HENRY SPAIN | INVESTMENT SERVICES
Market Harborough & Oakham

Q2

DEFENSIVE PORTFOLIO

Target Market: Retail Clients

At Henry Spain we work hard to create tailored portfolios to help fulfil our clients' long-term investment needs. Our aim is to take the stress and complication from investing by providing a holistic service, which is centred on understanding your goals. We manage portfolios in line with your attitude toward risk to take advantage of any opportunities as we identify them, and endeavour to achieve your investment goals.

Market Update Q2 2026

Over the last three months our Defensive Portfolio has delivered returns of –0.5%. Whilst it would be pleasing to see portfolio values move higher I would encourage investors not to place too much significance on any single quarter's performance.

One of the great ironies of investing is that performance is often judged over three-month periods, whilst the businesses we own are built over decades and, in many cases with some of our holdings, centuries. Our objective has never been to outperform every quarter, nor every year, such a goal is unrealistic. Instead, our aim is to own exceptional businesses at sensible prices and allow time to do the heavy lifting.

The stock market exists to serve us, not to instruct us. Short-term fluctuations simply offer opportunities—sometimes to realise gains, but more often to buy larger stakes in wonderful businesses when temporary pessimism allows us to do so at attractive prices. **Our economic fortunes long-term will mirror the progress of the businesses we own**.

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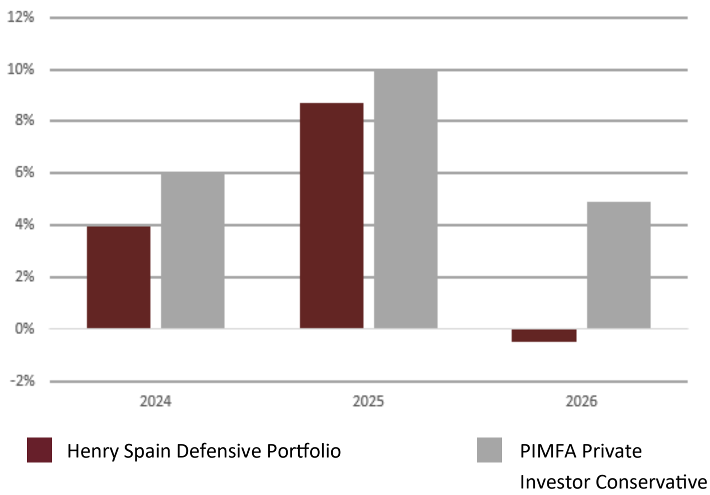
Portfolio Performance

Past performance is not indicative of future results.

There is no guarantee that a positive return will be delivered.



Data reference points: 01.07.2023 - 30.06.2026.
Performance is based on a portfolio value of £500k+ net of 1.2% + VAT annual management fee.

The factsheet should be read in conjunction with a Costs & Charges Illustration.

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Long-Dated Gilts: A Rare Opportunity to Lock In High Returns?

Here is an interesting scenario to consider.

Imagine buying a long-dated UK government bond today yielding around **5.8% to maturity**. Two years pass and the economy weakens, recession takes hold and interest rates fall back to **3%**. In that scenario, the return is not merely the coupon income you collect along the way. Because long-dated bonds are so sensitive to changes in yields, the capital value of the bond could rise sharply as well. On the numbers we have been looking at, the return in that sort of outcome could be around **34% per annum over two years**.

Even if yields did not fall anything like that far, the picture is still interesting. If the yield merely moved from **5.8% to 5.0%**, the annual return could still be in the region of **11% per annum** over the same period. That is a very different proposition to the common perception that government bonds offer little more than a modest income stream.

The reason is simple enough. A long-dated bond is effectively a long stream of fixed cash flows. When yields are high, those cash flows are heavily discounted and the price of the bond falls. When yields decline, particularly after a recession or a financial shock, the reverse happens: the price can rise dramatically. The longer the maturity and the lower the coupon, the more pronounced that sensitivity becomes. In plain English, long-dated gilts can behave rather like a coiled spring when bought at elevated yields.

