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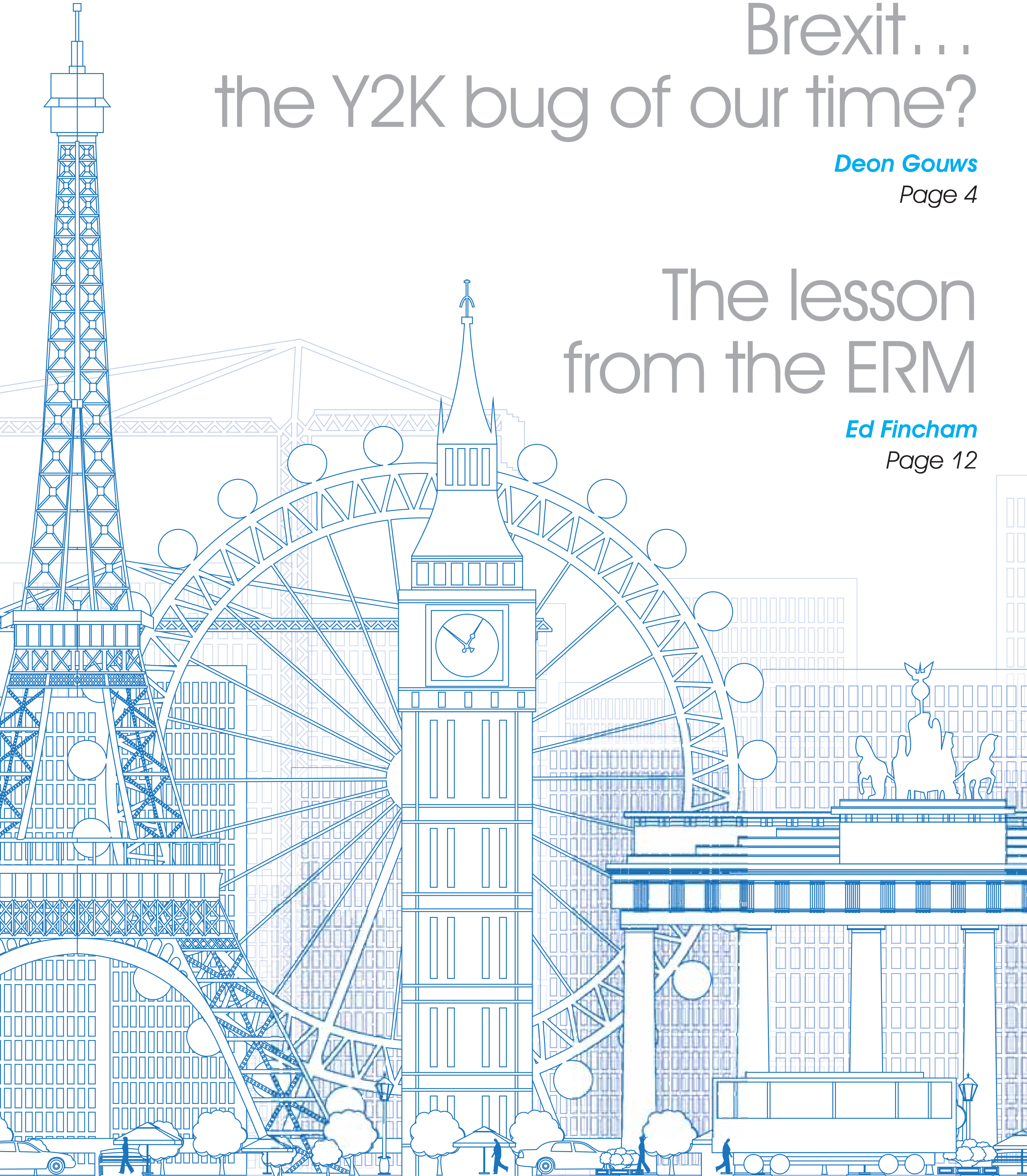


