Quarterly Review

Summer 2026

Issue No. 105

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

Church House Investment Management

Quarterly Review

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

Issue no. 105 - Summer 2026

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The United States of America at 250

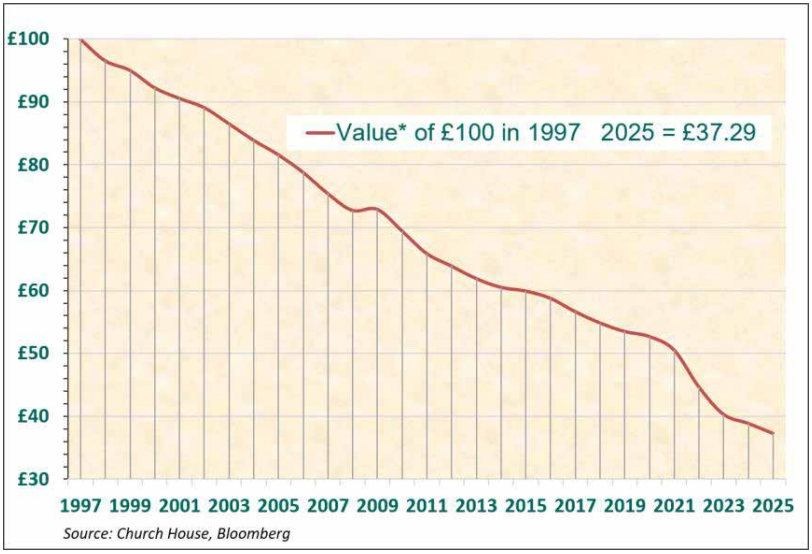
I shan't add to the reams of commentary discussing the 250th anniversary of the US Declaration of Independence, save for an observation on two of the recent slew of Supreme Court Rulings. *Trump v Slaughter* ruled that presidents may fire the heads of independent agencies at will (Rebecca Slaughter was a democrat on the Federal Trade Commission). The decision was hailed by Mr Trump as "the greatest increase in Presidential power in the last 100 years". But in *Trump v Cook* the Court ruled that the President could not fire Lisa Cook, a Federal Reserve Governor, stating that the Fed occupies a unique structure and historical position. As Justice Amy Coney Barrett noted in a dissenting opinion, this was "in serious tension" with the earlier decision.

Inflation

Americans are nervous about a resurgence of inflation and wary of the attitude of the new, Trump appointed, Chairman of the Federal Reserve, Kevin Warsh. He seems to be a follower of former Governor Alan Greenspan, who, sadly, died in June. Greenspan, correctly, asserted that the adoption of new technology in the 1990s was deflationary (it all went awry later, but this is not the place). I'm not sure that AI will necessarily be deflationary, so far, the price of chips has leapt, which, presumably, will also be reflected in consumer electronics soon.

Inflation is the real enemy of savings. I gave a talk on the topic recently, which led me to bring this old chart up to date. It's not the rising price of goods that's the problem; it's the sinking value of the currency. The Bank of England was put in charge in 1997; this shows the purchasing power of your money since:

UK Inflation – Retail Price Index – 1997 - 2025



*Source: Church House, Bloomberg *Value = spending power ...*

THE ECONOMIC & MARKET BACKGROUND

A quarter that had started in a slough of despond with war in the Middle East and the price of oil marching ever higher, managed to transform into one of the brightest for stock markets in quite some time. It is hard to see what, if anything, has been achieved by President Trump's (and Benjamin Netanyahu's) assault on Iran, perhaps time can reveal some benefits. At least, it appears to be over for now (though so much remains unsettled) and the price of oil has returned to earth.

To do ourselves justice, we did suggest that markets had probably seen the worst by the end of March (though we did hedge our commentary a bit...). Market gains for the quarter, most notably in America, have been impressive, though we must remember that the first quarter was negative. Of course, it is also cheering to see that all of our equity portfolio funds saw good returns.

Of concern is the jump in stock volatility and the market's dependence on an ever-narrower range of high-flying stocks. Most extraordinary is that the group of companies that manufacture computer chips, an area long seen as highly cyclical, now account for almost one fifth of the value of world stock markets.

For a number of years, the value of companies coming to stock markets - initial public offerings (IPOs) - has been in decline, while private markets have taken up the running. But now we have been treated to the biggest ever IPO in the form of Elon Musk's **SpaceX** (actually a bit of an agglomeration of his companies) to be followed by, equally massive, **Anthropic** and **OpenAI** shortly. I applaud these companies coming to public markets but have an uncomfortable feeling that this might be a convenient exit for those on the inside.

Back home we have had our own little local difficulty, carelessly losing another Prime Minister (and presumably Chancellor of the Exchequer shortly). We wait to see what an Andy Burnham Premiership might bring (though it is encouraging to see Jim O'Neil and Andy Haldane as advisers). 'Economic growth' is the mantra, and it would indeed make a big difference, but it is hard to see much really being achieved without tackling excessive Government spending.

Economies generally have, once again, proved to be resilient in the face of shocks, e.g. COVID, Russia's invasion of Ukraine, war with Iran and the closure of the Straits of Hormuz, despite the dire predictions on each occasion. I remain optimistic for investment despite a rather split market outlook. Some areas do look overblown and ripe for correction but much of the rest is attractively priced and presents us with good opportunities.

***James Mahon**, July 2026*

Interest Rates and Credit

Geopolitics continue to dominate as US/Iran ceasefires are implemented and then broken. After trading to headlines initially, credit markets have latterly largely ignored developments and are trading well as liquidity remains ample.

We have seen plenty of Central Bank focus. Jerome Powell stepped down as Chairman of the Federal Reserve with all the grace he has managed to maintain in the face of some withering personal attacks, and he stays as a voting Governor on the FOMC. The economic situation 'sock-puppet' Kevin Warsh has inherited is not one he would have chosen if he is to fulfil his master's desire to slash rates. A strong economy with rising inflation does not facilitate that.

Chairman Warsh's first FOMC meeting was perceived to be more hawkish than expected as he emphasized the inflation-fighting credibility of the Fed. He views current monetary policy as restrictive on housing but not inflation. He emphasized his ambition to reform the Fed and initially this consists of setting up several 'task forces', reviewing balance sheet policy and doing away with forward guidance. The 'dot plot' looks to be doomed and without any kind of indication from the Central Bank we can look forward to markets misreading future moves and the potential for more volatility.

The percentage of short-term T-Bills as a share of gross US Treasury issuance now stands at 85%, a two-decade high. This means that Fed policy has an amplified effect on funding costs as they control the front end of the curve. A hike by the Fed is priced in for the second half of 2026 helped by a blowout payrolls gain. US Treasuries have mostly seen rising yields and 'bear steepening', where long dated yields rise faster than shorter yields. With the ten-year Treasury yield through 4.5% and the Long Bond well over 5%, the costs of servicing the US debt mountain are rising.

Japan is suffering a high inflation environment like everyone else and the BoJ recently hiked rates to a thirty-one-year high (still only 1%), which has implications for the 'carry trade' (where investors borrow cheaply in Japan to invest in US assets) and therefore US Treasury demand.

The European Central Bank delivered a precautionary hike of 25bp. Valdis Dombrovskis, the EU's economy chief, reiterated that the ECB must act to counter the effects of inflationary pressures pushing up prices as a result of the war. He and fellow ministers can't make the independent ECB do their bidding, but it doesn't stop them applying pressure. President Lagarde said that while this 'inflation shock' warranted a hike, second round effects have not yet materialised, so the ECB remains in active wait and see mode. Maybe it will be one and done for the moment if inflation expectations remain anchored.

