CREDO TIME

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Great Expectations

"Compound interest is the eighth wonder of the world."

Our theme in this edition of Credo News is Time. In life everything is about timing, be it as basic as one's ability to time the connection of bat, club, foot or racquet on ball to the much more significant time of the year when an individual is born, as discussed by Malcolm Gladwell, in his fascinating book, the Outliers.

In fact I can't think of any aspect of life where timing is not important; however when it comes to investing - timing is what it is all about, as Deon Gouws, our CIO, very eloquently illustrates in his column.

Ever since the financial crisis, real returns on cash have been neglible and investors' purchasing power has continued to decline. Consequently, we are continually being asked by clients whether "now" is the correct time to invest. See Deon's perspective on this on page 4.

It has become increasingly apparent over the last few years that investors' expectations of returns are unrealistic. I have had numerous requests from clients ranging across the entire spectrum of sophistication, who are aiming to achieve 8% plus returns whilst maintaining a low risk mandate.

Many investors still seem to be hoping for a reversion to easier times when low volatility assets produced high single digit returns. They are likely to be disappointed.

At Credo, we recognise that investment risk and potential returns go hand-in-hand. Against this background, it is our philosophy that an appropriate level of risk needs to be embraced and managed as a prerequisite for growing the longer term value of an investor's portfolio. I believe we, at Credo, have a very important responsibility to manage all clients' expectations as to the nature of the risks they are prepared to take in order to achieve their expected returns.

Berkshire Hathaway's most recent acquisition of the global food giant Heinz, which is probably best known for its tomato ketchup and beans, provides us with an interesting perspective on returns. The deal guarantees Berkshire a 6% return. In a world of near-zero interest rates, that 6% looks pretty attractive.

It is reasonable to deduce from this that Warren Buffet, founder and CEO of Berkshire Hathaway, clearly is not anticipating any major increase in interest rates any time soon.

A decade ago he demanded a first day premium of 13% before he would consider a deal. Now Mr Buffet takes 6% for his money. We should take note. There could hardly be a stronger signal that the investing tide has changed.

In conclusion, we still believe that there are great opportunities for investors who will take a long term view and remain invested continuously, enabling them to benefit from the compound effect of collecting and reinvesting income and dividends, for as Albert Einstein said ***"Compound interest is the eighth wonder of the world"***. To prove this one need only look over extended periods, measured in decades and not days, to see the hugely positive impact of Time on invested capital.

Of airplanes and parachutes

"The best time to plant a tree is twenty years ago… but if one had failed to do that, the second best time is now."

"Both optimists and pessimists contribute to society: the optimist invents the airplane, the pessimist the parachute." So said the British author G.B. Stern more than fifty years ago… and today this rings even more true as a parable for the world of investments. For it is in a similar vein that the market would stop functioning were it not for the interaction between bulls and bears, or the counterbalancing force introduced by participants who generally see the glass as half full as opposed to those who insist that it's actually pretty empty.

Focusing on a lot of the recent news flow, the bears certainly appear to have a compelling case. Elsewhere in this newsletter, some of my colleagues address a number of risks to financial markets, including the US Fiscal Cliff, successive rounds of quantitative easing as well as the potential for structural deflation going forward.

But in spite of this, the bulls appear to have had the upper hand over the past year. Equity returns have surprised even some of the more optimistic commentators on the up-side over the course of 2012, and at the time of writing, most of the major international indices are in fact trading at or near all-time highs.

What does all of this mean for investors? Have the bears got it all wrong, and should everyone now "join the party" in the quest for maximising returns? Or is it even more appropriate to behave in a contrarian manner at present, and be fearful whilst others are greedy?

Like most of the important questions in investing, the exact answers are ultimately unknowable. Only time will tell exactly how all these scenarios play out and in the meantime the course of economic history will continue to be affected by forces that are reflexive by their very nature (which basically means that it is often difficult to distinguish between cause and effect – as elegantly explained by George Soros in his seminal work, The Alchemy Of Finance).

But markets are discounting mechanisms and it is more often than not the case that risky assets will appreciate in value in advance of any confirmation of good news. And it is against this background that I would argue that rumours of the death of the equity bull market may in fact be greatly exaggerated (with apologies to Mark Twain).

Based on this, I would further suggest that most investors should typically consider including at least a proportion of equities as part of a diversified portfolio; this was ultimately also one of the main messages put forward at the Credo client conference towards the end of 2012.

The extent of any such exposure clearly needs to be considered in the context of individual circumstances and risk profiles. History has shown, however, that the greatest risk of all may in fact be an overly prudent approach to investing, as it is simply not

possible to maintain the purchasing power of money (let alone grow it) by keeping it in "risk-free" asset classes such as cash.

Or, in the words of Jawaharlal Nehru: *"The policy of being too cautious is the greatest risk of all."*

Investors need to accept that some level of turbulence will be part and parcel of investment returns, and not even the most astute participant is able to predict the future course of equity prices with any sustainability. This is why we choose not to concentrate on most of the daily news-flow in financial markets or macro-economic forecasts as part of our investment philosophy at Credo.

In the longer term, however, the market is likely to reward a patient approach to equity investing as well as an appropriate level of risk-taking.