Message from the CEO | Roy Ettlinger | @Ettlinger_Credo

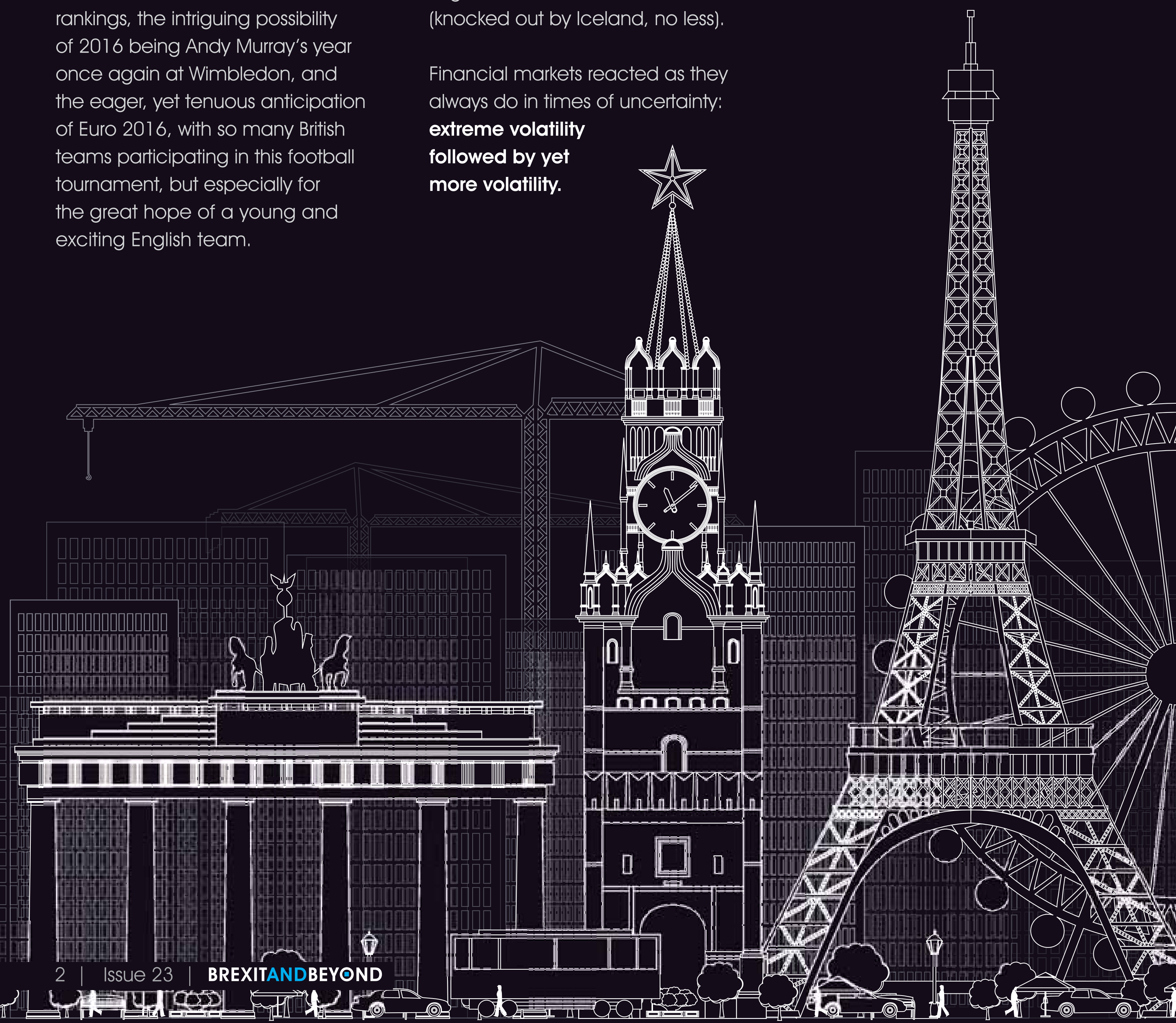
Winners and losers...