Inflation worries and political uncertainty helped long-dated Gilt yields to return briefly to 1998 levels in May and they have bounced around at elevated levels since. The Gilt yield curve has moved as a whole and while it is pointed out at every opportunity that we have the highest rates in the G7, we have actually moved pretty much in line with others. Weak jobs data and wage growth ensure that the Bank remains in a bind, and they will be unwilling to hike rates. They stayed put at a recent meeting and although UK money markets have moved away from the extremes first seen when the war started, they still move between discounting one or two hikes. UK inflation was lower than expectations at 2.8% in May.

Political risk reasserted itself with PM Starmer setting out a September timetable for his departure after Andy Burnham's sweeping by-election victory caused his Cabinet support to evaporate. Despite his recent protestations, we have a potential future PM who does not respect bond markets and Gilts have seen some extra volatility which may continue. National debt will soon pass £3tn. Sterling credit spreads remain well supported by demand and they have returned to levels last seen before the war.

UK Rates: The Bank's Base Rate and Sonia* then Gilt Yields out to 50 Years

Short-Term	Base Rate	SONIA*	2 years	5 years
Interest Rate	3.75%	3.7%	4.2%	4.3%
Longer-Term	10 years	20 years	30 years	50 years
Interest Rate	4.8%	5.4%	5.5%	5.1%

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

Primary markets continue to run at high capacity. Forecast 'hyperscaler' (**Google**, **Microsoft** et al) investment has increased to $750bn in 2026, with a significant chunk coming from capital markets and there is the possibility of indigestion at some point. However, not so far, with strong books for every new issue and precious little New Issue Premium. Hyperscaler issuance dominates and they will access any currency that will have them. **Amazon** established a Canadian dollar C$14bn curve in a five-tranche deal in 'maple' bonds. Free cashflow and share buybacks have turned into debt and equity issuance, and the race continues. **Nvidia**, provider of chips to the hyperscalers and previously the least indebted of the Mag7, issued $25bn in seven tranches that were four times subscribed… to fund share buybacks. These issues have seen strong demand but are all trading poorly in the secondary market.

SpaceX followed its IPO with a $25bn bond issue, which immediately began trading at the weakest levels credit markets have seen for years. **Oracle**, who have completely turned their balance sheet multiples upside down, have just been downgraded to BBB- i.e. on the cusp of junk status.

Jeremy Wharton, *July 2026*

SCREAM IF YOU WANT TO GO FASTER

The AI arms race

At times, the AI arms race seems like the waltzer at a fairground. As the ride spins faster and faster, everyone is screaming, some through fear, some through excitement but no one can get off.

The amount of money that has been committed by companies as they seek to be the winners in AI is astonishing. **Alphabet** (Google), **Microsoft**, **Amazon** and **Meta** (Facebook) are planning to spend $725bn on AI infrastructure in 2026, up +77% from 2025 and triple what was spent in 2024. This is before the investments they have made into AI companies directly.

But it is not the sheer volume of cash being spent, rather the circular structure of the financing that is worrying. The web of deals gets pretty complex and includes the incumbent 'hyperscalers' mentioned above, the AI 'start-ups' that are now among the largest companies in the world (**OpenAI**, **Anthropic**), and the hardware companies, such as **Nvidia**. TS Lombard have calculated that as much as 85% of the AI ecosystem's revenues comes from this capex recycling.

Such circular deals need not be a problem so long as the companies can continue to meet their commitments. Indeed, some in the AI industry say that this is the only way to finance a technological revolution at the speed with which it is being done. Although they would say that, wouldn't they? Either way, it certainly allows a level of investment that outstrips the more traditional sources of equity and debt markets.

That's not to say they haven't accessed those traditional markets too. **Google** has raised $75bn in equity financing and $30bn in debt in recent months. **Oracle** has increased its debt by 50% to $156bn. And into this environment we have possibly the three largest IPOs ever taking place in a matter of months: SpaceX, Anthropic and OpenAI.

Source: SpaceX

To infinity and beyond?

SpaceX floated 5% of its shares a few weeks ago raising $86bn and leaving Elon Musk in control of 85% of the company, valued at $1.8tn. At that point the shares were trading at more than 100 times last year's sales. While space is infinite and SpaceX has significant first mover advantage in both its launch and satellite capabilities, that remains a punchy valuation.

Will Elon Musk one day repeat what Scott McNealy, CEO of Sun Microsystems*, said in the wake of the dotcom crash to those investors who had purchased shares in his company at their peak?

> *"At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate…Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. What were you thinking?"*

Of course, it is true that in the technology sector valuations are much higher than other sectors of the stock market, justified by higher margins and impressive growth rates. But the circular nature of the sector's financing reduces the margin of safety. What happens when one company delays their capex because of supply constraints? Most likely we would be looking at a correction rather than a bust. But one need only look back at the sub-prime crisis in 2008, or the collapse of Long-Term Capital Management in the late 1990s, to see that the knock-on effects can be brutal and unforeseen.

At this juncture we are happy to look elsewhere for opportunities to invest in companies on more accommodating valuations but still offering strong growth prospects over the long term. And some of those opportunities may well be in the technology sector once the waltzer ride slows down and the inevitable correction occurs.

***Cranley Macfarlane**, July 2026*

** Sun Microsystems was a tech hardware company that designed and manufactured its own entire computer ecosystem, from chips, to workstations to software. Their shares peaked at a price of $64 in September 2000 (a multiple of 10x sales). The shares bottomed in October 2002 at $3. While the share price was boosted by a 1-for-4 stock split in 2007, the company was acquired by Oracle in 2010 for $9.50 per share – or $2.375 when adjusted for the stock split.*

EQUITY MARKETS

International Indices:	30 Jun 2026	31 Mar 2026	Quarter*
US - S&P 500	7499	6529	+14.9%
US - NASDAQ	26214	21591	+21.4%
UK – FTSE All-Share	5635	5431	+3.8%
Germany - DAX	24996	22680	+10.2%
France - CAC 40	8404	7817	+7.5%
Switzerland - SMI	14194	12777	+11.1%
Japan - TOPIX	3995	3498	+14.2%
Brazil - Bovespa	172024	187462	-8.2%
China – Shanghai Comp.	4094	3892	+5.2%
Hong Kong – Hang Seng	22881	24788	-7.7%
Australia – ASX 200	8779	8482	+3.5%

*Source: Bloomberg. *Change in local currency*

After all the geopolitical hostility and market volatility of early-2026, US stocks wasted little time dwelling on the details of peace talks in the Middle East, roaring back to record highs through April and May. It was very much a 'risk on' quarter as the majority of assets saw positive returns, except for oil and gold, where prices retreated after spiking during the worst of the fighting in Iran.

Progress in artificial intelligence (AI) was not *the only game in town,* but it was close to that when it came to stock markets. Over the second quarter, the semiconductor sub-sector almost DOUBLED in market value on the back of current and expected astronomical demand for their products to fuel growth in AI and this sector now accounts for a fifth of world indices.

While the likes of **Nvidia**, **Broadcom** and **Taiwan Semiconductor** did perform positively in the period, it was DRAM (dynamic random-access memory) chip makers that really rocketed – **Micron Technology** (+241% in three months), **Samsung** (+100%), **SK Hynix** (+228%). Samsung and SK Hynix now make up 67% of the Korean stock index – these are extraordinary times.