That is what makes the current opportunity unusual. **Thirty-year gilt yields are around their highest levels since 1998**, a period that immediately preceded the collapse of the technology bubble and a substantial decline in bond yields thereafter. History does not repeat neatly, and one should always be careful with direct comparisons, but it is at least worth noting that we are again at a point where long-term government borrowing costs look unusually high relative to the experience of the last quarter century.

There is also an important tax angle for UK investors. With many **corporate bonds and qualifying loan notes**, gains made as a bond moves back towards par are generally **not subject to capital gains tax**. That means the quoted yield can be far more valuable on an after-tax basis than an equivalent return from a taxable deposit account or conventional fixed interest investment.

For a **higher-rate taxpayer**, a gross return of **5.8%** that is largely achieved in a tax-efficient way can be thought of as having a **pre-tax equivalent of roughly 9.8%**. For an **additional-rate taxpayer**, the equivalent rises to about **10.5%**. Put another way, an investor does not need to find a conventional taxable investment yielding 5.8% to match the attraction of this sort of return; they would need something materially higher before tax.

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Treasury 1.625% 22/10/2054 — 2-Year Holding Return Sensitivity

Assumes purchase at 43.78 today, 2 years of coupons received, then sale at the yield shown

Yield in 2 years	Bond price in 2 years	Coupons received	Total value after 2 years	Total return	Annualised return
6.0%	42.5	3.25	45.7	+4.5%	+2.2% p.a.
5.5%	46.5	3.25	49.7	+13.6%	+6.6% p.a.
5.0%	50.9	3.25	54.2	+23.7%	+11.2% p.a.
4.5%	55.9	3.25	59.2	+35.2%	+16.3% p.a.
4.0%	61.6	3.25	64.8	+48.1%	+21.7% p.a.
3.5%	67.9	3.25	71.2	+62.6%	+27.5% p.a.
3.0%	**75.1**	**3.25**	**78.4**	**+79.0%**	**+33.8% p.a.**
2.5%	83.2	3.25	86.5	+97.5%	+40.5% p.a.
2.0%	92.4	3.25	95.6	+118.4%	+47.8% p.a.

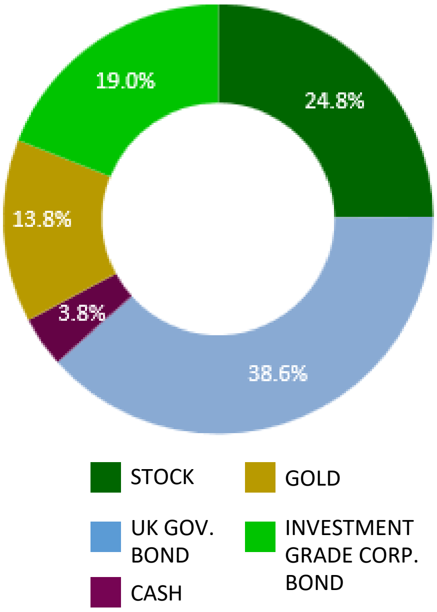
DEFENSIVE PORTFOLIO

TOP HOLDINGS

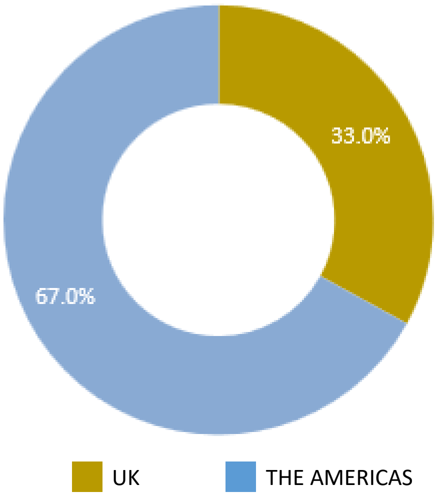
Holding	Yield to Maturity*
HSBC 6.25% 30/01/41	5.83%
UK (Gov. Of) 1.625% 22/10/2054	5.48%
Tesco 5.5% 13/01/33	4.95%
Yorkshire Power 7.25% 04/08/28	4.94%
Goldman Sachs 3.125% 25/07/29	4.68%