If I had penned this article before the 23rd of June, the UK media would have been singing the praises of the first ever England rugby team to triumph down under (albeit with an Australian coach), the resurgence of the England cricket team as they rose to number 4 in the world test rankings, the intriguing possibility of 2016 being Andy Murray's year once again at Wimbledon, and the eager, yet tenuous anticipation of Euro 2016, with so many British teams participating in this football tournament, but especially for the great hope of a young and exciting English team.

And yet today these are now mere snippets as the great British press is currently obsessed with the consequences of party politics, political leadership contests and the real Brexit, and no longer the hopeless, yet predictable Brexit of the English football team from Euro 2016 (knocked out by Iceland, no less).

Financial markets reacted as they always do in times of uncertainty: **extreme volatility followed by yet more volatility.**

In this edition of CredoNews, a number of my colleagues give more detailed comments on Brexit and the possible implications for both the UK economy and investors themselves.



As Ainsley To so eloquently puts it in his article on *page 8*, it is inevitable that all managers (Credo included) will experience periods of underperformance, and in some cases these periods could last for an extended time. Having said that, we remain confident that our value-based approach will stand us and hence our investors in good stead for the turbulent periods that are undoubtedly ahead.

With this in mind, I am pleased to report that both our Best Ideas Portfolio, as well as the Dividend Growth Portfolio, have continued their impressive performance through a very good June. The recently launched Credo Global Equity Fund has also weathered the current financial storm brilliantly and has performed very well to date - further details can be found on *page 6*.

In our opinion, **the current uncertainty makes stock picking that much more important** as clearly there are a number of companies that will be able to benefit from the chaos and uncertainty that has occurred as a consequence of the Brexit vote.

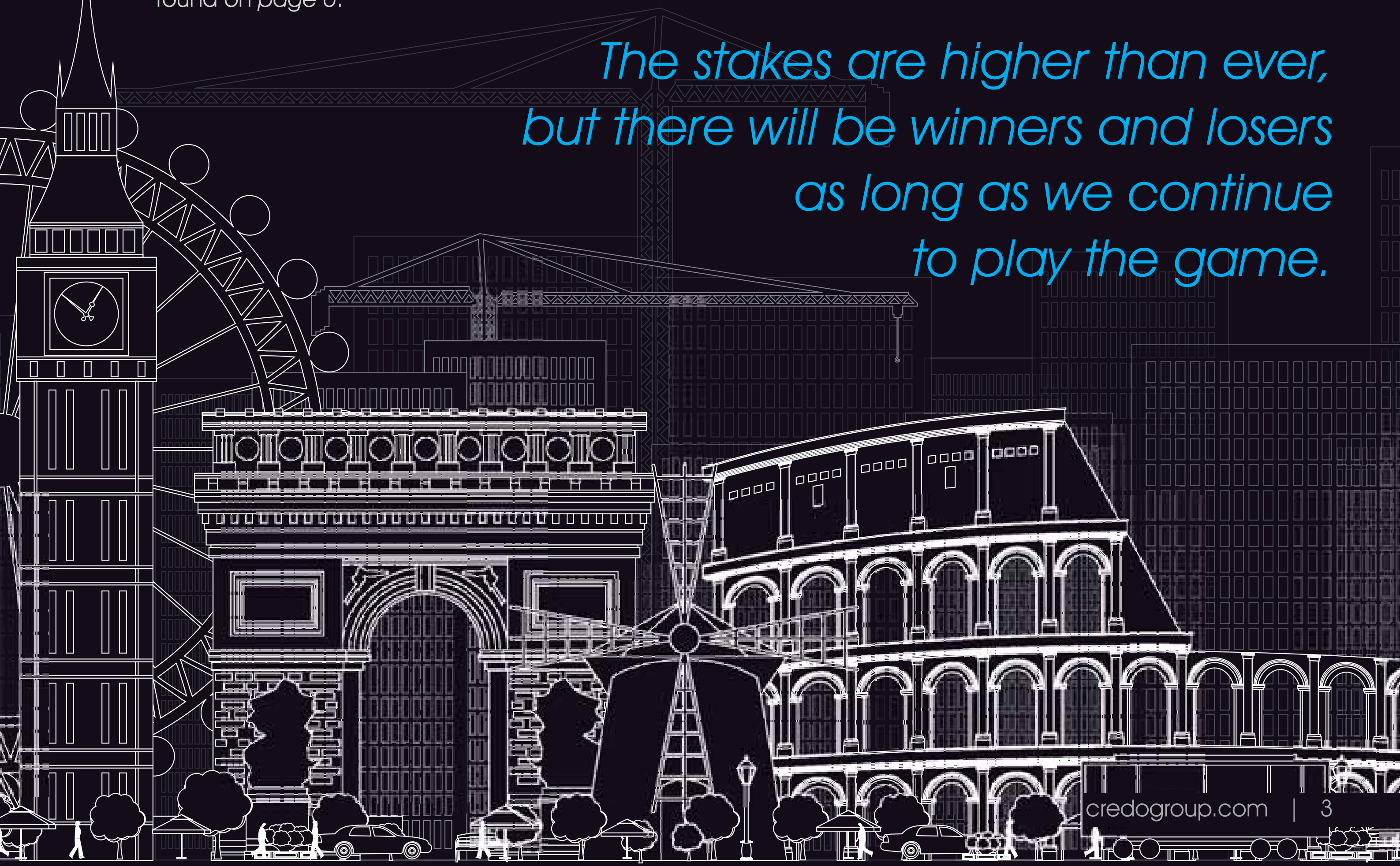
We believe that we will now be living in a world of extended uncertainty as the terms of Brexit will take years to be negotiated, and yet **in the chaos, there will undoubtedly be many opportunities**.