As is so often the case, there may be no better articulation of this thought than the eloquence of Warren Buffett. In an opinion piece published in the New York Times during the height of the financial crisis in October 2008, the world's greatest investor provided the following perspective: *"In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497."*

In spite of all those risk factors prevailing in financial markets referred to above, it was of course also the same Warren Buffett who recently bought Heinz in a $20 billion transaction, the largest ever in the food industry – valuing the company more than 20% above the highest share price ever achieved prior to the date of the transaction. One can argue that this is simply another example of the fact that, more than any other asset class, equity markets continue to provide the opportunity to participate in those animal spirits that have enabled mankind to survive by adapting to its environment over the centuries (not to mention the dramatic improvement in standards of living that has been achieved in the process).

There is an old African proverb which recognises that the best time to plant a tree is twenty years ago… but if one had failed to do that, the second best time is now.

In similar vein, I would thus argue that investors with a longer term horizon who do not hold shares already, should consider including equities as part of a diversified portfolio.

Far be it from me to argue that today's pessimists do not have a case, or that all aspects of the global financial crisis have finally been resolved. And I certainly recognise that investing always entails at least a level of risk.

But ultimately I choose to side with the optimists: those who are working on the design of an even better and faster and more environmentally-friendly airplane today (just as the pessimists may be checking and re-checking their parachutes).

The best time to build an equity portfolio is twenty years ago; the second best time is now.

The story so far

Best Ideas Portfolio

In April 2011, we launched the Credo Best Ideas Portfolio (BIP). Although most of our readers will be familiar with the product, the strategy in the BIP, is to invest in a diversified basket (not a fund) of global equities well positioned to outperform the wider equity market over the longer term. The portfolio has a bias towards developed market, large capitalisation stocks.

Even though our investment process is predominantly bottom-up in nature, we aim to maintain a diversified exposure across most major global industries in order to avoid concentration in any specific themes. The end result is a diversified portfolio of approximately 20 high conviction stocks across major currencies, geographies and sectors.

Our investment philosophy within the portfolio is to follow a wealth preservation buy-and-hold approach, using a value based methodology, including a number of investment metrics, including dividend yield.

Since inception (14/4/2011), the portfolio has returned 22%.

We have been particularly pleased with this performance given that equity investing

in the last two years has been very difficult. We have had to endure an extremely volatile economic environment including the demise of the PIIGS and subsequent Eurozone crisis, the continual poor economic data from the UK, confirming a double dip recession, concerns over a hard landing in China leading to a sharp decline in commodity prices and equally a slowdown in other BRIC countries. We have also had to contend with US elections, a debt ceiling debate, the Fiscal Cliff, and ultimately the Risk On/Risk Off trade. During this period of time, markets have been extremely volatile, and trying to determine a market trend has been very difficult.

Drilling down into the portfolio, true to our investment philosophy, we have maintained a buy-and-hold approach with very low turnover in the portfolio.

In fact since inception, during the almost two year period, we have only made four sales in the portfolio (i.e. approximately 10% turnover per annum). During this period we sold McDonald's at $100 (6 Feb 2012), a month before a profit warning, that saw the stock trade back down to as low as $85 and now trading at $93.30. We also sold Walmart at $72.50 (30 August 2012) now trading at $70.90 to switch into Tesco at 324p, now trading at 370p. The other sales were that of Procter and Gamble at $64.30 (8 May 2012), now trading at $76.73, in favour of Diageo, bought at 1599p (8 May 2012) and now trading at 1929p. The only other sale has been that of Xstrata at 1192p (29 Jan 2013), at a similar price to the price we bought it at 1184p (15 Feb 2012).

At present, the portfolio consists of 17 stocks, 9 of which are denominated in sterling (55%), 5 are in US dollars (28%), 2 are in Swiss franc (11%) and 1 in euros (6%). Although the portfolio appears to have slanted exposure to UK listed equities (as was articulated in Credo News Issue 12), having analysed the revenue makeup of the stocks within the portfolio, the revenue currency split looks significantly different, being approximately 28% in Europe, 28% in the USA, 29% in Asia and the balance in the rest of the world.

In keeping with our prudent investment philosophy, the portfolio also remains well diversified across industries. At present the portfolio is invested across 9 sectors, with no one sector representing more than 17% of the portfolio and the smallest sector exposure being 6%.

During the course of the 22 month period of running the portfolio, we have effectively entered 21 trades, of which at present only 2 positions are showing a loss. Our largest negative position is Anglo American, showing a loss of approximately 40% to date, followed by Caterpillar, which is showing a loss of approximately 6%. Against that, every other position that we have held has either realised a profitable return, or is showing a retained profit. Of our largest gaining positions, our most notable returns are being shown by Volkswagen up 60%, and Roche up 55%.

Looking forward to the remainder of 2013, we believe that the markets will continue to muddle through the same concerns as we saw in 2012. As such, we remain comfortable with the positioning of our portfolio, in terms of geographic as well as sector exposure. Although equity markets have enjoyed a good start to the year, we remain disciplined in our valuation approach, constantly ensuring that the portfolio constituents provide us with the best risk adjusted opportunities within our investment universe, in the quest to continue adding value to client portfolios over time.

