whereby US hospitals bill their customers. The idea that a given hospital is about to take the risk of scrapping this Craneware software for a free AI-based substitute does not stack up for us. We will monitor the situation closely but strongly suspect that Craneware will prove their doubters wrong.

Top 15 Holdings - 31 Dec. 2025	
Diploma	6.4%
Porvair	6.5%
Beazley	5.2%
Cranswick	4.6%
MHA	4.2%
Judges Scientific	3.7%
Fuller Smith & Turner	3.4%
Big Yellow Group	3.3%
Greggs	3.2%
Softcat	3.2%
Somero Enterprises	3.1%
Young & Co's Brewery	3.1%
Rathbone Group	3.0%
Renishaw	2.8%
Polar Capital	2.7%

Big Yellow Group shares also came under pressure after Blackstone's bid for the self-storage leader fell-through. We are confident that Big Yellow remains undervalued despite Blackstone not managing to get a deal over the line. Just as we go to print, **Beazley**, our third largest holding, has received an all-cash bid from **Zurich Insurance** at a 53% premium to their price at the end of December. Zurich Insurance has made a number of direct approaches to Beazley, but this is the first time that they have gone public. One more example of quite how cheap so many UK companies are at present...

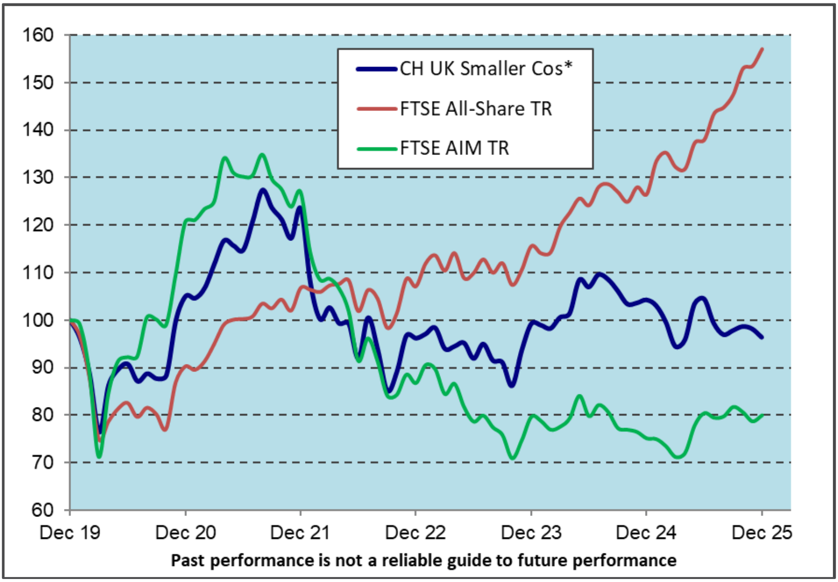
***Fred Mahon**, January 2026*

Calendar Year Performance:

2025	2024	2023	2022	2021	2020
-7.5%	+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 2025	30 Sep 2025	Quarter	2025
CH Esk Global Equity*	524.7	512.9	+2.3%	+8%
CH Global Index in £	1877	1813	+3.5%	+13%
MSCI World in $	4430	4026	+10.0%	+20%
FTSE 100 Index	9931	9350	+6.2%	+22%

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

We are at risk of sounding repetitive, but little changed in terms of market sentiment over the final quarter. It has been a momentum following market, with positive performance being driven by relatively few mega-cap stocks and these stocks predominantly being clustered around the Technology and Banking sectors. Banks (& other Financials) make up 18% of the Esk portfolio and, amongst these holdings, **Standard Chartered**, the UK-listed bank with its roots in Asian and African lending, was our top-performing stock over 2025. We also benefitted from impressive growth at US-listed **Morgan Stanley** and Japanese lender **Sumitomo Mitsui**.