Speaking of the extraordinary and rockets, **SpaceX**'s long-awaited initial public offering (IPO) went without a hitch, as demand for Elon Musk's business was huge. The IPO prospectus was light on financial detail and heavy on hype – not a fact that seemed to trouble the hordes of retail speculators that applied for shares. Musk has since issued $60bn of equity to acquire Cursor and tapped bond markets for a further $25bn, reminding us all that this man will not let shareholder dilution get in the way of his capital needs.

Outside of the Tech sector, it was a patchier quarter for equities. As would be expected in a falling oil price environment, majors **Shell**, **ExxonMobil** and **BP** all gave up the gains seen in February and March.

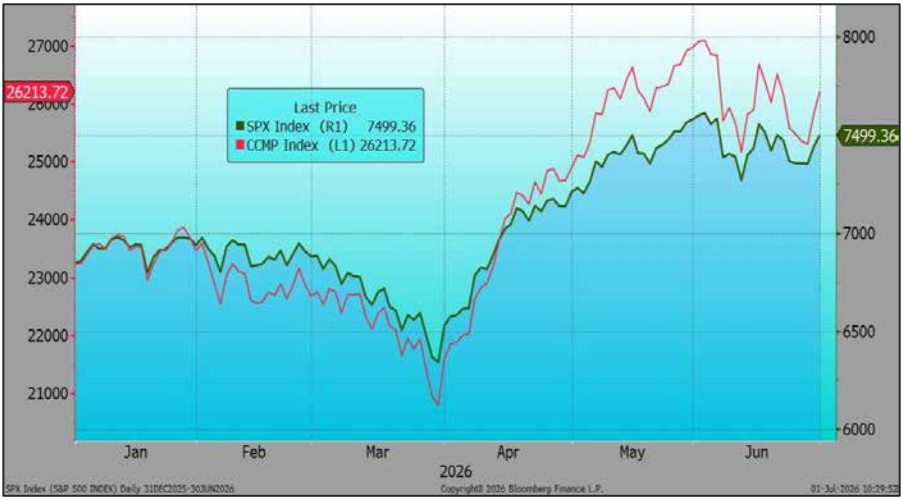
In the Consumer sector, US giants **Walmart** and **Costco Wholesale** have both seen shares moderate from all-time highs, while there has been a tentative pickup in shares for the likes of **Diageo**, **Unilever** and **Procter & Gamble**. These branded consumer goods businesses have yet to prove to investors that they can deliver sustained volume growth and with the inflationary pressures caused by war in the Middle East, this will be a struggle.

Interestingly, we have seen a splintering of performance in the Defence sector – **RTX** remains a popular bellwether thanks to its Raytheon radar/missile systems, however the likes of **BAE Systems, Lockheed Martin** and **Rheinmetall** have all slipped back, concerned that their hardware focus (ships, planes and tanks) will be less prevalent in wars of the future.

As we enter the second half of 2026, markets are riding high. There is an expectation that the Federal Reserve, under new Chair, Kevin Warsh, could raise rates a maximum of once (possibly not at all) before Christmas. So long as inflation does not rear its ugly head, this should remain a constructive backdrop for risk assets, but there is little margin for error – caveat emptor.

***Fred Mahon**, July 2026*

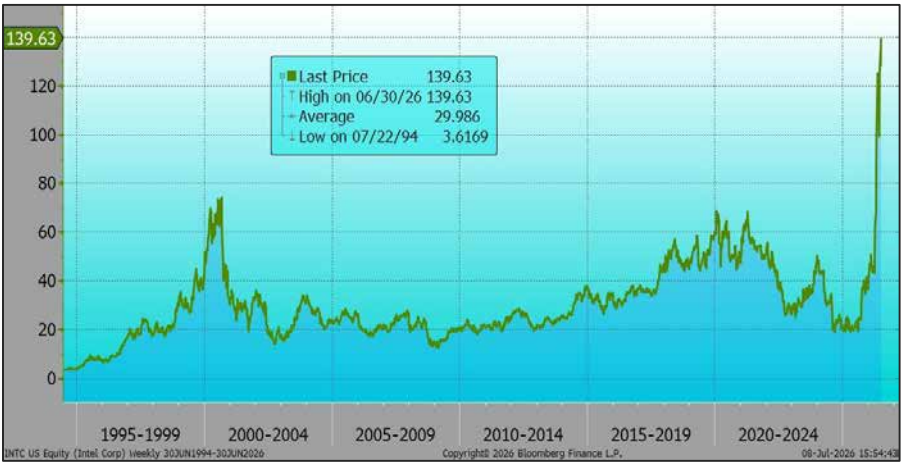
S&P 500 (green) and **NASDAQ Composite** (red) **– 2026**



Source: Bloomberg

A couple of charts from the Deutsche Bank Research Institute in a recent pack entitled "Charts to make you go WOW!!!". There are too many to choose from, but I enjoyed these two. First, **Intel**, in 1994 their stock was trading at $4, the tech stock boom of the late 1990s saw the price reached $74, a gain of 1720%. The bursting of the bubble took it back to around $20, where it still was twenty-five years later. Now look what has happened, I hope it fares better this time.

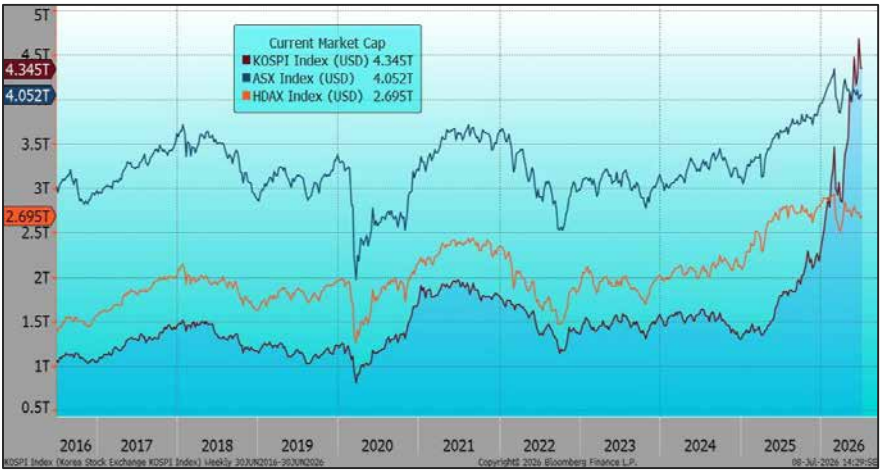
Intel – June 1994 to June 2026



Source: Bloomberg

Meanwhile in Korea, **Samsung Electronics** and **SK Hynix**, two of the global memory companies have rocketed up and now account for more than 50% of their market. So, the value of the S Korean market is above the UK, Germany, (France, Switzerland…)