The great rotation

The asset allocation switch out of fixed income and into equities

We are now two months into the new year, and it seems that the new buzz term for 2013 is the "Great Rotation". This term refers to the asset allocation switch out of fixed income and into equities. With the world equity markets having enjoyed a fantastic rally over the last few months, and the yield on the 10 Year Treasury starting to trend upwards, has the rotation begun and if so, what does this mean for fixed income investors?

It seems that the jury is still out on this question. World equities have rallied and bonds have seen a slight pullback, but is this the beginning of the "Great Rotation", or more like the "Great Migration"? Commentators will argue from different positions, depending on your stance on world economics, inflation versus deflation and your general risk profile.

Many will argue that the rally in equities has not been caused by a switch from bonds to equities, but more like a migration of cash, having sat idle for the last five years, finally returning to the equity markets. Equities have been an unloved asset class since the financial crisis in 2008/2009 began. Flows have been weak, volatility has been high and returns have been far from stellar. They will argue that flows into bond ETFs and bond funds have remained strong. Equity bulls will argue that given the yield on gilts and corporate bonds, versus the dividend yield on equity indices, and the increasing risk of inflation and interest rate rises, bonds offer very little value and hence the rotation to equities.

The debate over the direction of future interest rates is a long and complicated debate. It clearly depends on your view on inflation and the future health and prospects of developed world economies. Protagonists of deflation will argue that the Eurozone crisis, high unemployment rates, high private and public indebtedness and a fragile property market, all point towards excess capacity in the world economy and rates remaining on hold for a long time to come. Quite simply, the world economy is too fragile to sustain a rise in interest rates. When rises do come, they will be slow, deliberate and controlled. Inflation bulls will argue that the world economic data is looking far more healthy, there are pockets of recovery, particularly in the housing market. They will argue that all the fiscal and monetary policies of central banks and governments and the large printing of more cash in the developed world will lead to inflation. Central banks will no longer be able to artificially hold interest rates low and a combination of inflation and improving economics will push interest rates higher. Many investors do not have the tactical option to switch out of fixed income into equities. Clients with a specific risk profile, of capital preservation and income requirements, cannot be seen taking on equity risk. So for those investors who remain in this asset class, what are they to do?

For a long time now at Credo, we have been advising our clients to avoid long dated gilts/treasuries and AAA rated bonds. Certainly at times of crisis in the investment cycle, the "safe haven" trade of buying gilts has been an effective one, but for those investors purely looking to derive yield from their investments, we do not believe that this part of the market offers the most compelling risk/reward returns and may result in significant downside in the long term.

For those investors still looking for yield in the bond markets, we would advise them to keep doing as they have done before. That is to keep buying high coupon, high yielding, dated instruments. Whether the "great rotation" trade is on or not, we do not think that this will significantly affect this part of the bond market. We still believe that subordinated bonds, in the lower tier 2 space, offer very compelling risk adjusted returns. We have set out a list of some instruments that we believe still offer good value:

Issuer	Coupon	Price	YTM	Maturity
Old Mutual plc	8.000%	106.00	7.03%	03/06/2021
Investec Bank plc	9.625%	110.00	7.86%	17/02/2021
Co-Operative Bank	9.250%	112.75	7.01%	28/04/2021

Above bonds priced as at 15 February 2013

If investors are very fearful that rates are going to start moving rapidly over the coming years, another way of obtaining protection would be by buying dated floating rate notes. Although the yield on these bonds is worse than fixed coupon bonds, these bonds do offer some capital protection as well as upside if rates do start moving swiftly - for example:

Issuer	Coupon	Price	YTM	Maturity
Lloyds Bank (Lower Tier 2)	3 months UK Libor + 120 bps	90.75	3.89%	18/10/2017

Above bond priced as at 15 February 2013

Investors are likely to read much more on the topic over the coming months and the "Great Rotation" will probably become a prevalent theme for 2013. In the meantime, we would advise fixed income investors to avoid the noise, keep distinguishing between government debt and high yielding corporate debt and keep taking the opportunity of buying into these higher yielding opportunities, particularly if pricing continues to decline.

Dividend Growth Portfolio

"Do you know the only thing that gives me pleasure? It's to see my dividends coming in."
John D. Rockefeller

In January of this year, Credo successfully launched a new equity product called the Dividend Growth Portfolio (DGP). The objective of this portfolio is to deliver an attractive total return in excess of inflation, by investing in a diversified portfolio of up to 20 large capitalisation equities.

Given its recent inception, we would like to take this opportunity to revisit our portfolio and the case for investing in dividend growth stocks as opposed to commenting on the relatively short performance history and activity.

With yields continuing to remain near record lows and central bankers so intent on creating monetary inflation, never before has the search for income been so elusive. This has driven a flood of money into most income generating assets, so much so that many instruments now generate negative real rates of return.

Yet we believe high yielding equities are amongst a handful of asset classes that remain attractively valued and offer investors a substitute to traditional income generating instruments.

Why dividends matter

From an income perspective, high yield equities currently offer better value than most fixed income instruments. Even within the equity asset class, the importance of dividends is quite profound and often overlooked. In fact, it can be illustrated that dividends and dividend growth have over the past century collectively accounted for

90% of equity returns. Furthermore, dividends are paid out of profits which can grow over time and provide the potential for growth in the value of the underlying equities. This is especially true in the current environment for businesses that enjoy pricing power and are therefore better positioned to absorb inflation. This is supported by strong demographic trends, with an ageing population which means that the appetite for income is unlikely to diminish in the near future.

