Macroeconomic Commentary[1]

Last quarter saw the MSCI World Index return 8.2% in pound sterling terms. The primary contribution towards this came from the UK, where the FTSE 100 Index returned 9.5% while Brexit negotiations remain ongoing. Elsewhere, there was contrasting fortune for US and Chinese stocks as the threat of trade tariffs was exchanged between the two countries. The S&P 500 Index gained 3.5% while the Shenzhen CSI 300 Index fell 9.0%. Another major trading partner to receive the sharp end of President Trump's tongue was the European Union, their blue-chip index, the Euro STOXX 50 Index, rose 3.4%.

Fund Commentary

As noted above, during the second quarter of 2018 the MSCI World Index increased by 8.2% in pound sterling terms[2]. Against this backdrop, the Credo Global Equity Fund (CGEF) increased by 10.3% in pound sterling net of all fees, outperforming the Index by 2.2%[3]. The main positive contributors over the period were Chipotle Mexican Grill, Spire Healthcare plc, BP plc, Moncler and Wells Fargo & Co, while the main negative contributors were British American Tobacco plc, Prudential plc, Chubb, United Parcel Service, and Oracle.

After a volatile start in the first quarter of 2018, equity markets stabilized and rallied during the second quarter. On the macroeconomic front, markets continued to be pre-occupied with potential trade wars, as President Trump unilaterally imposed tariffs on imports mainly from China, but also from Mexico, Canada and the EU. The first announcement of a global tax on steel and aluminium was initiated in March and has subsequently escalated the trade war.

During the quarter we also saw the US pull out of the Iranian nuclear deal. This, combined with a continued reduction in oil production in Venezuela and heightened economic uncertainty, led to a surge in the oil price to levels not seen since 2014.

Lastly, a Federal Judge in the US ruled that the AT&T / Time Warner merger had been unjustly challenged by the Department of Justice (DOJ). That ruling has opened the door for a slew of further M&A activity, including Disney – which is bidding for Fox, as well as some healthcare deals including Express Scripts, CVS Health, Cigna and Aetna Inc.

During the quarter we took the decision to reduce our holdings in a basket of oil stocks, including Royal Dutch Shell plc and Statoil. We continue to hold BP plc in the portfolio. Similarly, we came out of our holding in Sainsbury's plc, after a surprising announcement of a potential merger between the company and Asda, which saw Sainsbury's share price rally 15%. Following some mixed news out of Macau we decided to reduce our exposure to the gaming stocks in the region, trimming our holdings in MGM Resorts International and Wynn Resorts Ltd. We also took profit on Moncler and ASML Holding after some stellar performances from these names.

During the quarter we added new positions in The Walt Disney Company, Cineworld Group plc, Becle SAB de, Cigna, Express Scripts and United Parcel Service.

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(1) Source: Bloomberg.

(2) Source: Bloomberg.

(3) Source: Bloomberg. Performance of the Credo Global Equity Fund Class A Retail Shares over the period 29/03/2018 to 29/06/2018.

Looking Forward

The last quarter has been pleasing given the outperformance of the Fund versus its benchmark, the MSCI World Index.

Although valuations remain elevated, particularly in growth stocks, we continue to try and identify sectors and themes, and ultimately stocks that screen attractively. Although we have yet to see the rotation from Growth and Momentum back into Value, we continue to believe that our patience and discipline will pay off over the long term.

Jarrod Cahn, Co-Portfolio Manager.