Macroeconomic Commentary[1]

Equity indices for the developed world were generally down last quarter, with the MSCI World Index paring 4.8% in sterling terms[2]. This during a period that saw investor fear (as measured by the VIX Index[3]) hit its highest level since China's stock market crash in August 2015. In the US, the Federal Reserve saw a change of leadership as Janet Yellen gave way for Jerome Powell, while the S&P 500 Index finished the period 0.8% lower in local currency terms. Elsewhere, the UK made a number of concessions in coming to a 21-month transition deal with the EU, this included an agreement requiring Northern Ireland to comply with EU regulation in absence of a better alternative. Despite this, the FTSE 100 Index and EURO STOXX 50 Index declined 7.2% and 3.7% respectively, both in local currency terms.

Fund Commentary

During Q1 2018 the MSCI World Index decreased by 4.8% in sterling terms[4]. Against this backdrop, the Credo Global Equity Fund (CGEF) decreased by 8.9% in sterling net of all fees, underperforming the index by 4.1%[5]. The main positive contributors over the period were HCA Healthcare, Chipotle Mexican Grill, AIA Group, Moncler and Merlin Entertainments plc, while the main negative contributors were Imperial Brands plc, Wells Fargo & Co, Dignity plc and Tempur Sealy International.

Q1 2018 has been a difficult quarter for equity investors. All major indices ended the quarter in negative territory. Although sentiment remained strong throughout January, markets started faltering during February as concerns over interest rate rises started to play on investors' minds, worrying about the impact this could have on global growth, particularly on the back of elevated equity valuations.

The selloff in the market escalated during the last few weeks of March as the Technology sector, which had effectively led the rally over the last few years, started to falter; firstly, on the back of the Facebook data usage scandal, and then later as Trump focused attention at Amazon.com for its use of tax loopholes and the effect this was having on small businesses. This was later exacerbated by Trump unilaterally imposing trade tariffs on certain countries' goods, but notably those of China.

During the quarter we took the decision to sell our holdings in Babcock International Group plc and Capita plc. Both stocks have suffered from the political climate in the UK at present. With uncertainty over Brexit negotiations, coupled with negative news-flow around support services companies considering the Carillion plc bankruptcy, and tight government spending, these stocks have come under huge pressure. Furthermore, the growing potential for a Corbyn led Labour Party within the UK, and the chances of its success in either the next General Election, or even a snap General Election, had led us to conclude that the risk/reward in owning these stocks was no longer favourable.

---

(1) Source: Bloomberg.

(2) Source: Bloomberg. For the period 29/12/2017 to 29/03/2018.

(3) VIX is the ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility.

(4) Source: Bloomberg. For the period 29/12/2017 to 29/03/2018.

(5) Source: Bloomberg. Performance of the Credo Global Equity Fund Class A Retail Shares over the period 29/12/2017 to 29/03/2018.

Some of the better performing stocks in the portfolio included Chipotle Mexican Grill, whose shares shot up over 10% after the announcement of the appointment of a new CEO, and better than expected same store sales data. We also enjoyed some decent performance from Merlin Entertainments plc, after it was announced that activist fund ValueAct took a 5.4% stake in the company. During the quarter we also opened a new position in AIA Group, which we believe is a well-placed financial company that should take advantage of the nascent insurance industry in China. Following on from the Asia theme, we also bought shares in Moncler, the luxury clothing brand, as we believe the company is still under-penetrated and offers significant upside potential.

Looking Forward

As mentioned above, the last quarter has been a challenging quarter and volatility appears to have returned to equity markets. For a while we have spoken about the elevated valuations of the equity markets, as well as the continual outperformance of momentum and growth stocks over value and high dividend yielding stocks. At some stage we believe there will be a rotation from this trade, back into value and more defensive names. We will continue looking for attractive, well valued, quality businesses, which will outperform over the long-term.

Jarrod Cahn, Co-Portfolio Manager.