Our portfolio

The approach to building this portfolio shares many characteristics with those of the Credo Best Ideas Portfolio and, as a result, investors will notice a certain degree of stock overlap. The DGP adopts a value based approach to equity investing and our team focuses on high quality companies that are trading at attractive valuations. We look for robust business models that are simple to understand, companies with sustainable competitive advantages, sound financials and strong management teams. Ultimately, the distinctive feature of this portfolio is our emphasis on stocks that have the ability to pay attractive dividends. Dividend growth is also of fundamental importance to our research process and we do not look at high yields in isolation. Inherently, companies that can grow dividends typically generate stable and robust cash flows, which we believe are one of the many characteristics of a high quality company and a driver of share price appreciation over the longer term.

Examples

Johnson & Johnson (JNJ) is one of the world's largest manufacturers of healthcare products, serving consumer, pharmaceutical and medical devices and diagnostic markets around the world. A diversified revenue base and leading positions in its key markets merit the company an extensive economic moat. JNJ also boasts one of the strongest dividend track records in the industry with 50 years of consecutive dividend increases. Furthermore, healthy cash flow generation supports the dividend yield of 3.10% which is well covered by a free cash flow yield of 5.83%. Whilst the company supports an attractive dividend policy, we believe that markets are underappreciating the company's ability to grow this over the long term. A combination of a low pay-out ratio, healthy drug pipeline, growing emerging markets' presence and US demographic trends should reward investors with increased dividend distributions over time.

Vodafone is the world's third largest mobile operator. The company has over 400 million customers in more than 30 countries worldwide. It boasts a large emerging market exposure with a leading presence in high growth countries such as Turkey, South Africa, India and Egypt. Despite being well positioned for the longer term, the stock trades at a relatively low valuation and offers an attractive dividend yield of 5.47%. Both of these metrics are very much a reflection of on-going concerns over the company's European market and uncertainties surrounding its ability to continue servicing the dividend. Recent dividend cuts by peers (France Telecom and Spain's Telefonica) have somewhat spooked investors who appear to be losing confidence in the European telecoms space as a consequence. However whilst the headline dividend to free cash flow pay-out ratio of nearly 100% seems excessive, a closer analysis uncovers the fact that the financial strain in this particular instance is in fact not that severe. What's also not included in this calculation is the multibillion dollar dividend that Vodafone has begun receiving from its 40% stake in US operator Verizon wireless. This takes the pay-out ratio closer to a more manageable 60% which compares very favourably with many of the company's global peers whose capital structures remain weak.

Why invest

We believe the dividend growth portfolio offers investors a compelling opportunity to diversify their sources of income outside of traditional fixed income instruments. Furthermore, the portfolio has the added benefit of potential capital appreciation and a degree of inflation protection. In adopting a long term approach to constructing a diversified portfolio we also emphasize a strong focus on capital preservation.

Open Mouth Operations

Never before has the wealth of so many depended on the words of so few

As many predicted, compromise was reached on the US Fiscal Cliff at the end of last year, primarily by "kicking the cliff down the road". But beyond all the facts and figures, the whole debacle is recognition by both parties that without debt funded government spending, the US economy would be in recession. A back of the envelope calculation would suggest they need twelve full $600bn Fiscal Cliffs to get US debt back down to 2007 levels, not including the negative impact of fiscal tightening on growth or the $4.6trn and growing pension liabilities that loom.

The media might have put all its attention on the election and the now postponed Fiscal Cliff-hanger, but the year 2012 for financial markets can really be summed up with three words: "Whatever it takes". Although that exact phrase refers to Mario Draghi's speech last summer on what he is prepared to do to save the Euro, it is an appropriate description of the attitudes of central banks around the world (at the time of writing the Fed is planning to buy more bonds every 4 months than the dollar value of all the gold in the Bank of England vault) and markets have taken their word for it that "it will be enough". But a closer look at some past golden nuggets from Ben Bernanke suggests that perhaps we should be taking what officials say with more than a pinch of salt:

21 November, 2002 "The U.S. government has a technology, called a printing press (or today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at no cost."

July, 2005 "We've never had a decline in house prices on a nationwide basis. So, what I think is more likely is that house prices will slow, maybe stabilize, might slow consumption spending a bit. I don't think it's gonna drive the economy too far from its full employment path, though."

15 February, 2006 "Housing markets are cooling a bit. Our expectation is that the decline in activity or the slowing in activity will be moderate, that house prices will probably continue to rise."