The Market Capitalisation of the S Korean Stock Market v. UK and Germany

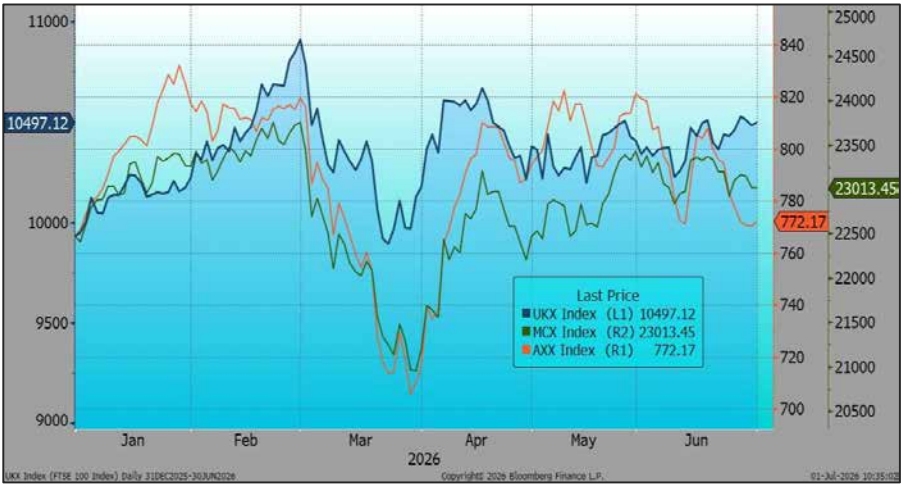


Source: Bloomberg

The UK Indices:	30 Jun 2026	31 Mar 2026	Quarter
FTSE All-Share	5635	5431	+3.8%
FTSE 100	10497	10176	+3.2%
FTSE 250	23013	21204	+8.5%
FTSE Small Cap	7920	7214	+9.8%
FTSE AIM All-Share	772	717	+7.7%

Source: Bloomberg

FTSE 100 (dark blue), **FTSE 250** (green) and **AIM Indices –2026**



Source: Bloomberg, FTSE International

UK Fundamental Valuation Indicators

Earnings for the year ahead are showing marked improvement, the 'unchanged' estimate for dividends looks too low if those earnings are correct:

FTSE All-Share Estimates*	30 Jun 2026	31 Mar 2026	31 Dec 2025
Earnings (per Share)	467	420	425
Price / Earnings Ratio	12.1X	12.9X	12.6X
Earnings Yield	8.3%	7.7%	7.9%
Dividends (per Share)	195	195	200
Dividend Yield	3.5%	3.5%	3.7%
Dividend Cover**	2.4X	2.1X	2.1X

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

Church House Investment Grade Fixed Interest

	30 Jun 2026	31 Mar 2026	Quarter
CH Investment Grade* - Inc.	107.8	106.3	+1.4%
iBoxx AA Corporate 5-15 year	76.7	75.1	+2.1%
CH Investment Grade - Accum.	203.5	198.5	+2.5%
iBoxx £ ABS 5-10 year TR**	380.8	365.0	+4.3%

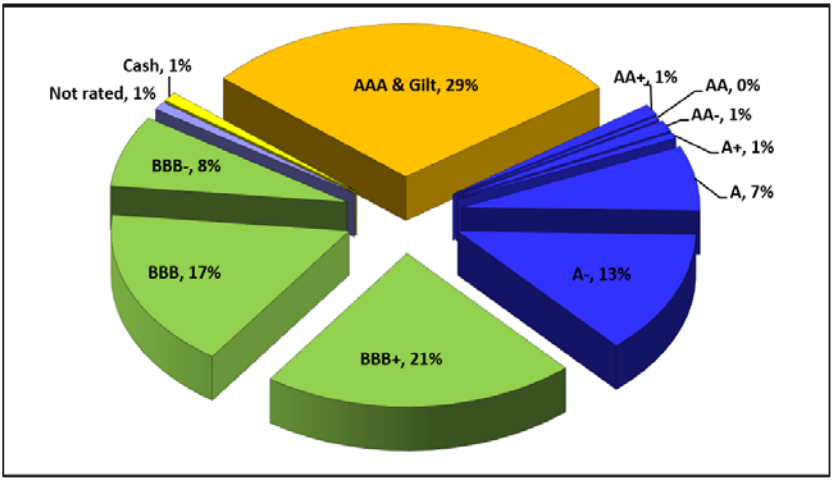
*Source: Bloomberg *bid price to bid price, excluding income. **Total Return Index.*

The table below shows the overall stance of the Fixed Interest portfolio, with a marginal shift to short-dated holdings. Much of this comes from a further increase in the proportion invested in floating rate notes, now up to 18% of the portfolio, which all have the top triple-A credit rating.

CH Investment Grade Fixed Interest	Jun 2026	Mar 2026
Short-dated Securities (less than 7 years)	71%	70%
Medium-dated Securities (7 to 15 years)	23%	23%
Long-dated Securities*** (over 15 years)	6%	7%
Duration of Portfolio**	3.4	3.4
Volatility* (past year)	3.5%	3.3%
Number of Holdings	124	128
Yield (historic)	4.6%	4.7%
Portfolio Value	£417m	£425m

**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 – 30 Jun 2026



Source: Church House

Top 15 Holdings - 30 June 2026	
KFW 4.000% 07/2031	2.1%
Standard Chartered LTII 5.125% 06/2034	1.9%
Barclays PLC 5.851% 03/2035	1.7%
Rio Tinto 4.000% 12/2029	1.6%
Bank of Nova Scotia Covered (SONIA)	1.6%
Lloyds 4.165% 09/2028	1.6%
Royal Bank of Canada 4.325% 03/2027	1.6%
Goldman Sachs Group Inc 7.250% 04/2028	1.5%
BP Pnc5 6.000% 11/2029	1.5%
IFC 4.500% 10/2028	1.4%
Whitbread Green 3.000% 05/2031	1.3%
EIB 4.000% 02/2029	1.3%
Segro 2.875% 10/2037	1.3%
Verizon Communications Hybrid 5.743%	1.3%
John Deere 5.125% 10/2028	1.3%

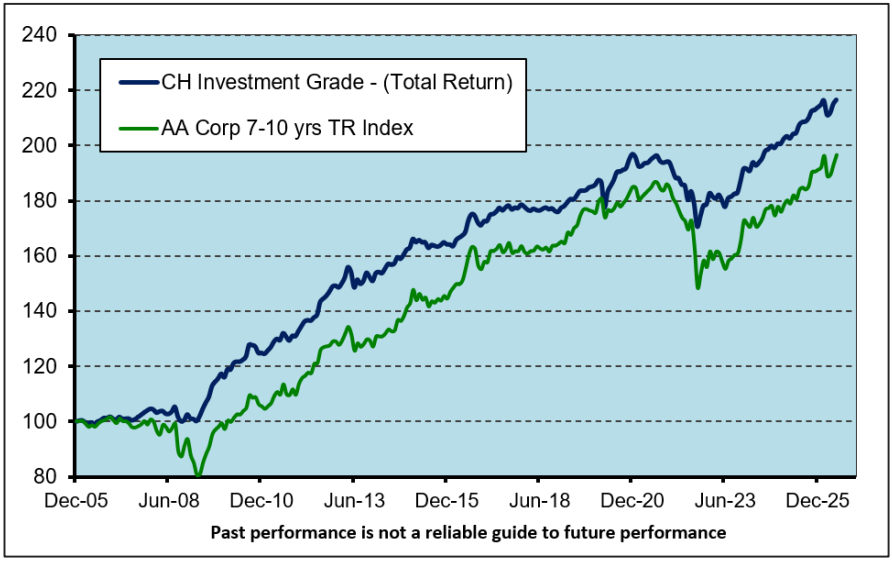
The list of top holdings in the fixed interest portfolio is really very little changed from the end of March. The only changes of any significance are: **Scottish & Southern Energy** 3.74% Hybrid bond being repaid early, so that drops out, while we have added further to the holding in a **Verizon Communications** Hybrid bond, expiring in 2056 but, like the SSE bond above, can be 'called' (repaid) earlier by the company

Calendar Year Performance:

YTD	2025	2024	2023	2022	2021
+1.3%	+6.6%	+4.7%	+7.4%	-7.9%	-1.5%

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

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



Source: Bloomberg, Church House

CHURCH HOUSE UK EQUITY GROWTH

	30 Jun 2026	31 Mar 2026	Quarter
CH UK Equity Growth*	221.5	197.3	+12.3%
FTSE All-Share Index	5635	5431	+3.8%
FTSE 250 Index	23013	21204	+8.5%

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

The UK Equity Growth portfolio has had a busy spring, utilising the market volatility to continue some repositioning. With the to-ing and fro-ing of a peace deal in the Gulf and the continued upheaval across the software and hardware tech sectors, we made a number of changes. There continues to be a wide dispersion of returns across sectors and individual companies. The portfolio's emphasis on high-quality businesses with durable competitive advantages proved beneficial during the quarter, with Information Technology and Financials the principal drivers of performance.