More than ever we believe that in times like this, investors will be best served by remembering that creating wealth is by its very essence a long-term objective, and hence it is imperative to ensure that one remains invested for the long-term in quality companies despite all the noise.

In sport, as in life, there are winners and losers. And whilst the outcome is never 100% predictable, at the time of writing, my money is on Britain's very own Andy Murray to win Wimbledon and on Germany to win Euro 2016. Once this is printed the outcome of both of these events will of course be known – that's called the benefit of hindsight, something all investors would do well to remember: we just don't have it until after the fact.

The key issue one needs to consider when investing is, what the risk / return profile is and how attractive that is, and to understand how best you can profit despite the fact that the outcome may not be what you had expected or wanted. That's the situation we find ourselves in today as we watch the market's gyrations on our screens.

The stakes are higher than ever, but there will be winners and losers as long as we continue to play the game.



Deon Gouws - *CIO* | @DeonGouws_Credo

Brexit... the Y2K bug of our time?

In the lead-up to the recent referendum in the UK, we wrote a letter to clients in which we compared a prospective Brexit to the situation nearly two decades ago when financial markets were spooked by the so-called Y2K bug.

Back in 1999, many people were extremely fearful that all information technology would freeze just as we popped the champagne corks and rolled into the new millennium, due to a small but supposedly significant quirk related to the date field in practically every computer program in the world.

We all know how that ended: the sun rose again on the 1st of January 2000, petrol pumps and cash machines and tills continued to function (not to mention computers!). **Life carried on. And markets quickly recovered.**

There are many such examples: over the years, financial markets have fixated over one looming disaster after another, only to bounce back strongly once the perceived danger starts to dissipate. Recent examples include SARS in China (2003), bird flu in Asia (2004), swine flu in Mexico (2009), the Arab Spring (2011), the US fiscal cliff (2013), ebola in Africa (2014) and a possible Grexit (2012 & 2015).

All of this just underlines the words of Byron Wien when he said:

"Disasters have a way of not happening".

Then, a few weeks ago, the people of the UK voted whether or not the country should remain a member of the European Union. Within a couple of hours after polling stations had closed, the results started coming in and it soon became clear that we were in for a big surprise: Brexit was now a real possibility and perhaps the "disaster" that very few had expected, was finally upon us.

Markets reacted swiftly. By midnight (with less than 3% of results announced), pound sterling was already trading down nearly 10% in the international currency markets. Over the next couple of days, equities around the world took a pounding, wiping out practically all calendar year gains.

Since then, we have also seen some stronger days, but the adjusted consensus appears to be that the bull market has gone into hibernation for potentially a protracted period of time.