**As at end of Quarter 2*

PORTFOLIO BREAKDOWN BY ASSET CLASS



GEOGRAPHICAL EXPOSURE



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That, in my view, is where the investment rationale becomes compelling. The investor is not simply buying a bond for the running income. They are buying three things at once:

First, they are locking in a yield that is already attractive in its own right by recent standards.

Second, they are gaining exposure to the possibility of a significant capital uplift if the economy weakens and long-term yields fall, as they often do in recessions or periods of market stress.

Third, they are potentially receiving much of that return in a more tax-efficient form than would be available on a standard cash or deposit-based alternative.

Of course, there are risks. If inflation proved stubborn, fiscal policy deteriorated materially or markets demanded an even higher risk premium for holding long-dated gilts, yields could rise further and prices would fall. Long-duration bonds are not low-volatility assets when purchased in this part of the curve. An investor needs to be comfortable with mark-to-market fluctuations and with the possibility that the thesis takes longer to play out than hoped.

But that is precisely why the opportunity exists. When an asset class is unloved and the recent experience has been painful, prices adjust to a level that can create a much more attractive future return profile. Long-dated gilts today appear to sit in that category. They offer a meaningful running yield, the potential for very large upside if yields retreat in a recession, and an unusually favourable tax profile for the right investor.

There are not many areas of the market where one can plausibly say: if the world muddles through, the return may still be respectable; if the economy weakens and rates fall, the upside could be substantial. Long-dated gilts may be one of them.

The numbers are not a promise, and the path will not be smooth. But when thirty-year government bond yields are back at levels last seen in the late 1990s, it is at least worth asking whether the market is once again offering the patient investor an unusually attractive entry point.

PORTFOLIO PERFORMANCE

Cumulative Performance

	Henry Spain Defensive Portfolio	PIMFA Private Investor Conservative
1 Year (01/07/2025 to 30/06/2026)	7.62%	10.96%
Since Inception (05/07/23 to 30/06/26)	28.13%	31.39%

Discrete Annual Performance

	Henry Spain Defensive Portfolio	PIMFA Private Investor Conservative
01/01/2024 - 31/12/24	3.97%	6.08%
01/01/2025 - 31/12/2025	8.68%	10.02%

UNDERSTANDING OUR INVESTMENT PHILOSOPHY

Stock investments are not ticker symbols they are a share of a real business. Many people choose to watch their portfolio on a daily basis and change things regularly, we believe that this can lead to mistakes and is likely to lead to higher costs. As long as the fundamentals remain solid once you have bought a great business the time to sell is rarely ever.

Our preferred approach is to buy businesses with a proven track record of growing their earnings successfully over a long period of time, and whose products are likely to be required in twenty-five years. Companies that succeed in increasing the price of their products above inflation, can give us the basis for a successful long-term holding.

Be objective and dispassionate. We are conscious of behaviour that drives poor investment decisions, which we believe helps to give us an edge over many other investors. While stock markets are a useful reference point they are not our guide to the intrinsic value of a business.

As long as our facts and reasoning are right we are content to go against the herd.

We believe that advantages can be gained by just being rational and endeavouring to avoid mistakes. We believe in only investing in what we can understand and by doing so increases the likelihood of achieving the best results.

Pay attention to risk. Most investors are primarily focused towards returns – how much they can make and pay little attention to risk – how much they can lose. The pay-off from a risk-averse long term portfolio orientation is just that, long-term. Selecting businesses with inherent competitive advantages does not always result in short term gains, but overall it should significantly reduce the risk of an inadequate rate of return.

Never invest short term or emergency money. Prices will vary and any investor should be prepared to weather a downturn. Portfolios should be matched to goals and objectives, not the stock market as a whole.