Top 15 Holdings - 31 Dec. 2025	
Alphabet Inc.	5.8%
Microsoft	4.8%
Amazon.com	4.1%
Mastercard	3.9%
Apple	3.8%
Investor AB	3.3%
Oracle Corp	3.3%
Stryker Corp	3.0%
Sumitomo Mitsui	3.0%
Johnson & Johnson	2.9%
Euronext	2.9%
LVMH	2.9%
RELX	2.5%
Standard Chartered	2.5%
Intuit	2.5%

Our top holdings remain consistent with recent periods, reflecting our long-term investment horizon and the continued delivery of impressive results. **Alphabet**, **Microsoft** and **Amazon** have all made remarkable progress in scaling their AI offerings and between them look set to play a key role in the next phase of technological progress. We are sceptical of AI forecasts, but we can say that these three businesses have the scale and resources to be a meaningful part of this new world, whilst remaining profitable and cash generative in the present. Not having exposure to the remarkable success of semiconductor giants **Nvidia** and **Taiwan Semiconductor**, has cost us but these are cyclical and capital-intensive businesses, and we are not minded to chase share prices at current levels. Notable mention should go to pharmaceutical majors **Johnson & Johnson** and **Roche,** who have each shaken off post-COVID ennui to return to growth. While these companies might not be as exciting as some, they are AAA and AA rated respectively from a credit perspective, reflecting their remarkable financial strength and ability to keep generating high returns through market cycles. This is why we have held J&J since 2014 and Roche since 2010 – they have proven reliable friends, particularly in tough times.

We took the opportunity of a brief and modest period of weakness in the Defence sector to add to our new position in **TransDigm**, the supplier of niche aerospace parts to military and civil customers. Recent developments in Venezuela drew a line under share price declines in the sector and TransDigm, along with all defence names, moved higher again reflecting ongoing geopolitical tensions.

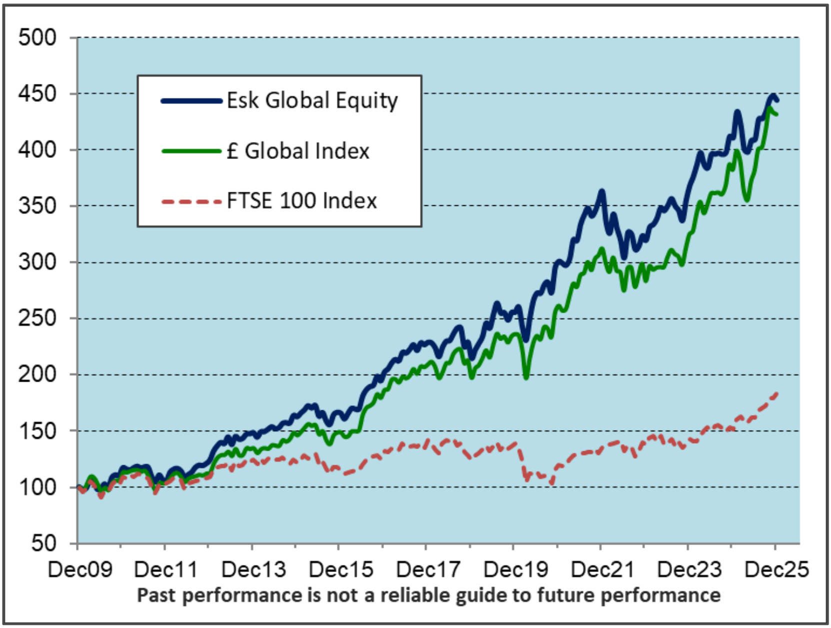
Over the summer we rebalanced our exposure in insurance markets, trimming **Swiss Re** after a strong run-up in their shares and reinvesting the proceeds into **Everest Group**, another global reinsurance business but with relatively less EU exposure and more US. To date, this has proven prudent as Swiss Re shares subsequently retreated but we would qualify this patting ourselves on the back by stating that the outlook for insurance rates is negative as a whole and we would be surprised to see either company thriving in the near-term. We are happy to maintain our long-term exposure where we continue to see underwriting discipline and balance sheet strength, as we do with these two companies. ***Fred Mahon**, January 2026*

Calendar Year Performance:

2025	2024	2023	2022	2021	2020
+8.4%	+12.0%	+15.6%	-11.7%	20.9%	18.1%

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 2025	30 Sep 2025	Quarter	2025
CH Human Capital*	100.5	101.1	-0.6%	+2%
CH Global Index in £	1877	1813	+3.5%	+13%

*Source: Bloomberg *Bid-to-bid price. Income shares*

It has been another dull quarter for the Human Capital portfolio. Despite strong growth from our underlying businesses, the market has persistently been focused on large cap tech and financial businesses (which we do not own), hence our modest returns for the year. At current levels, we see opportunity to add to positions in the highest quality Human Capital businesses on more than reasonable valuations and have been doing so across the board.

A quick refresh on what we are looking to achieve before discussing recent activity, and why we have taken this unique approach. Our objective is to deliver high, and compounding returns for investors over the long term. We believe that the most important factor in the success of truly extraordinary businesses (and so share prices) is people, the Human Capital. Intelligent, motivated and driven individuals can achieve wonderful results when given suitable incentives, support and autonomy from their management. As Adrian Cadbury (of chocolate and Olympic rowing fame), wrote in his book Corporate Governance and Chairmanship: A Personal View in 2002:

> *"The Company is made up of individuals and its success turns on their collective commitment to its aims. That commitment can only be won through our ability to bring about a convergence of individual, team and company goals."*

Over the quarter we added two new holdings, these were **Federal Signal Corp** and **Noritsu Koki**. Federal Signal (FS) is a remarkable story of American persistence and adaptability. Founded in 1901 manufacturing electric signs, FS diversified into electrically operated sirens in 1915, the same sirens that were used by the Allies during WW2. Post-war they began selling police sirens and even lit Las Vegas Strip. From the 1980s, FS began acquiring niche industrial vehicle businesses, e.g. enormous sewer vacuums and snow ploughs. We met the management team of FS and they met our criteria – decentralised, entrepreneurial, acquisitive and a proven record of sustainably high growth. Having followed the company for a while, we took the chance of a brief drop in the share price to initiate a position in the autumn. Noritsu Koki comes with a similarly quirky history. Having led the market in photographic film processing for 50 years, until photography turned digital, Noritsu has since sold their legacy film assets and recycled the capital into acquiring niche and growing businesses. E.G. AlphaTheta, who hold a 70% market share in DJ and club equipment globally, and Hamamatsu Metal Works, a precision manufacturing business. Noritsu have committed to continue on the acquisition trail and with Japan's ageing demographic leaving hundreds of founder-run businesses in need of long-term buyers, they have a deep pool to fish in and pricing is attractive.

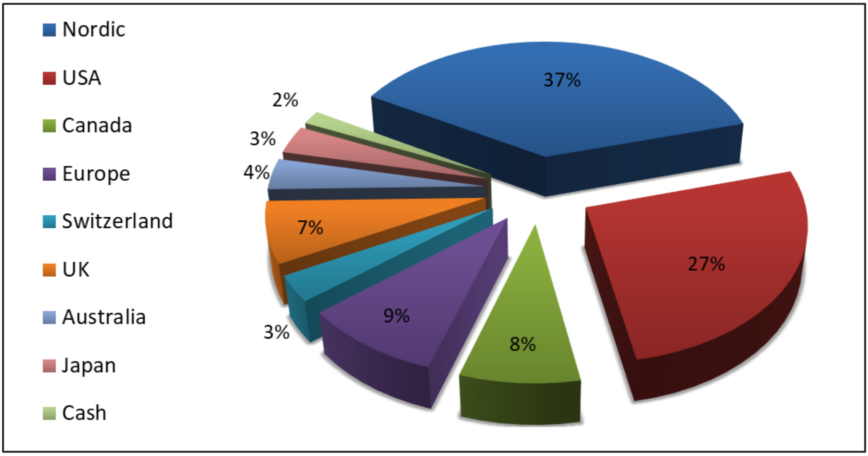
Top 15 Holdings - 31 Dec. 2025	
Chapters Group	6.0%
Addtech AB	5.1%
Lagercrantz Group	5.0%
Lifco AB	4.9%
Diploma	4.8%
Savaria Corp	4.1%
Indutrade	4.1%
Tetra Tech	4.0%
Bergman & Beving	3.9%
Roko	3.9%
Momentum Group	3.8%
Topicus.com	3.6%
Lumine Group	3.5%
Addnode Group	3.5%
Installed Building Prods	3.5%