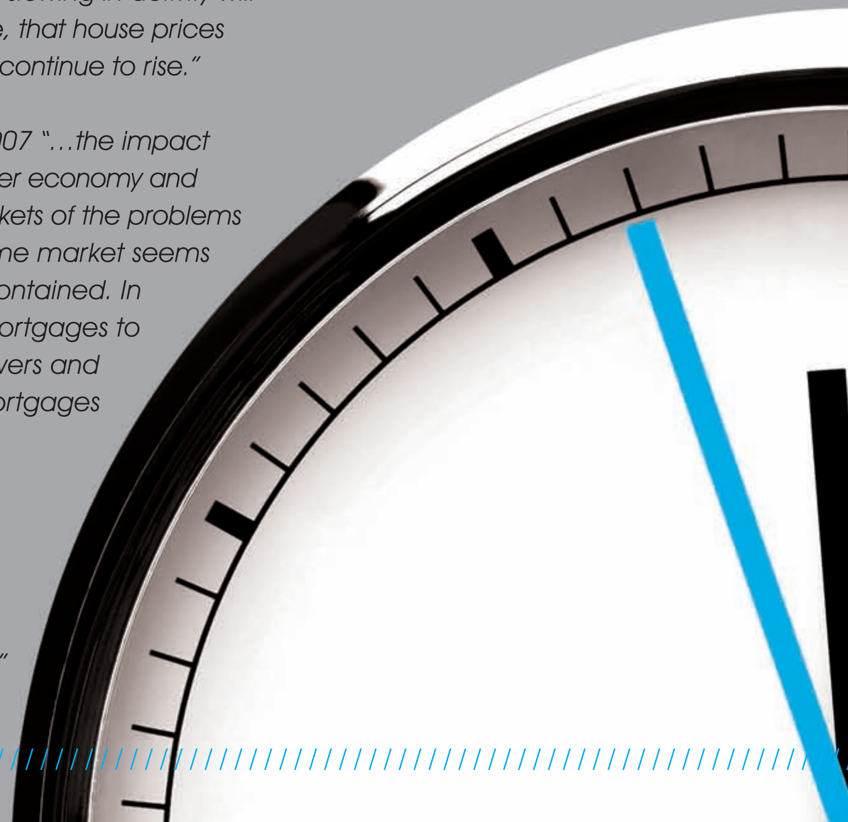
28 March, 2007 "…the impact on the broader economy and financial markets of the problems in the subprime market seems likely to be contained. In particular, mortgages to prime borrowers and fixed-rate mortgages to all classes of borrowers continue to perform well, with low rates of delinquency."

20 June, 2007 "The mortgage debacle will not affect the economy overall."'

31 October, 2007 "It is not the responsibility of the Federal Reserve – nor would it be appropriate – to protect lenders and investors from the consequences of their financial decisions."

10 January, 2008 "The Federal Reserve is not currently forecasting a recession."

10 June, 2008 "The risk that the economy has entered a substantial downturn appears to have diminished over the past month or so."



3 March, 2009 "We expect to see recovery beginning in the second half of 2009."

5 December, 2010 "One myth that's out there is that what we're doing is printing money. We're not printing money."

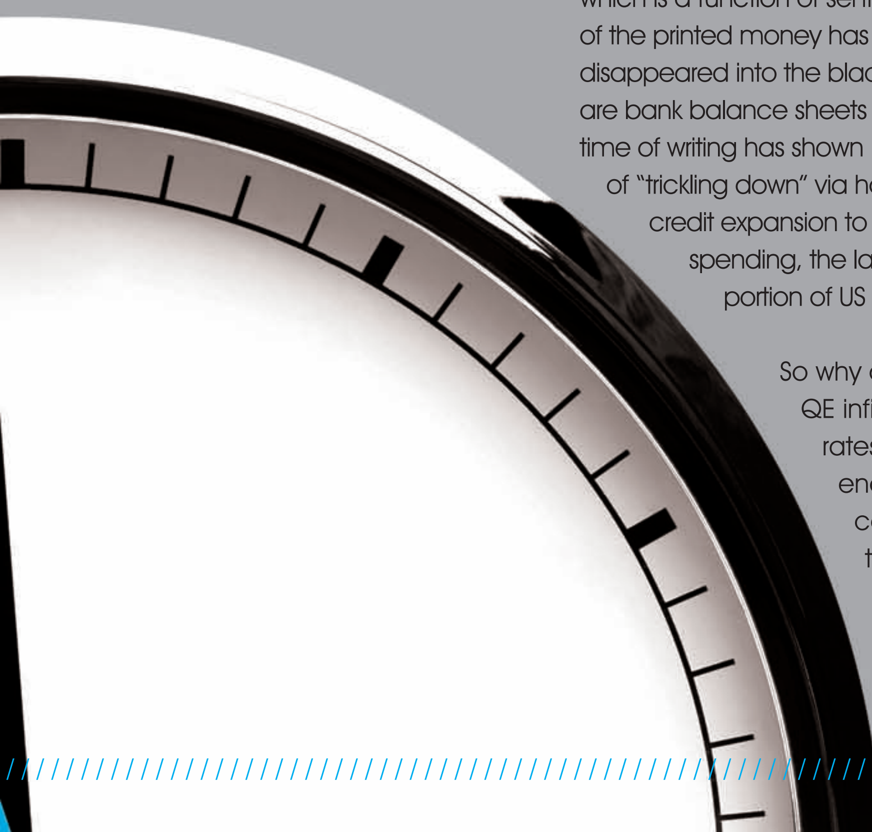
5 December, 2010 "We've been very, very clear that we will not allow inflation to rise above 2 percent."

25 April, 2012 "…assuming no new shocks in the oil sector, inflation ought to moderate to about 2 percent later this year." [The Fed's preferred inflation measure shows that prices rose 2.3 percent in the 12 months that ended in February.]

Perhaps head of the Euro group Jean-Claude Juncker summed it up best in 2011: "When it becomes serious, you have to lie."