Henry Spain Investment Services

49 High Street
Market Harborough
Leicestershire
LE16 7AF
+44 (0)1858 898023

3 Church Passage
Oakham
Rutland
LE15 6DR
+44 (0)1572 897510

info@henryspain.co.uk
www.henryspain.co.uk

TOM SPAIN
INVESTMENT MANAGER

"Most investors are primarily oriented towards return - how much they can make and pay little attention to risk - how much they can lose. My chief concern is the quality of the businesses we buy because when I get that right, returns have been more than satisfactory".

Important Information:

Henry Spain Investment Services ('Henry Spain') brings the following important information to your attention, which you should read closely. If you have any questions on the below please ask your Henry Spain Wealth Manager:

At Henry Spain we hold concentrated positions in companies in which we have the highest degree of conviction. Capital is always allocated to our best ideas while at the same time seeking to avoid outcomes that would result in a permanent loss of capital. This means that upside return benefits and downside risks for the portfolio may be more affected by the returns and market sentiment towards individual companies than in more widely diversified portfolios, which is sometimes referred to as greater 'volatility'.

Where we hold positions for our clients which in aggregate are more than 10% of the shares in issue of a company, our concentration may mean that it will require us more time to sell and realise cash in respect of positions we decide to liquidate. This means that if you were to instruct the liquidation of your entire portfolio, it might take longer to realise cash in respect of such positions than others in your portfolio and that the price might be affected by that liquidation process.

At times, portfolios may have exposure to smaller companies including stocks listed on the Alternative Investment Market (AIM) which are less liquid. Upside returns and downside risks may be greater than those of larger companies. In times of market or company-specific stress, it may be harder to trade stocks than at other times. This includes the possibility that a company (no matter the size) or fund may have had its trading suspended by exchanges or other authorities, or subject to lock up. This means that we may not be able to liquidate a position in part or in whole in order to release cash into your portfolio and/or meet a redemption request due to circumstances beyond our control. Under certain circumstances it may be necessary to transfer an existing position out to you or an alternate provider.

Henry Spain may invest its own money in stocks which are also part of client portfolio holdings. This may include having a material interest in such companies. We will always ensure that client trades are prioritised over any Henry Spain trades. The Personal Dealing Supervision Team acts to ensure that clients will not be disadvantaged and are fairly treated and adheres to our Conflicts of Interest Policy and Aggregation and Allocation Policy. Details of positions will change over time but should be assumed to be any position in client portfolios. Details are available on request, as are details of our conflicts of interest handling process.

We may be appointed as a Board member (such as a Non-Executive Director) in smaller companies where client interest is significant and we believe that it is in the best interests of shareholders and clients for us to be able to exert influence on company management in order to target better returns for shareholders and our clients. A Board member may have access to non-public price sensitive information from time to time. We and the underlying company typically manage this by stringent application of "closed periods" where we and company senior employees are only permitted to trade in specific open windows to ensure that trades are not placed in breach of any Market Abuse or comparable rules.

Risk Warnings:

Past performance is no guarantee of future results. Certain investments carry a higher degree of risk than others and are, therefore, unsuitable for some investors. The value of investments, and the income from them, can go down as well as up, and you may not recover the amount of your initial investment. Where an investment involves exposure to a foreign currency, changes in rates of exchange may cause the value of the investment, and the income from it, to go up or down.

Opinions constitute our judgement as of this date and are subject to change without warning. Neither Henry Spain nor any connected company accepts responsibility for any direct or indirect or on sequential loss suffered by you or any other person as a result of your acting, or deciding not to act, in reliance upon any information contained in this Leaflet.

Before contemplating any transaction, you should consider whether you require any advice from a financial adviser which we would be happy to provide. Tax benefits and allowances described in this Leaflet are based on current legislation and HM Revenue & Customs practice and depend on personal circumstances. These may change from time to time and are not guaranteed. This is a financial promotion.