Arm Holdings was the leading performer for us, their stock tripled over the first six months of the year, and we took significant profits in June, though it remains a key holding. The chip designer has continued to benefit from the AI boom driven by **Nvidia** and others, as ARM's mobile-led chips become key components in a world of AI on-the-go. We trimmed our positions in **Diploma** and **Halma** again, which have both had exceptional runs, but we were keen to diversify further. In place we added to **BAE Systems**, which came off despite the continuing conflict, offering a good entry level for a business that will be at the forefront of British and European defence spending.

In staples we added further to **Tesco** and opened new positions in **Marks & Spencer** and **Reckitt Benckiser**. To fund these, we reduced our holding in **Unilever** and aim to complete a full switch shortly. We were not impressed with Unilever's reasoning for the sale of their food business to **McCormick & Co.**, and do not want shares in the US listed business on completion. So, **Magnum Ice Cream Company** is gone, and the remainder of the food business is on the way out, leaving us to wonder about the rest of the business. In its place we welcome back Reckitts, which we last held in 2020, and a new position in M&S, who have continued to improve across clothing and food.

In healthcare, we added further to the new holdings in **Genus** and initiated a new holding in **Smith & Nephew** (also a 'returner', which we last held in 2022) diversifying a shade from our principal holdings in **AstraZeneca** and **Roche**. Whilst several long-term holdings notably **RELX**, **Experian**, **Microsoft** and **London Stock Exchange Group**, suffered over the period, we think these businesses possess attractive competitive positions and substantial long-term growth opportunities. Another new holding is **Segro**, the Real Estate Investment Trust that primarily operates across ecommerce, logistics and data infrastructure (big warehouses). The stock jumped at the end of the quarter after an unsolicited bid from US property developer **Prologis,** at NAV, which has been rebuffed by the board.

Top 15 Holdings - 30 June 2026	
Diploma	8.0%
Halma	6.6%
RELX	5.3%
AstraZeneca	4.5%
Intercontinental Hotels	4.1%
Investor AB	4.1%
London Stock Exchange	3.2%
Sunbelt Rentals	3.2%
Spirax Group	3.1%
Barclays	3.0%
Coca-Cola Europe	2.8%
Alphabet	2.8%
ARM Holdings	2.6%
Compass Group	2.6%
Croda International	2.5%

Finally, in financials, we added to **Barclays** again and trimmed our position in **Beazley** (bound for **Zurich Insurance**). We repositioned some of our Beazley gains into **Hiscox**. Subsequently, there were rumours of a takeover of Hiscox but nothing materialised so we sold the position as its valuation had reached the same level as Beazley's upon its takeover. We will revisit this investment if it settles back again. As we enter the second half of 2026, the portfolio remains focused on businesses with strong cash generation, robust balance sheets and sustainable competitive advantages. We think it is well positioned to continue generating attractive long-term returns.

***Rory Campbell-Lamerton**, July 2026*

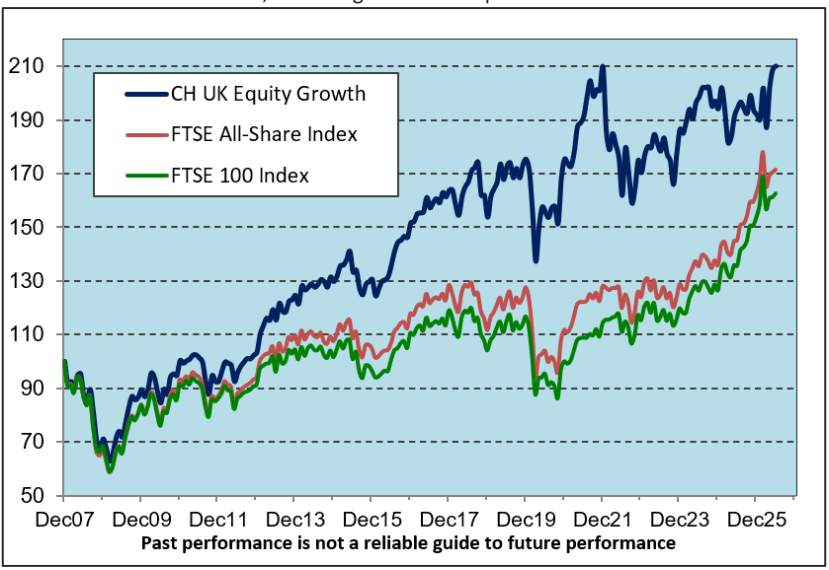
Calendar Year Performance:

YTD	2025	2024	2023	2022	2021
+9.4%	-1.0%	+4.4%	+10.0%	-18.6%	19.7%

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

CH UK Equity Growth vs FTSE Equity Indices

Bid Prices, excluding income – Capital Performance



Source: Church House, Bloomberg

CHURCH HOUSE BALANCED EQUITY INCOME

	30 Jun 2026	31 Mar 2026	Quarter
CH Balanced Equity Income*	203.0	193.9	+4.7%
FTSE Higher Yield Index	4955	4869	+1.8%

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

It was a pleasing quarter for the portfolio, which rebounded strongly after a difficult prior period driven by fears of a sustained energy price shock. Brent crude fell 20.8% in June, retracing to levels last seen before the Iran-US conflict. Combined with on-going 'peace talks', this eased cost-push inflation concerns and shifted market expectations away from further Base Rate rises towards a hold. As mentioned before, the portfolio carries meaningful exposure to cyclical and interest rate-sensitive stocks, which provided a clear tailwind over the period. So, Financials were the standout, with **Barclays**, **Lloyds**, **Standard Life** and **IG Group** all returning more than 20%. IG Group has been a particular highlight this year: organic revenue grew 21% year-on-year and active monthly customers rose 202%, as the business continues to benefit from market volatility and an expanding product range.

Within energy, **Harbour Energy** traded poorly as its share price tracked the oil price lower, with the market largely overlooking solid underlying performance. They reported increased production and guided to an additional $0.8bn of free cash flow, prompting us to add to our position. **DCC**, the energy sales, marketing and distribution group, delivered solid results and a positive update on the streamlining of its operations. We first bought DCC in late 2025 at a modest valuation - an opportunity also spotted by private equity firms KKR & Co and Energy Capital Partners, which subsequently bid for the company.

Gresham House Energy Storage, the UK's largest investor in utility-scale battery storage, continues to go from strength to strength despite a challenging regulatory backdrop. At their Capital Markets Seminar, they set out a credible, capital-efficient path to material asset growth: having secured two joint venture partners, its equity capital requirement to complete the remaining portfolio fell from £300m to just £25m, implying a 56% uplift to Net Asset Value.

