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. In fixed income, the 10-year sovereign yield on US Treasuries, UK Gilts and German Bunds rose to 2.7%, 1.4% and 0.5% respectively.

Fund Commentary

During Q1 2018 the Fund returned -3.77% (using NAV to NAV dates)[4]. The benchmark returned -3.93% over the calendar quarter.

At the end of the period, the Fund was invested approximately 74% in equities, 21% in fixed income, and the balance of around 5% in cash.

The Fund is diversified globally and approximately 32% of the assets are US dollar denominated. As previously stated, the Fund does not hedge the currency exposure as the Fund Manager believes that over the long-term, well-managed companies will themselves hedge the currency risk where they believe it to be appropriate, and the Fund Manager further believes that the equities selected will have price appreciation in excess of any long-term currency fluctuation.

The most significant event the Fund experienced this quarter was the incredibly rapid and almost unbelievable unravelling of Conviviality plc, a very acquisitive business that went from being valued at circa £750mn in November 2017 to calling in administrators in early April 2018. Two well-known brokers issued buy notes on the company, including Investec whose buy note was dated 8 March 2018, hours before a profit warning. The company, on 13 March 2018, reduced its forecast of adjusted full year profit to between £55 – 56mn, and within four weeks, was in administration. The Fund had invested circa £400k in the company, or nearly 2% of its NAV, having participated in a £30mn share placing in December 2017.

At the end of the period under review, three of the largest five holdings were large capitalisation US equities namely Berkshire Hathaway (3.85%), Netflix (3.26%) and Amazon.com (3.03%), as we took advantage of the pullback in prices during the quarter to selectively increase equity exposure which was around 74% at the quarter end, as mentioned above.

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(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. Performance of the Credo Growth Fund Class A Retail Shares over the period 29/12/2017 to 23/03/2018.

We will continue to add to positions already held and some of the other large equity positions include Costco Wholesale Corp, Cineworld Group plc, Microsoft Corp, Visa Inc and Intermediate Capital Group plc. The Fund also made an initial investment in Legal and General Group plc, a large capitalisation, FTSE listed, general insurance business.

Positive performance has come from most of the above-mentioned positions.

Despite the week quarter we believe the Fund is well-positioned for the longer term and we expect to be long-term investors of most of the current holdings as we believe these businesses are fundamentally sound and will make good long-term investments for the Fund and thus investors.

Looking Forward

The Fund continues to hold circa sixty equity positions and is thus sufficiently diversified geographically as well as across industries and sectors. However, it remains the intention of the Fund Manager to gradually reduce the number of equity holdings to between forty-five and fifty equity positions whilst increasing the Fund's exposure to a number of the companies already held.

The Fund Manager remains cautiously optimistic on the global economic outlook and is confident that the Fund will benefit from its holdings in companies that will be able to prosper and make good long-term investments and believes the Fund is well-positioned to benefit from the slow but steady economic growth currently being experienced in many economies around the world.

Roy Ettlinger, Portfolio Manager