However, is Brexit really such a disaster? And how should you position your portfolio in response to all the uncertainty of the next few years? Bear in mind that the UK has a full two years to negotiate an exit from the EU (and in terms of Article 50 of the Lisbon Treaty, that clock has yet to start ticking; it may in fact only kick off in three or four months' time, perhaps even later).

Brexit is a deeply vexed issue, and **the longer term consequences are quite frankly unknowable at this point in time**. With the major political parties all going through some form of leadership crisis, we're not even sure who will ultimately be tasked with negotiating the terms under which a Brexit will be effected in a few years' time (hopefully in an orderly

"If Brexit matters to your portfolio then you're doing it wrong. Really wrong."

fashion). And the jury is out as to whether the long term impact on the economy in general (and businesses in particular) will be positive or negative (business leaders and entrepreneurs are still divided on the issue).

But as far as portfolio positioning in the face of Brexit is concerned, we remain of the view that the best approach is to select investments on a bottom-up basis, taking into account company fundamentals when selecting securities. This is of course what we've always done at Credo, and accordingly we believe that the portfolios we manage should over time be able to withstand most of the volatility that we see in markets, whatever the reason.

In our view, the uncertainty surrounding how Brexit will play out largely boils down to the kind of "noise" that we choose not to focus on when investing client portfolios.

We acknowledge that money could have been made by those who took a short term trading view, called the outcome of the referendum correctly, and positioned their portfolio accordingly – but that is simply not our philosophy. We would hasten to add, however, that such prescient investors were pretty hard to find at the end of June (it is common cause that very few traders expected the eventual referendum outcome, and it's been in the news that, for example, some hedge funds have blown up as a result).

At Credo, we prefer to take a longer term view (focusing on potential holding periods of 5 years, if not more) and aim to invest in good quality businesses that we believe we understand and where we are able to gain exposure at reasonable valuations. In our view, very little if any of this is likely to be affected materially by the UK separating itself from the EU: **the businesses we invest in should continue to trade well, grow their profits, and potentially enjoy multiple expansion over time**.

For what it's worth, we would also reiterate that the majority of the counters which we've been adding to our equity portfolios over the past year or so have in fact been US companies, resulting in a situation where we are essentially overweight the US at this point in time. Purely based on this, we would therefore suggest that the risk of the Brexit process affecting our portfolios is somewhat limited, in any event.

So, will Brexit be the Y2K bug of our time? The true answer is that only time will tell.

But whether or not Brexit entails some "real bugs" in the form of disastrous consequences for the UK, Europe (and potentially the rest of the world), this does not detract from the importance of a robust investment approach which gives one the best possible chance of protecting and growing one's wealth, regardless of the economic environment.

As Cullen Roche from Orcam Financial Group was quoted as saying on the night of the referendum: ***"If Brexit matters to your portfolio then you're doing it wrong. Really wrong."*** We could not agree more. ■

Alan Noik - *MD* | @AlanNoik_Credo

Designed to suit your needs

CREDO's Investment Building Blocks

It has been an exciting few months at Credo. On the one hand, one of our oldest and most successful products – the Best Ideas Portfolio (BIP) – has celebrated a successful five year track record whilst, on the other, our latest offering – the Credo Global Equity Fund now has a 4 month track record.

We launched the BIP in April 2011 to provide our clients with a managed solution focused on a limited number of global stocks selected in accordance with our long-term, value orientated philosophy. **Five years later, this strategy has returned 91%, beating its benchmark – the MSCI World – by 21.8%.** This excellent performance is testament not only to our long-term focus, but also the diligence and hard work of our investment team.

The Dividend Growth Portfolio (DGP), launched in 2012, replicates the BIP but has an additional focus on yield. Despite this difference, our two managed portfolios overlap in philosophy and, to a certain extent, holdings. Accordingly, both have enjoyed very satisfactory investment performance, as shown in the above tables.