We took profits and exited **Howdens**, the trade kitchen supplier, on concerns over weaker consumer spending and the rise of competitor **Wren Kitchens**, which has grown from the fifth to the second-largest kitchen retailer in just a few years. The two business models differ, but there is enough overlap to risk some erosion of Howdens' market share. We added to our holding in **GB Group**, a global identity intelligence business providing digital ID verification, fraud detection and location data solutions to clients across financial services, gaming, payments and the public sector. The company reported over one hundred new customer wins and a return to growth in its US business.

Top 15 Holdings - 30 June 2026	
AstraZeneca	5.6%
Barclays	5.0%
GSK	4.5%
Lloyds Banking	3.9%
Aviva	3.7%
BAE Systems	3.6%
Rio Tinto	3.6%
National Grid	3.5%
IG Group	3.3%
DCC	3.1%
RELX	3.0%
Standard Life	2.9%
Unilever	2.8%
Halma	2.5%
Cranswick	2.3%

Defence spending remained a hot topic, with the long-awaited defence investment plan ultimately prompting John Healey, the Secretary of State for Defence, to tender his resignation. The sector has seen a rotation away from large, established, technology-led defence companies towards niche, mission-critical players. Accordingly, we have trimmed our holding in **BAE Systems** and added a new holding in **Chemring Group**, a long-established business whose roots trace back to producing signal flares in the First World War. It now makes countermeasures, energetics, sensors and, more recently, counter-drone systems for both civil and military markets.

***Craig Elsworth**, July 2026*

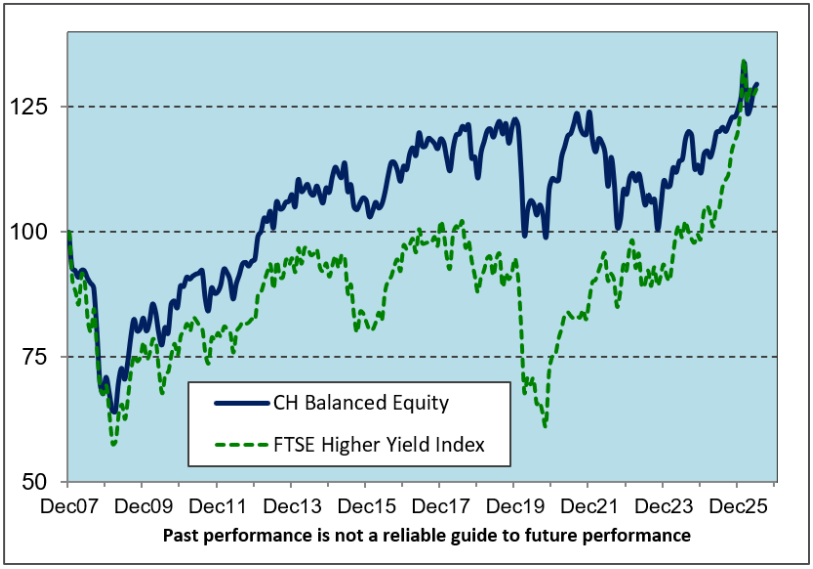
Calendar Year Performance:

YTD	2025	2024	2023	2022	2021
+5.4%	+15.0%	+4.7%	+6.4%	-10.6%	14.9%

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



Source: Church House

CHURCH HOUSE UK SMALLER COMPANIES

	30 Jun 2026	31 Mar 2026	Quarter
CH UK Smaller Companies*	149.7	132.7	+12.8%
FTSE All-Share Index TR	13182	12592	+4.7%
FTSE AIM All-Share TR	969	895	+8.3%

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

Our UK Smaller Companies portfolio had a good quarter and has been active, with three companies exiting and three new holdings added. Leading the way again was **Raspberry Pi**, which gained 174% over the first half of the year. The 'at-home' chip maker continued to benefit from the rise of personalised agentic AI and sales continued at pace. We trimmed the holding over the quarter, most recently at £10 (it started the year at £3). Also in tech, **Softcat** continues to perform well and had a strong quarter with results in May that reaffirmed the broad-based demand for enterprise software and AI, with large project wins, resulting in an upgrade to guidance.

However, it wasn't all gung-ho in UK small-cap tech. We sold **DotDigital** after continued underperformance alongside other peers in the software sector. The area is ripe for AI disruption and the SaaS and email marketing consultancy continued to feel downward pressure, so we exited to deploy funds elsewhere. **GB Group** returns to the portfolio (we last held in 2021) we reinitiated in June after a profit warning which 'kitchen-sinked' a hefty one-off loss, impacting near-term margins. This will unlock higher growth and margin expansion and was an excellent opportunity for us to buy back in. The firm specialises in identity verification, fraud prevention and location intelligence, preventing digital crime while onboarding customers.

Another of the new holdings for the portfolio is **James Fisher & Sons**, a company we have been long acquainted with and have met several times over the past six months. The British marine engineering (decommissioning and maintenance of energy infrastructure) and defence (submarine rescue systems and special services stealth insertion vessels) firm have had a tough few years. But after meeting management and their capital markets day, we initiated on a good valuation and clear strategy for the business.

In defence we also added to **Chemring Group**, the Hampshire based countermeasures (e.g. flak) specialist, in May. They are the largest supplier to both the MoD and the US Department of Defence. We have also sold **Bellway**, the housebuilder. Despite the mandate and all the rhetoric from the Government, homebuilding hasn't been a success, and Bellway has been stung and languished from this failure of policy implementation.

Top 15 Holdings - 30 June 2026	
Beazley	6.4%
Porvair	5.3%
Diploma	5.3%
Cranswick	4.9%
Polar Capital Holdings	4.3%
Renishaw	3.8%
Softcat	3.7%
Fuller Smith & Turner	3.2%
MHA	3.2%
Young & Co's Brewery	3.1%
Raspberry Pi	3.0%
Judges Scientific	2.9%
Greggs	2.9%
Ashtead Technology	2.8%
Big Yellow Group	2.8%

Lastly, we sold our holding in **Rathbones** after they reported agreeing to a voluntary requirement (VREQ) with the Financial Conduct Authority (FCA) regarding their client 'onboarding' and inflows of their 'high net worth' clients. The FCA-prompted 'skilled person review', noted areas for improvement within their UK wealth management business, specifically regarding compliance oversight and the implementation of Consumer Duty. Having seen these before in our industry, we are aware how time-consuming this can be. We topped-up **Pollen Street Capital** and **OSB Group** with the proceeds.

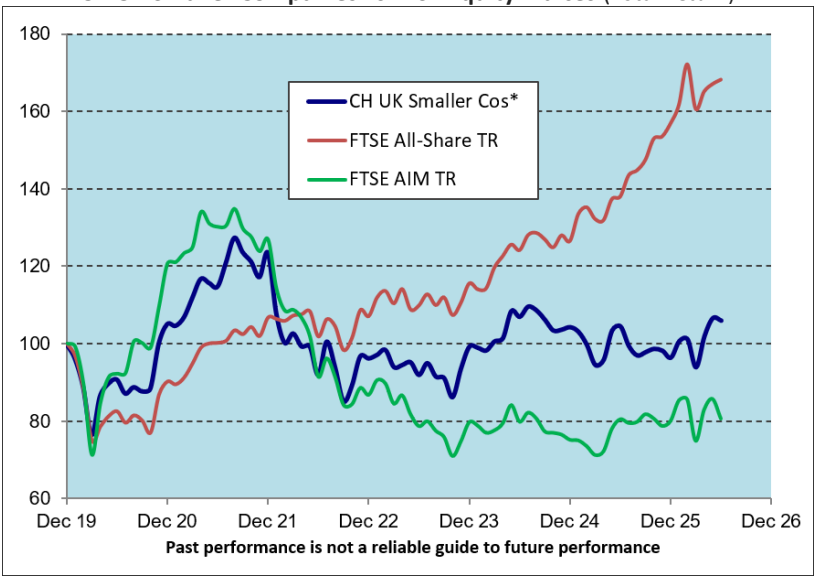
***Rory Campbell-Lamerton**, July 2026*

Calendar Year Performance:

YTD	2025	2024	2023	2022	2021
+9.9%	-7.5%	+5.1%	+3.2%	-22.1%	17.5%

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

	30 Jun 2026	31 Mar 2026	Quarter
CH Esk Global Equity*	528.0	483.2	+9.3%
CH Global Index in £	2127	1856	+14.6%
MSCI World in $	4825	4258	+13.3%
FTSE 100 Index	10497	10176	+3.2%

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

In a quarter where some markets roared ahead, fuelled by gains in the AI value-chain, the Esk international equity portfolio also made a positive return. We lagged the headline market indices due to our more diversified nature, having a wider spread of sector exposures and a lower weighting to semiconductor companies (where most of the AI excitement has been). We applaud these semiconductor companies for their innovation and growth and have exposure through our investments in **Nvidia**, **Broadcom** and **Taiwan Semiconductor**, but are not about to throw caution to the wind when it comes to suitable risk management to chase short-term returns. As regular readers will know, we aim to deliver long-term growth for Esk holders through a diversified portfolio of the highest quality global businesses, in periods of market exuberance we may not capture all the market upside, but in tougher times the benefit of our disciplined risk management has proven prudent.

Top 15 Holdings - 30 June 2026	
Alphabet Inc.	6.1%
Amazon.com	4.3%
Apple	3.9%
Investor AB	3.9%
Microsoft	3.7%
Johnson & Johnson	3.7%
Sumitomo Mitsui	3.6%
Mastercard	3.4%
Euronext	3.1%
Stryker Corp	2.9%
Standard Chartered	2.8%
Morgan Stanley	2.6%
Berkshire Hathaway	2.3%
Coca-Cola	2.3%
LVMH	2.1%

With that in mind, we sought to further diversify our exposure in the quarter, adding three new positions and exiting the same number. **ExxonMobil**, the oil major, returns to the portfolio for the first time since 2019. With the oil price having retreated to what we see as a reasonable level, we see this as an attractive entry point into a business sitting on producing oil fields in the US and Gulf of Mexico that have key strategic global value. **Amphenol** also comes in, the US-listed manufacturer of electrical interconnectors and sensors used in a huge range of applications, from drones to electronic vehicles, to data centres. Finally, we introduced a new holding in **Franco-Nevada Corporation**, who provide funding to precious metal miners in returned for royalty rights. This gives Esk exposure to the gold price, without the asset-intensive risk attached to owning a miner directly.

On the other hand, we sold **Oracle**, which we had held since 2011, generating handsome returns, as they are now overstretching their balance sheet to keep up with their larger rivals in data centre build-out. **Intuit**, held since 2019, goes after disappointing results failed to disprove naysayers who think that AI will replace their software-based business model. Lastly, we sold our small position in **Kraft-Heinz**, which we had bought last year, because we felt shares were undervalued and saw the upcoming break-up of the business as a catalyst for change; management subsequently halted demerger plans and we saw no reason to remain holders.

Aside from the Tech sector, our top performers in 2026 have been our bank holdings, with **Sumitomo Mitsu Financial**, **Standard Chartered** and **Morgan Stanley** all climbing up the list of holdings. These banks are benefitting from higher interest rates on their lending and more trading activity on their investment banking side. We expect rates to remain structurally higher for the foreseeable future and so are happy to maintain these weights – it is a lucrative time to be a bank. Our insurance names **Everest Group, Swiss Re** and **Berkshire Hathaway** remain under pressure from declining premiums and latent overcapacity in some risk markets. We continue to see these three as best in breed and well capitalised for when the cycle does turn – this is not their first rodeo.

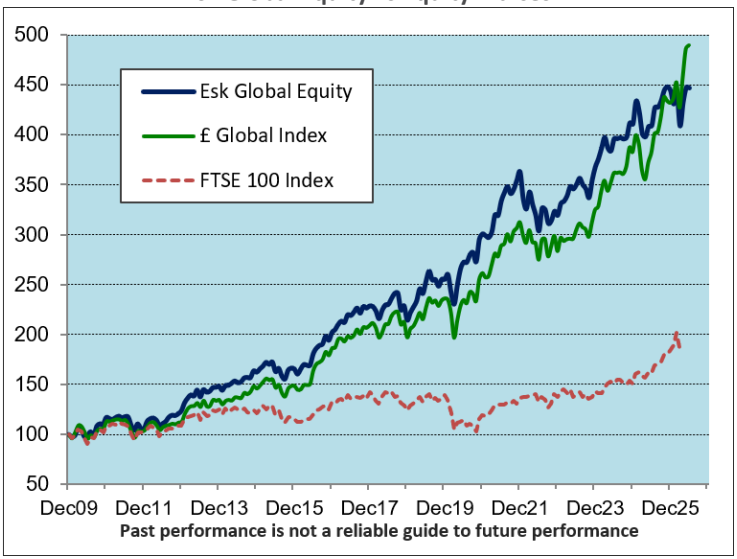
***Fred Mahon**, July 2026*

Calendar Year Performance:

YTD	2025	2024	2023	2022	2021
+0.6%	+8.4%	+12.0%	+15.6%	-11.7%	20.9%

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

	30 Jun 2026	31 Mar 2026	Quarter
CH Human Capital*	97.3	87.4	+11.3%
CH Global Index in £	2127	1856	+14.6%

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

The Human Capital Fund had a positive second quarter, making up most of its losses seen at the start of the year. The Fund has not kept pace with the AI-driven excitement of large-cap indices, but we are pleased to report that the underlying growth of our investee companies has been impressive. In recent weeks their share prices have begun to pick up momentum, beginning to reflect the progress seen across the portfolio in 2026, but still with plenty of upside on offer from here.

As a reminder to readers, with Human Capital we are focusing on mid cap businesses across the globe, offering high compounding growth through three primary themes:

- **Outstanding leadership**
- **Decentralised structures**, empowering action and an entrepreneurial culture
- **Acquisitive businesses**

In a narrow and tech-focused market, such businesses have not been in vogue, but this has not stopped the companies we invest in from making progress and we see excellent value on offer here. Reflecting this, we were buyers throughout the quarter, adding one new name to the portfolio and adding across our core positions.

Of note are our three Japanese holdings, **Hikari Tsushin, Noritsu Koki** and **Next Generation Technology Group**, which we have been steadily adding to. Japan is a particularly attractive market in which to be acquiring small, high-tech businesses at present. The country has an ageing population of business owners who founded their companies during the 1980s boom years. These entrepreneurs are now at (or past) retirement age and are looking for long-term homes for their legacies. Many are happy to accept remarkably low multiples for their companies in return for the longevity and respect that, for example, Noritsu Koki offer. We met with the management teams of Hikari and Noritsu during the spring and were impressed.