These purchases were funded thanks to steady inflows from our clients and also from the sales of **Watsco** and **SiteOne Landscape Supply**. We continue to consider both Watsco and SiteOne as excellent businesses, but both are tightly correlated to the US building cycle, exposure that we already get through our ongoing position in **Installed Building Products**, so we felt it was sensible to diversify.

Our underlying portfolio companies grew their earnings on average at over 15% over the year and we fully expect this to be reflected in share prices in due course.

Fred Mahon, *January 2026*

CH Human Capital, Split by Country of Listing – 31 Dec 2025



Source: Church House

Calendar Year Performance:

2025	2024 part
+1.8%	-1.3%

Source: Church House – Bid price to bid price, accumulation units

Church House Tenax Multi-Asset Strategy

	31 Dec 2025	30 Sep 2025	Quarter	2025
CH Tenax Multi-Asset*	190.1	184.4	+3.1%	+11%
Cash Return (SONIA)**	118.1	117.0	+0.9%	+4%

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

As markets ended the year on a positive note it was pleasing to see Tenax rounding off a strong year with a good final quarter. The asset allocation shifted slightly in the final quarter as we took advantage of positive equity markets and a further rate cut by the Bank of England in December:

CH Tenax Portfolio - Allocation to Asset Classes – 2025

2025	31-Dec-24	31-Mar-25	30-Jun-25	30-Sep-25	31-Dec-25	Year
Cash	0.5%	0.1%	1.2%	1.0%	5.2%	4.7%
Gilt / AAA Fixed	1.2%	1.3%	1.3%	1.3%	1.2%	0.0%
FRN (AAA)	11.5%	11.6%	11.8%	11.6%	8.6%	-2.9%
Floating Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fixed Interest	55.5%	54.4%	53.9%	53.5%	54.9%	-0.6%
Index-Linked	0.8%	0.8%	0.8%	0.8%	0.8%	0.1%
Infrastructure	5.7%	5.2%	3.7%	3.5%	3.5%	-2.2%
Convert / ZDP	4.4%	4.8%	3.6%	3.6%	3.5%	-0.9%
Alternative / Hedge	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Property / Real	4.5%	4.6%	5.6%	5.0%	5.1%	0.6%
Equity	15.9%	17.2%	18.1%	19.8%	17.1%	1.2%

Source: Church House

We took some profits in our financial holdings late in December. **Barclays**, **Standard Chartered** and **Aviva** have done well over the course of the year and we have trimmed these holdings on a couple of occasions. While we remain positive on the outlook for all three, we always keep an eye on the volatility of the portfolio and do not want to get too over-exposed to a particular sector.

The property holdings of **Land Securities** and **Primary Health Properties** had a good final quarter also. The reduction in interest rates will have helped, so too the relief that on the surface the Budget was not as bad as the Government had led us to believe it would be.

In renewable infrastructure, **Gresham House Energy Storage** continues to recover and has resumed paying a dividend. While a dividend cut is never welcome, we feel that management's strategy to invest in capacity has proven to be the right one, but we will keep a watchful eye on execution.

Unfortunately, **SDCL Energy Efficiency Income Trust** disappointed the market with a lack of progress on their attempts to sell assets, though they are in negotiations over a 'significant disposal' that should go some way to allay the market's concerns.

In fixed interest, credit spreads rallied thanks to the December cut by the Bank, as well as the relief over the Budget. Inflation also eased from its summer highs of 3.8% and credit spreads are now at their tightest level since the onset of the Global Financial Crisis. While Gilt yields at the short-end dropped a little, they remain fairly anchored at the long-dated end. We have reduced our Floating Rate Note exposure a little, thus increasing duration without having to invest further along the curve.

