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%. In fixed income, US and UK 10-year bond yields moved in opposite directions over the period, with the US rate rising to 2.9% and the UK rate falling to 1.3%.

Fund Commentary

The Fund generated a positive return of 6.8% versus the benchmark which returned 4.5% over the period[2]. We are delighted to have made a constructive start to the Fund's track record delivering top decile performance versus our peers since inception. We look to continue to deliver the strategy and results over the long-term, building on the first year's progress.

We continue to deliver returns across the breadth of investments held, with a diversified portfolio of 93 holdings and an average position size of 1.0%. The proportion of investments attributing positive return was high, with a limited number of investments causing a significant attrition to performance.

Analysing the returns over the quarter there are several drivers from all aspects of the portfolio, which have been the key success of the Fund in its inaugural year. The top performers included the global world equity indices which we access through the iShares MSCI World exchange traded fund (ETF), a low cost and diversified tracker which returned 8.9% for the period[3]. Another notable performer includes a small capitalisation favourite, Arena Events Group plc, which was a detractor in the previous quarter and which supplies temporary structures to some of the world's top sporting events including the Wimbledon Tennis Championship, the US Open Golf Championship and the Hong Kong Sevens. We opportunistically added to the stock on a one-off hit from a US fine that caused the stock to fall over 20% in short order causing it to be a significant detractor in the previous period. The stock has subsequently rebounded strongly. Finally, BB Healthcare Trust plc had a strong quarter. We included this position in the portfolio as we believe there is value to be added by outsourcing to a third-party manager who has expertise in the global healthcare sector with a concentrated portfolio. This remains a long-term core holding playing both a thematic trend of developments in the sector and the global demographic tailwinds of ageing populations.

Although a key driver of returns, UK small and mid-capitalisation stocks can be volatile which is why we maintain a diversified portfolio. Two stocks, namely XLMedia plc and Stride Gaming plc, both warned investors they would not meet market expectations, due to company specific circumstances. We remain cautious on both stocks and they remain small holdings in the Fund.

The team continues to find opportunities within fixed income, with a bias towards financial bonds. Financial bonds remain one of our specialities and we believe there is an attractive risk-adjusted return as well as a yield premium versus the market. Although returns from the asset class have remained muted given concerns over long-term interest rates. A clear majority of our fixed income exposure remains in sterling denominated bonds, but our top performing fixed income investment over the period benefited from sterling depreciation

(1) Source: Bloomberg.

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

(3) Source: Bloomberg.

as we invested in a US dollar denominated new issue from Burford Capital plc, a litigation financing group that is well known to the team. There were no notable attritions in terms of the fixed income allocation.

Looking Forward

We have been optimistic overall about the global macroeconomic environment, which has been boosted by US tax reforms and deregulation policies of President Trump. This is leading to US companies delivering strong earnings seasons and fulfilling their reasonably rich valuations.

The period of synchronized global growth, at the moment, appears to be stuttering or, at the very least, becoming more uncertain as President Trump's erratic nature and unpredictable tweets on potential trade wars comes ever into focus; combined with the slow unwind of the global monetary expansion illustrated by US Federal Reserve rates grinding higher. This has subsequently led to a direct impact on Asian companies from the potential trade wars as well as the interest rates rise leading to capital outflows.

As a result, the team is taking a marginally more cautious approach to the investment strategy and will look to reduce the Fund's bias to emerging markets. We will continue to work hard to deliver idiosyncratic returns from all markets, especially within our niche of UK small and mid-capitalisation stocks where we look for the underlying growth of the company to deliver returns.

We are also looking to increase the number of opportunities that provide diversity to the portfolio looking for returns across different market environments.

Within fixed income we have seen a marginal increase in the availability of yields across the market and subsequently are finding more attractive risk-adjusted opportunities within this asset class. Subsequently, we have increased our allocation to fixed income and we continue to look for further investment opportunities.

We continue to believe that after 9 years of a bull market one must be cognisant of the risks, but also note that this has been the most reluctant bull market for many years and it is therefore very difficult to call. We believe the Fund is well-positioned to deliver strong relative returns across different market environments and that, over the long-term, we continue to believe we can adapt to deliver attractive returns to investors. We remain cognisant that downside scenarios are present as always and feel comforted by a significant holding in the bond market with several of the holdings being in low volatility, short-dated issues. We are confident in our overall positioning and allocations within the Fund.

Rupert Silver, Co-Portfolio Manager