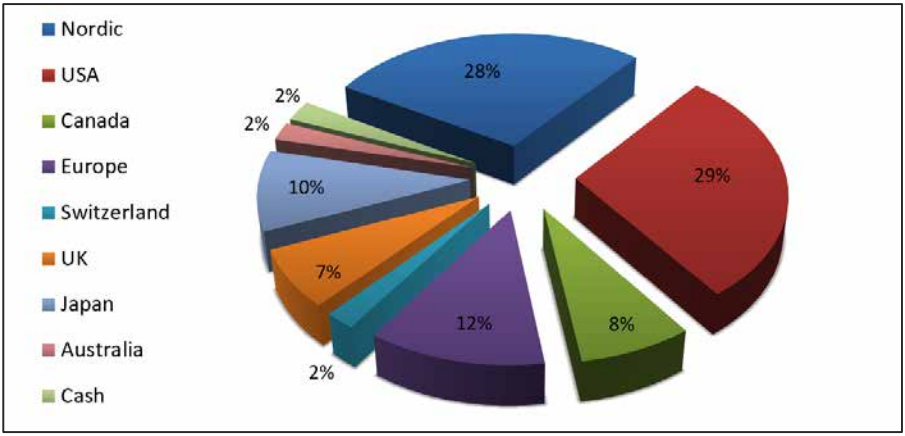
We spent a busy two days in the Nordics, meeting the management teams of all our holdings in the region, as well as some of the private family offices that have meaningful ownership positions in these companies. It was a fascinating trip that deepened our knowledge of businesses such as **Lifco, AddTech** and **Röko** and the outstanding people driving their performance. We did sell two of our Nordic investments, **AddNode** and **Indutrade**, both of which we felt were not performing at as high a level as they had in the past. Both remain strong businesses, but competition for a place in the Human Capital portfolio is high and we saw better opportunities elsewhere.

Top 15 Holdings - 30 June 2026	
Chapters Group	5.9%
Lagercrantz Group	5.8%
Diploma	5.5%
Lifco AB	5.2%
Perimeter Solutions	5.1%
Federal Signal Corp	5.0%
Addtech AB	4.8%
Savaria	4.8%
Roko AB	4.7%
Comfort Systems	4.7%
Bergman & Beving	4.4%
Noritsu Koki	4.2%
Novanta	4.1%
Tetra Tech	3.5%
Hikari Tsushin	3.3%

Our new investment is in **Tasmea**, the Australian-listed provider of specialised services to the Mining, Resources and Industrial sectors. Tasmea was founded by Stephen Young in 1999, and he remains the CEO and majority shareholder. We met with Stephen at our offices and he exudes energy for his business and, having recently announced their largest acquisition to date, his drive to grow the company is as strong as ever. Tasmea has a strong record of buying service businesses on low multiples and, most importantly, integrating them into their model effectively and without compromising growth.

Fred Mahon, *July 2026*

CH Human Capital, Split by Country of Listing – 30 Jun 2026



Source: Church House

Calendar Year Performance:

YTD	2025	2024 part
-2.4%	+1.8%	-1.3%

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

CHURCH HOUSE TENAX MULTI-ASSET STRATEGY

	30 Jun 2026	31 Mar 2026	Quarter
CH Tenax Multi-Asset*	193.5	185.2	+4.5%
Cash Return (SONIA)**	120.3	119.2	+0.9%

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

Tenax recovered during the quarter as bond yields fell following the announcement of the ceasefire in Iran. Despite the Straits of Hormuz remaining shut for much of the quarter, the market was prepared to 'look through' the inflationary risks, taking the ceasefire as an indication that despite their posturing, both the US and Iran had little appetite for further escalation.

While yields fell as the market priced fewer rate hikes in the coming months, the disruption caused by the war means that the likely direction for rates remains up. This supports our decision to keep the overall duration of the portfolio short, falling slightly to 2.6 years over the quarter.

That fall in duration was the result of a continued increase in our exposure to Floating Rate Notes (FRN). The stability of FRNs allows the fund to weather the volatility in the Gilt market as rate expectations shift with news flow, as well as enabling us to benefit from the higher coupons should rates stay higher for longer. Furthermore, the spreads at which corporate bonds trade above Gilts remain at their tightest level since the outbreak of the Global Financial Crisis. The AAA-rating of FRNs give us further protection should we see a widening of credit spreads, maybe in the event of a stock market correction.

CH Tenax Portfolio - Allocation to Asset Classes – 2026

2026	*31-Dec-25*	*31-Mar-26*	*30-Jun-26*	*YTD*
Cash	5.2%	3.8%	4.3%	-0.9%
Gilt / AAA Fixed	1.2%	1.2%	0.0%	-1.2%
FRN (AAA)	8.6%	12.7%	15.3%	6.7%
Floating Rate	0.0%	0.0%	0.0%	0.0%
Fixed Interest	54.9%	55.7%	53.1%	-1.7%
Index-Linked	0.8%	0.8%	0.8%	0.0%
Infrastructure	3.5%	3.1%	3.3%	-0.2%
Convert / ZDP	3.5%	2.7%	0.2%	-3.3%
Alternative / Hedge	0.0%	0.0%	0.0%	0.0%
Property / Real	5.1%	4.5%	4.9%	-0.2%
Equity	17.1%	15.5%	18.1%	0.6%

When such a correction may happen is impossible to predict – perhaps it has already started. But the issuance of $25bn of debt each by **SpaceX** and **Nvidia** in June is noteworthy. While the various issues were oversubscribed multiple times, their subsequent price action suggest the bond market is growing more doubtful of the AI build-out than equity investors.

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

2026	31-Dec-25	31-Mar-26	30-Jun-26
Overall Duration*	2.7	2.7	2.6
Redemption Yield	5.2%	5.9%	5.6%
Fixed Interest Duration*	3.2	3.3	3.3
Portfolio Running Yield	4.1%	4.3%	4.1%

Source: Church House

The rate environment was a positive for the fund's bank equities, **Barclays** and **Standard Chartered**, though. The latter's share price also recovering from a sharp fall at the end of May over concerns that new regulations would restrict mainland Chinese people from opening accounts in Hong Kong. The fears were overblown but, like so often in the current environment, the knee-jerk reaction was sizeable, if short-lived.

There was a similar response to the news that the German government had cancelled a frigate contract from **Rheinmetall**, a new equity position in the fund. Within a fortnight the share price had recovered much of its fall, and while we expect the market to be more circumspect in the short-term, we see good value over the longer-term as defence spending increases throughout Europe.

***Cranley Macfarlane**, July 2026*

Calendar Year Performance:

YTD	2025	2024	2023	2022	2021
+1.8%	+11.4%	+5.2%	+6.2%	-7.5%	1.4%

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.*

Alan Greenspan

March 1926 – June 2026

Chairman of The US Federal Reserve 1987 - 2006

© Getty Images

Alan Greenspan, former Chairman of the US Federal Reserve, died in June having just celebrated his one hundredth birthday. He was widely known known as 'the Maestro' for his management during the boom years of the 1990s. His long tenure at the Fed began on a sour note as, just two months in, the US stock market, which had been weakening throughout early October 1987, crashed on 19th October, 'Black Monday'. Enter Alan Greenspan, whose calm response and actions steadied markets and restored calm. Always delighting in being enigmatic, his quote: "I know you think you understand what you thought I said, but I'm not sure you realise that what you heard is not what I meant" is a delight. He correctly spotted the improvement in productivity coming from new technology but, too early, he began to worry about soaring technology stocks warning of "irrational exuberance" in late 1996. His calm management was called for again during the Russian (and Asian) Crisis in August 1998 and the subsequent collapse of Long-Term Capital Management.

***James Mahon**, July 2026*.

Church House Investment Management

*Church House Investment Management is the trading name of Church House Investments Limited which is authorised and regulated by **The Financial Conduct Authority***