Reading between the lies

The more popular (palatable) story is that the Fed's stimulus is to create a wealth effect by propping up financial asset prices. But whilst this is just a convenient by-product of Quantitative Easing (QE) that benefits the wealthiest 20% of Americans (who own 80% of all US held stocks), it has limited impact on the unemployed who the Fed are ultimately looking to target. Monetary policy controls the monetary base, but central banks have had less success increasing money velocity, which is a function of sentiment. Most of the printed money has thus far disappeared into the black hole that are bank balance sheets and at the time of writing has shown little sign of "trickling down" via household credit expansion to consumer spending, the largest portion of US GDP.



So why announce QE infinity if zero rates still aren't encouraging consumers to borrow? Perhaps chairman Bernanke understands that greed alone is not as effective in manipulating velocity without fear. By explicitly tying money printing to 2014 or an unemployment target he's hoping to shock inflation expectations through rhetoric. If he can scare US consumers to borrow and spend now in the fear that prices will spiral upwards in the future, he might create a self-fulfilling prophecy. The carrot of zero rates and the stick of inflation also conveniently reduce the real rate US debt is increasing.

There is currently (at the time of writing) widespread optimism that we are returning to prices driven by fundamentals. However the move in Japanese equities on announcement that the Bank of Japan's plan to destroy the currency in 2014 suggests markets will continue to hang on every word of the Central Banks for some time to come. The increasing importance of signalling as a policy tool has not been lost on the Bank of England either - with rates at the zero lower bound, agreeing to pay Mark Carney £874,000 a year (more than Bernanke, Draghi and Shirakawa put together) seems more of an investment in his stage performances than his choices on how much money to print. Never before has the wealth of so many depended on the words of so few, for so long.

Individual Savings Account (ISA)

The time has come to "use it or lose it"

The end of the UK tax year is fast approaching and it makes sense to take advantage of your annual ISA allowance. An ISA enables interest and investment gains to incur zero tax.

If you don't use your ISA allowance of £11,280 by 5 April 2013 you will lose it. You can invest your money into the shares of any company listed on a 'recognised stock exchange', (not AIM), most corporate bonds and some funds. You have access to your money at any time, although, with a Stocks and Shares ISA you should be prepared to invest for the medium to longer term. It's important to use your ISA allowance, even if you are unsure where to invest, as once we pass the end of the tax year, the allowance is lost for that year.

Capital Gains Tax ("CGT") Benefit of an ISA

ISAs offer protection from CGT. The rate of CGT has increased to 28% for higher earners, therefore using an ISA could help you avoid a CGT bill further down the line.

Income Tax Benefit of an ISA

Higher rate taxpayers enjoy a tax benefit as they don't have to pay any additional tax on their dividends and interest, which they would do if the shares or bonds were held outside of an ISA.

ISA Rules

The annual investment limit for the tax year ending 5 April 2013 is £11,280 and this will increase to £11,520 for the tax year ending 5 April 2014.

To pay into an ISA you must be:

- A UK resident or a Crown employee, such as a diplomat or member of the armed forces, who is working overseas but paid by the government or the husband, wife or civil partner of a Crown employee;
- 18 or over, for a Stocks and Share ISA.

An ISA must be in your sole name; you cannot have a joint ISA. Between you and your spouse your annual ISA allowance amounts to over £21,000 which means that over 5 years you could invest over £100,000 in a tax efficient structure.

Maximise your pension

A pension is one of the most tax efficient ways of saving for retirement and in Credo's opinion, a Self Invested Personal Pension (SIPP) is the most flexible way of taking advantage of this savings mechanism.

A SIPP offers up to 50% tax relief (depending on your tax bracket) on contributions and there is no capital gains tax or further income tax to pay. The tax benefits will depend on your circumstances and tax rules are subject to change by the government.

Unlike traditional pensions where your investment choices are limited, with a SIPP you have the ability of investing in many different asset classes such as direct equities, corporate bonds and Exchange Traded Funds.

Tax Relief: When you contribute to your SIPP, the government automatically adds 20% basic rate tax relief.

For example, if you invest £8,000, the government adds £2,000 (20%) tax relief, increasing your total contribution to £10,000.

If you pay tax at 40% or 50%, you can claim back even more through your tax return. From 6 April 2013 the top rate of tax will reduce from 50% to 45%. So, if you want to use pension tax relief to offset your 50% tax liability this year, you must make your contribution before 5 April 2013.

On Retirement: When you reach 55 years old or when you retire and wish to take funds from your SIPP you can take up to 25% tax free cash. The remainder is then made available to provide you with a taxable income.

Contributions: If you're a UK resident and under the age of 75, the general rule is you can contribute as much as you earn this tax year, effectively capped at £50,000. The annual allowance will fall to £40,000 from the 2014/15 tax year.

"Morningstar-t-ime"

MyCredo research tool

We are delighted to announce the inclusion of the Morningstar Analyst Research Centre ("Morningstar") which will soon be accessible via your login to MyCredo.

Morningstar is a leading provider of independent investment research and is one of the most recognised and trusted names in the investment industry, serving more than 8 million individual investors, 250,000 financial advisors and 4,500 institutional clients worldwide.

