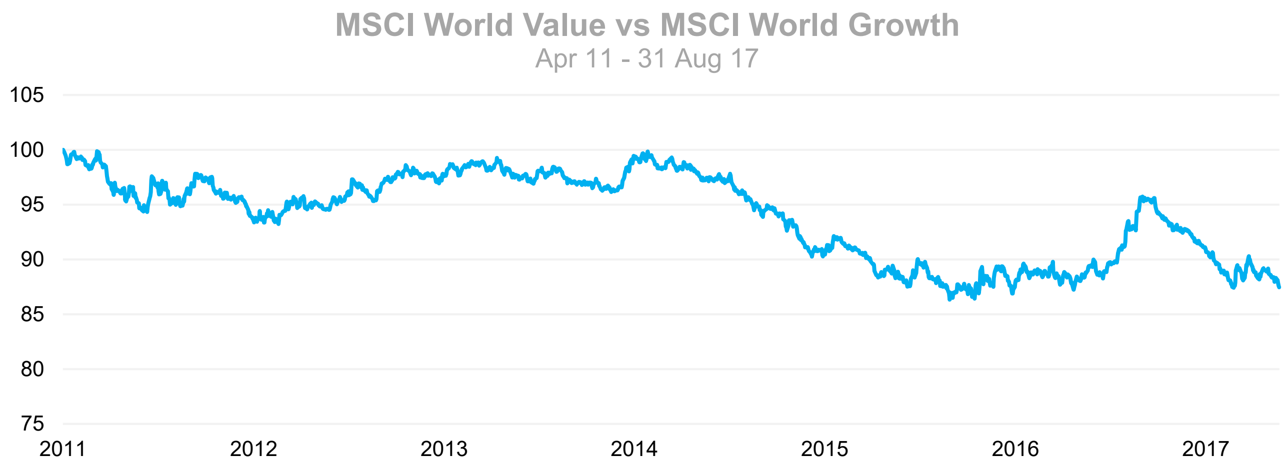
# Equity performance in perspective

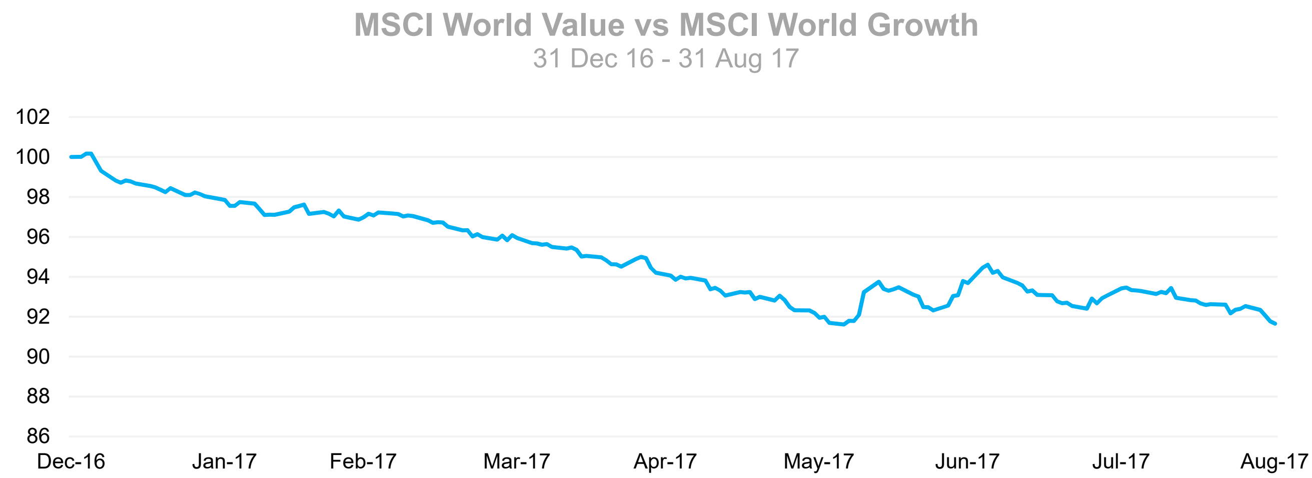
Credo's flagship Best Ideas Portfolio (BIP) celebrated a six year track record earlier this year, having been launched in April 2011. In hindsight, timing of the launch proved to be somewhat fortuitous, as we now know that it was still relatively early in a bull market which originally started in 2009 and has been prevalent ever since (with only some relatively minor hiccups along the way): those who invested at inception will have seen an overall increase in their portfolio value before management costs of some 109.9% in GBP terms (68.7% in USD terms) until the 31st of August 2017.

Not only has the absolute performance been satisfactory, but for most of the period since inception, the BIP has also been performing well compared to its benchmark, the MSCI World Net Total Return Index. This is in spite of the fact that the majority of this period has been challenging for value investors such as ourselves, as illustrated below:




Source: Credo, Bloomberg

Closer scrutiny of the graph included above further reveals what a difficult time value investors have had specifically since the start of the 2017 calendar year; this is what the same graph looks like if one simply changes the starting date to 1 January 2017:




Source: Credo, Bloomberg

Clients will be aware of the fact that Credo follows a value based investment philosophy; the reason we do so quite simply boils down to the fact that the long-term evidence is compelling: on balance, value tends to beat growth over time.

One of the “problems” with value investing (or any other investment philosophy, for that matter), is that it can however go through extended periods of under-performance relative to either the market in general, or alternative approaches in particular. In fact, it is probably fair to say that if value did not perform relatively badly at times, it wouldn’t really work at all: it is the very pain of under-performance which “shakes out” some of the weaker holders of securities near a market or sector bottom, leading to a self-fulfilling cycle of even lower prices that do not only test the resolve of remaining investors, but also provide them with the opportunity to build their holdings at an increasingly better average cost price… enhancing future returns when eventually the cycle reverses.

The bottom-line is that we remain comfortable with a value-based approach, and we also accept that this conviction will be tested on occasion (sometimes for extended periods of time). It is also against this background that we believe the performance of our equity portfolios should be considered.

Whilst every fund manager in the world sets out to beat his or her benchmark over all relevant periods, the reality is that this is ultimately not possible from a practical point of view. A number of factors play a part in this, but the value versus growth cycle can certainly be a significant one (especially when the discrepancy between the returns to the two styles happens to be as material as it has been of late).

When one analyses the market performance over the course of this year, it is clear that a lot of the best performing companies in the MSCI World universe have in fact been some of the more expensive ones to begin with (i.e. those on high multiples of earnings / book value, and often ones that generate very little if any net cash). This is typical of a growth market (and the very opposite of a value one).

Going forward, we remain comfortable with the way in which our portfolios are structured and we believe that we will be well positioned in the event of a possible downturn. This is not to say that we are calling for a drawdown, however, as the actual timing of potential market dislocations will always be unforecastable.

In summary, it will always be our strategy to build a diversified portfolio of shares in high quality companies, the business models of which we strive to understand as well as possible. As value managers, it further remains a priority to ensure that we do not overpay for any of these positions. We continue to believe in this as a sustainable strategy – even though we recognise that our conviction will be tested by the vagaries of market cycles and style preferences in the shorter term.

## Important Notice