Cumulative Total Return*	1 Year	3 Year	5 Year	Since Inception
Best Ideas Portfolio	22.9%	52.7%	85.2%	91.0%
MSCI World	15.2%	40.0%	66.9%	69.2%
Relative Return	7.7%	12.7%	18.3%	21.8%

(*) £ to 30/06/2016

Cumulative Total Return*	1 Year	3 Year	Since Inception
Dividend Growth Portfolio	27.9%	50.3%	74.7%
MSCI World	15.2%	40.0%	61.0%
Relative Return	12.6%	10.3%	13.8%

(*) £ to 30/06/2016

Our latest product, the Credo Global Equity Fund (CGEF), was launched in March 2016 in response to considerable client demand, to provide greater diversification and greater flexibility in portfolio composition. For example, rather than the equal weighted methodology we implement in the BIP and DGP, the CGEF enables us to express our convictions with greater accuracy, building up our positions over time when market conditions warrant, and scaling down those when our convictions dissipate.

Additionally, for some clients the CGEF may be advantageous as capitals gains will typically only incur tax liabilities upon exit from the CGEF, rather than every time an underlying security is sold. Although a 4 month period is an insufficient time horizon to get the measure of any investment, we report it below for an indication of how our strategy has fared so far:

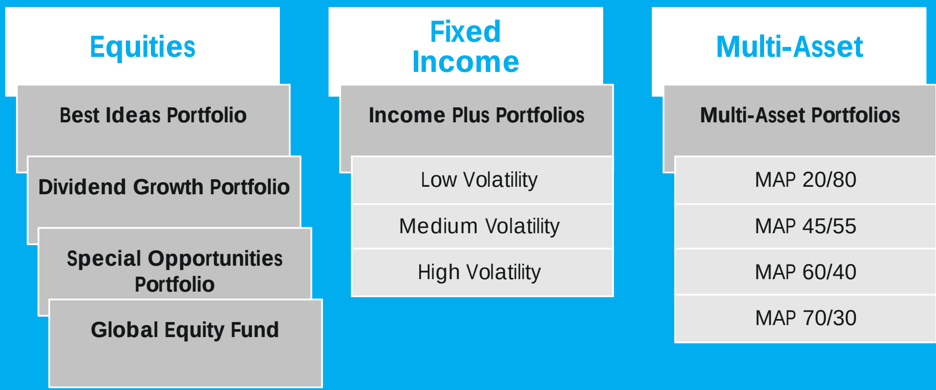
Cumulative Total Return*	
Credo Global Equity Fund	12.8%