The tie up with Morningstar will give you unlimited access to easy-to-use portfolio management tools, personalised portfolio analysis, select investment ideas and independent, in-depth analyst reports. It is designed to provide you with up-to-date recommendations and insights on the respective coverage universe (stocks, funds, ETFs, IPOs, or credit) by a team of more than 200 analysts.

Some of the research features include:

Actionable investing ideas with Morningstar equity research reports and ratings.

Analyst reports on 1,800 stocks quickly get to the bottom of what a stock is worth and what your investment considerations should be. The insightful five to seven page reports include analyst commentary, exclusive Morningstar ratings, and ten years of historical data.

Morning notes provide daily insights from Morningstar stock analysts and address company-specific news and implications for investors.

Data pages on more than 9,000 stocks present key financial and historical information.

Sector reports highlight the most important factors influencing equity investments and valuations.

Industry focus articles provide valuable industry overviews, discuss competitive dynamics, and highlight the companies Morningstar believes are best positioned in the industry.

Economic insights delivers Morningstar's latest analysis on the state of the economy and where it is headed.

Quarterly market outlook showcases Morningstar's fundamental, forward-looking view of the equities market, sector by sector.

We believe that the inclusion of Morningstar via MyCredo will help you to make educated investment decisions. Morningstar will provide investors with all the pertinent facts and your Relationship Manager will be able to assist you should you require any further information.

MORNINGSTAR®

Times are changing

The property market

A lot can change in 5 years! In 2008, an emerging 'credit crunch' was largely seen as a problem confined to the banking sector and the real estate sector talked about the possibility of a small (short term) correction in UK property values. 5 years later and the real estate sector is still recovering.

Whilst we suspect that the market will be very different in 5 years time, we see the following issues as currently defining the sector:-

- UK Banks have a huge legacy of non-performing property loans (circa £95bn) dating from the pre-credit crunch period and many are only just accepting the correct levels of impairment required. Often these lenders have refrained from enforcing their loans because of the material costs of breaking the financial derivatives (taken out by borrowers), which would only increase their losses. This legacy of non-performing loans needs to be resolved.

- Banks haven't been able to lend in any meaningful way to fund new real estate transactions. Gone are the days of the "get in, get geared, get out" approach fuelled by the pre-credit crunch lending boom; investors now require a substantial amount of equity to fund transactions and without any meaningful debt it is difficult to generate strong returns.

- Huge amounts of overseas capital have been invested in UK real estate over the past few years, and this trend is likely to continue. These investors (together with UK Pension funds) generally have a desire for stable, income producing assets with bond-like characteristics, so they tend to target either London assets or buildings with very strong tenants on long leases. However, because their return profile is very different to ours it has become very difficult for us to compete with these investors; the consequence is that prices on some prime property have reached pre-2008 values, which some investors find difficult to justify.

- Outside of London, the picture is very different; there is often a lack of tenant demand and limited funding available, so we feel that the values of some secondary properties need to fall further before they are sufficiently interesting to cash buyers.

- The retail high street appears to be in real distress and this is the result of much more than merely a cyclical downturn; last year Clinton Cards closed 350 stores, Game closed 227 stores, Peacocks closed 224 stores, Julian Graves closed 189 stores, JJB Sports closed 133 stores and more recently Comet, Jessops, HMV, Blockbusters and Republic (over 1,120 sores combined) have all been put into administration. The high street is in a period of radical change caused by the increasing evolution of the internet and technology and investors are right to be concerned about the retail sector.

Despite the challenges referred to above, there are (perhaps for the first time in 5 years) some positive signs emerging:-

- Last year, UK property was able to repay circa £14bn of its bank loans, which is welcome news! Also, the terms of some of the financial derivatives (attached to the loans) are now starting to come to an end so the unrealised break costs will start to fall away (and this should really help the banks start to deal with some of these non-performing loans). And it also appears that some real estate lenders have more of an appetite for lending again (perhaps assisted by the government's Funding for Lending scheme); so whilst the debt legacy is a massive problem that needs to be resolved, it seems to be a gradually improving picture.

- Fuelled by the huge demand for residential homes in central London from overseas buyers (and also because values of buildings in central London are

higher for residential than for offices) developers are buying up office buildings for residential redevelopment, which offers the potential to make good returns.

- It also seems that from spring 2013, new legislation will come into force allowing a change of use from offices to residential without the need to apply for planning permission; this removes one of the key risks in these projects and it will be a massive incentive to encourage refurbishment and development. In outer London locations the possibility of conversions is fantastic news, even if some of these schemes will be hampered by the difficulties of obtaining debt funding.

- Values of secondary stock continue to fall, but there are huge opportunities for those who are willing to invest for the future, who have the asset management skills, who have specific location knowledge and who do not need short-term liquidity or rely on debt.

- Retail landlords should expect to have challenging times ahead as retailers "right-size" their store models in line with today's consumer shopping patterns, but it is clear that physical shops will have an integral role to play in retail (i.e. Next recently reported that 60% of their returns from e-commerce are returned through their retail stores and Fat Face revealed that 40% of its customers chose its "deliver to store" service).

We are continuing to look for opportunities where the property fundamentals (including location, tenant demand, alternative use, capital value per sq ft and rental value per sq ft) make sense. We believe that there will be good buying opportunities and that good quality property management teams will always be able to create value and good returns.

Time to be social

Birds do it, bees do it, ...