Tenax Portfolio – Duration* and Redemption Yield** (Fixed Interest holdings)

2025	31-Dec-24	31-Mar-25	30-Jun-25	30-Sep-25	31-Dec-25
Overall Duration*	2.9	2.8	2.7	2.7	2.8
Redemption Yield	5.7%	5.7%	5.7%	5.3%	5.1%
Fixed Interest Duration*	3.4	3.3	3.3	3.2	3.2
Portfolio Running Yield	4.4%	4.3%	4.2%	4.1%	4.0%

Source: Church House

This reflects our focus on maximising returns while keeping volatility low. As you can see in the table above, duration has moved out marginally to 2.8, while the overall redemption yield moved slightly lower to 5.1%.
***Cranley Macfarlane**, January 2026*

Calendar Year Performance:

2025	2024	2023	2022	2021	2020
+11.4%	+5.2%	+6.2%	-7.5%	1.4%	3.8%

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

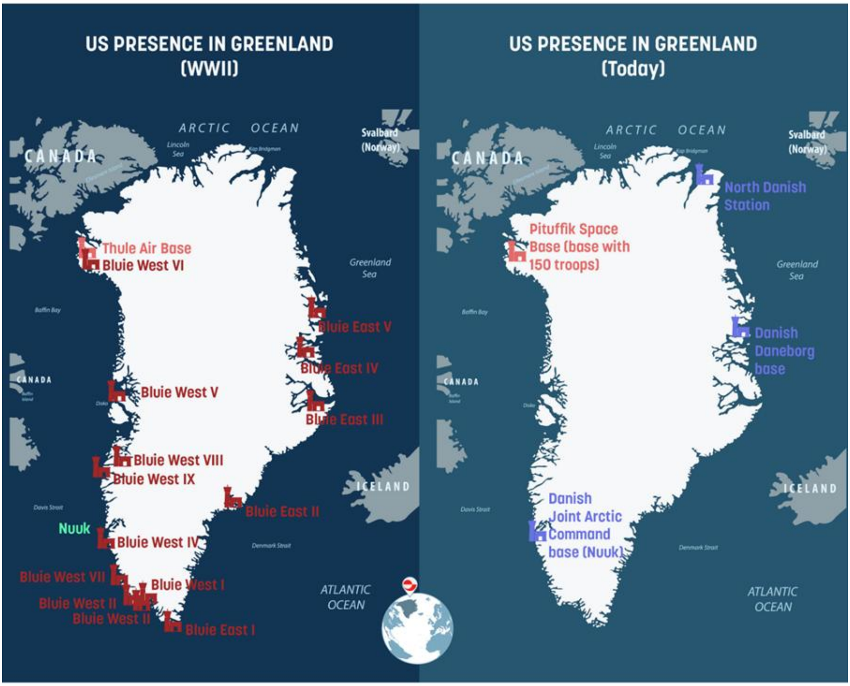
**Duration represents the number of 'periods' that it will take to repay an initial investment in a fixed interest security. It is not the same as the life of the bond or time to maturity, which will be longer. It can also be viewed as a measure of the sensitivity of the price of a bond to a change in 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

This time last year we wrote about President Trump's motivations for annexing Greenland, focusing on two main factors: natural resources and geography. Whilst these factors remain relevant, the tone of the President's renewed interest has prompted questions about his underlying intentions.

Greenland, Then and Now...



© *Miriam Sáenz de Tejada. MDPI.*

The strategic importance of Greenland is not new. Throughout the Cold War, the US had a strong military presence across the island which has diminished significantly ever since. If defence is Trump's primary objective, then expanding or reopening existing bases would be far more straightforward, and it seems as though the Danes would be perfectly agreeable to this. Is Trump instead taking the opportunity to bare his teeth at Europe and expose their reliance on American defence? And if so, is that any way to treat his allies? ***Rose Taylor***, *January 2026*.