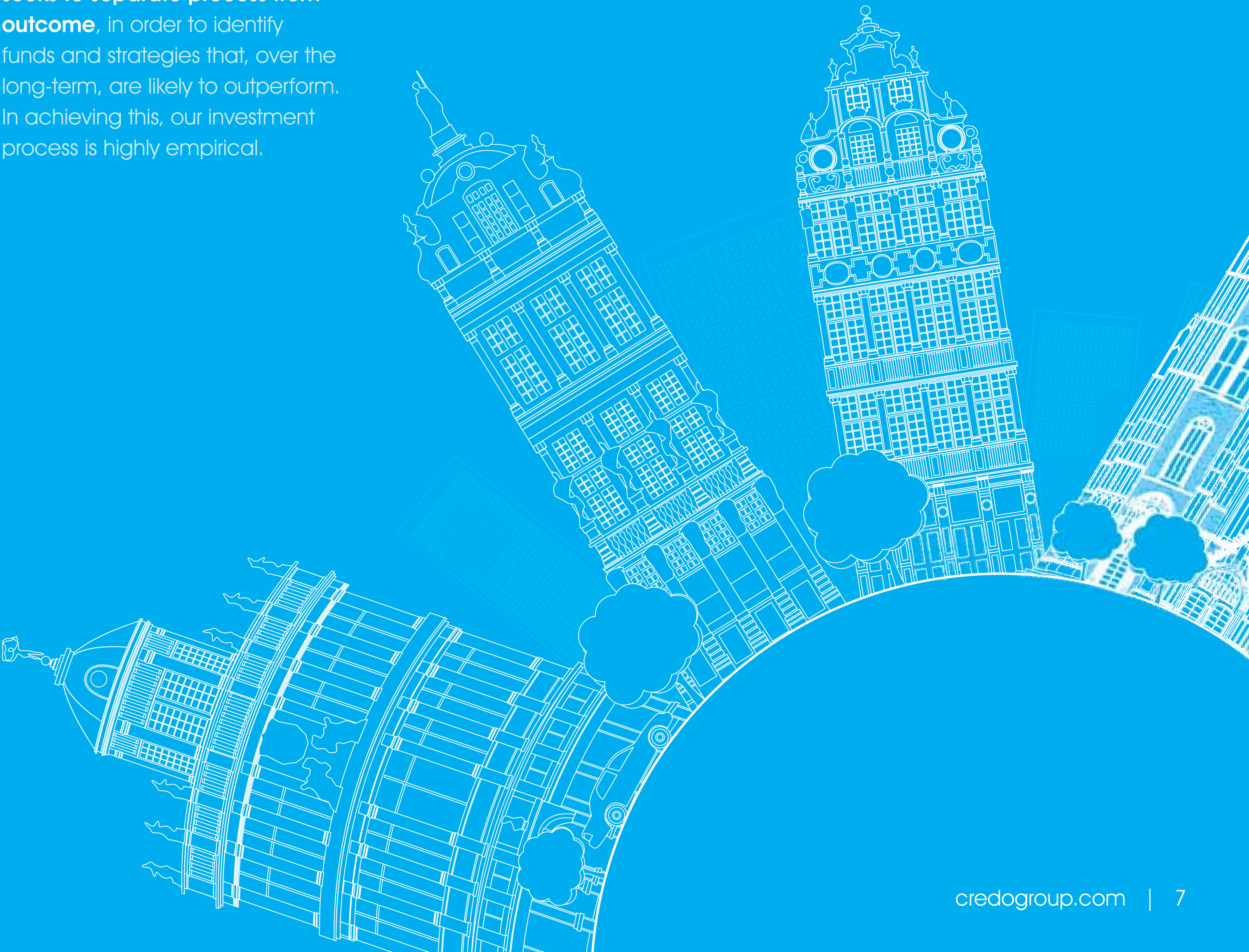
(*) £ from 01/03/2016 to 29/06/2016

In addition to our equity products, Credo manages three segregated fixed income portfolios, known as the Credo Income Plus Portfolios, which have achieved an outstanding track record though the careful selection of corporate bonds. The three portfolios offered staggered levels of volatility to suit the risk profile of our clients. Our fixed income team work diligently to identify bonds which offer the most attractive risk-return propositions.

Finally, our Multi Asset Portfolios invest in a global selection of actively managed regulated funds and ETFs. **Our investment process seeks to separate process from outcome**, in order to identify funds and strategies that, over the long-term, are likely to outperform. In achieving this, our investment process is highly empirical.

At Credo, each of our products are specifically designed to suit the particular investment needs of our clients, taking into account income considerations, attitude and capacity for risk, investment objectives and diversification. For further information on any of our products, please contact your Relationship Manager.





Ainsley To - *Research Analyst* | @AinsleyTo_Credo

The easiest way to become a millionaire using mutual funds

"Past performance is not indicative of future returns" is probably the most ignored disclaimer you'll see in the investment industry. But the best kept secret of investment marketing teams, and also the most difficult thing to come to terms with for unsophisticated investors, is that this statement holds more truth than either party is willing to admit.

Mutual Fund Category	Funds in Top Quartile Count at Start (September 2011)	Percentage Remaining in Top Quartile			
		Sep-12	Sep-13	Sep-14	Sep-15
All Domestic Funds	703	20.8%	7.0%	1.9%	**0.3%**
Large-Cap Funds	268	16.0%	5.2%	0.8%	**0.0%**
Mid-Cap Funds	98	19.4%	10.2%	2.0%	**0.0%**
Small-Cap Funds	148	21.6%	8.1%	1.4%	**0.7%**
Multi-Cap Funds	189	27.5%	6.9%	3.7%	**0.5%**

Source: S&P Dow Jones Indices LLC

(Note this study is looking at how well funds have done versus each other, not excess returns over their benchmarks, which is another story for another time.)