It has taken us a while to decide to do it and I am sure many of you don't do it. But your kids do it. So what's it all about and what's the point?

If like me, you were devastated by the Oscar Pistorius case and wanted news of the outcome of his bail hearing, by becoming one of @barrybateman's 140,000 Twitter followers you too could say "yes!" or "oh no!" as Oscar received bail - even if you, like me, are sitting in a ski resort in Switzerland far from any traditional news report.

Our tweets may not be groundbreaking but we promise to tweet only what we find interesting and relevant. If you follow **@Ettlinger_Credo** you will get the occasional tweet from our CEO Roy Ettlinger about an interesting article in the FT or Investor's Chronicle or maybe some cricket commentary and if you are lucky then Roy may tweet his view on the betting odds on the rugby match he is watching. But being part of the over 50 club, he is unlikely to tweet regularly, so when he does it's worth not missing.

By following **@DeonGouws_Credo** you will get more regular commentary about life in London, the economy and interesting articles. Following Deon gives you day to day access to our Chief Investment Officer who reads more than anyone else I know. As the author of '…And nothing but the truth'?, a book about Hansie Cronje, you are also likely to get some cricket commentary.

But Twitter is a young man's game and the one not to miss is our young research analyst, **@AinsleyTo_Credo**. Not only is he very smart, he is the one who does this naturally!

Finally you can follow the MD of Credo Capital **@AlanNoik_Credo**. He says he will tweet one day and we are all following him to make sure that we don't miss that inaugral day. (We think he may be scared of Sheryl Noik, (@ShezzN) who has 3,186 tweets and 173 followers!

When you become a real expert at Twitter, please consider retweeting our tweets to share Credo's comments or simply to show your friends you've learnt how to do it.

If you are still not convinced and refuse to join the Twitter revolution at least show you are up there with the social network and visit our new Credo Sharing & Caring Facebook page. (www.facebook.com/credosharingandcaring). We have set it up so that you can get to know us better and see the things we care about and we would love to hear from you. If you like what we do please share the link with your friends on Facebook and like our page so others know you care that we care.

Credo pioneers an internship programme for The Portland Trust

Haitham Najjar, a 28 year old Palestinian spent a month with Credo at the end of 2012. Haitham heads the Investment and Financial Analysis Department at The National Bank in Ramallah. Haitham's internship was arranged by The Portland Trust who approached Credo to pioneer a programme offering Palestinians vital training in areas where they may lack this opportunity in Palestine.

Commenting on the experience Haitham said *"Working as a team with the rest of Credo's staff was something that I truly treasured. I would like to implement Credo's successful journey in Palestine. It will take a long time to create something like Credo, but we will start and I am excited to do that."*

The Portland Trust was set up to promote peace and stability between Israelis and Palestinians through economic development. The Portland Trust was founded in London in 2003 by Sir Ronald Cohen, together with Sir Harry Solomon. The other Trustees are Sir Martin Gilbert, Lord Freud and Mick Davis.

Haitham Najjar - Intern at Credo in October 2012

Recent appointment

Jason Spilkin joined Credo's investment team as an equity analyst at the beginning of the year.

He grew up in Port Elizabeth, South Africa and obtained a Bachelor of Commerce degree from Stellenbosch University. Jason subsequently completed Honours at the University of Cape Town followed by an MSc in Investment Management at the CASS Business School in London. He is a CFA Charterholder and has five years' investment experience, having worked at funds including Vantage Investment Management and Stark Investments.

In his spare time, Jason's interests include cookery, wine and rugby. He is also a keen golfer but, due to the British weather, he apparently packs in most of his rounds during annual visits to South Africa these days…

Jason Spilkin - Equity analyst at Credo Capital Plc

Credo sponsors Maccabi GB

Credo is proud to be the corporate sponsor of Maccabi GB at the 19th Maccabiah Games which takes place in Israel in July 2013. Over 8,500 athletes from some 71 countries are expected to take part in the 19th Maccabiah Games.

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LONDON
83 PALL MALL
SW1Y 5ES
LONDON
UNITED KINGDOM
T. +44 (0)20 7968 8300
F. +44 (0)20 7968 8301

GENEVA
(TRUST &FIDUCIARY SERVICES)
15, BOULEVARD HELVETIQUE
CH-1207
GENEVA, SWITZERLAND
T. +41 (0)22 718 7200
F. +41 (0)22 718 7201

CAPE TOWN
ROZENHOF COURT, UNIT 6
20 KLOOF STREET, 8000
CAPE TOWN
SOUTH AFRICA
T. +27 (0)21 422 4273
F. +27 (0)21 422 5047

JOHANNESBURG
WIERDA MEWS, BLOCK B
41 WIERDA ROAD WEST, 2196
JOHANNESBURG
SOUTH AFRICA
T. +27 (0)11 883 3222
F. +27 (0)11 883 9905

BERMUDA
CENTURY HOUSE,
16 PAR-LA-VILLE ROAD
P.O. BOX HM 1806
HAMILTON, HM HX, BERMUDA
T. +1 441 292 7478
F. +1 441 295 4164

BVI
GENEVA PLACE,
333, WATERFRONT DRIVE
ROAD TOWN, TORTOLA
BRITISH VIRGIN ISLANDS
T. +1 (0)284 494 4388
F. +1 (0)284 494 3088