Can past performance lead you to the Holy Grail of CONSISTENT future outperformance?

Everyone wants performance charts that go up in a straight line, with consistent alpha on a 1, 3 and 5 year basis. But how reasonable is the expectation that a fund with top quartile past performance will go on to return consistently top quartile performance every year over a five year time horizon? Well, in the long-only space, it's somewhere between a 0% and 0.7% chance according to S&P[1], which looked at 2,800 mutual funds in the US from 2010-2015. Of the funds in the top quartile in the first year, 5.2% of them were still top quartile after three years, and this declined to exactly ZERO by 2015. This pattern is similar across fund categories, asset classes and regions.

Can past performance simply predict future outperformance?

What happens if we relax the requirement for ***consistent*** performance and instead look at whether a performance figure over a single period is indicative of the future; does a fund in the top quartile based on a past 5 year performance figure help predict whether it will be in the top quartile after the next 5 years? In this case your odds improve slightly: 12.0% for Small-Cap, 14.8% for Mid-Cap and 21.0% for Large-Cap. The problem is you have an even bigger chance of a top quartile fund ending the period in the bottom quartile: 28.3% for Small-Cap, 16.4% for Mid-Cap and 23.0% for Large-Cap. In other words, 5 year past performance is on average a better contrarian indicator than it is a useful investment metric!

Is chasing past performance in funds a proven way to lose money?

What if we rebalanced our portfolios every 3 years by buying outperforming winners and selling underperforming losers? A recent study, looking at over 20 years of data, concluded that selling funds with the worst 3 year performance and buying those with the best past performance every 3 years would result in a statistically significant negative alpha – that is to say, performance chasing is proven to be a losing strategy which can cost you over -2.0% a year.[2]

There are a plethora of other studies looking at the utility of past performance when assessing mutual funds and hedge funds but on balance the key theme is that track record alone has little predictive power (and if anything, mean reversion is more prevalent than momentum.)

Why is it so hard to stop masochistically chasing performance?

So if performance chasing keeps costing investors money, why are many investors still using past performance as their first and last decision criteria when deciding on an investment strategy?

There are numerous behavioural reasons why performance chasing remains such a popular exercise, some of which include the following:

The Dunning Kruger Effect[3]

Untrained persons are by definition unable to evaluate their ability accurately (as the saying goes: those who don't know, don't know that they don't know). They may not be aware of, or accurately measuring, the cost of their performance chasing; and without accurate feedback they don't have the correct incentives to change their approach.

Inertia & Intellectual Laziness

Human beings have a well-documented tendency to get stuck in their ways, even when faced with overwhelming evidence that their habits are bad ones. If picking funds based on past performance is deeply embedded into their process then the hurdle for change may be very high.

Furthermore, detailed due diligence such as: drilling down into the process of an investment strategy, the evidence supporting the investment thesis, and potential drivers of future returns can be a nebulous and time consuming task. It is the path of least resistance to believe in quick fix weight loss pills than face the hard work of exercise and eating better.

Ambiguity Aversion

This bias is, in my opinion, the biggest hurdle for investors. Our brains crave the certainty of numbers, even when we know they might be irrelevant. This can best be explained with an example: your goal is to choose a red ball. You can pick from one of two bags: Bag A contains 50 red balls and 50 blue balls, while Bag B has an unknown mix of red and blue balls. In both cases, the odds of picking a red ball are 50/50 (Lacking any information on the randomised contents of Bag B, our best estimate is that we have an equal chance of getting red or blue). However, people prefer Bag A because they know the odds. In fact, they tend to pick Bag A even if there are significantly less than 50 red balls, because even if the odds are worse than random, it is a human bias to prefer avoiding the uncertainty of the unknown.

Less sophisticated investors may know that past performance doesn't predict the future but, given that they don't know what else to focus on, they prefer to rely on tangible numbers over the discomfort of uncertainty. It would be nice if all solutions in investing could be simplified into a single number but, as Einstein said, "the truth should be as simple as possible, but no simpler."

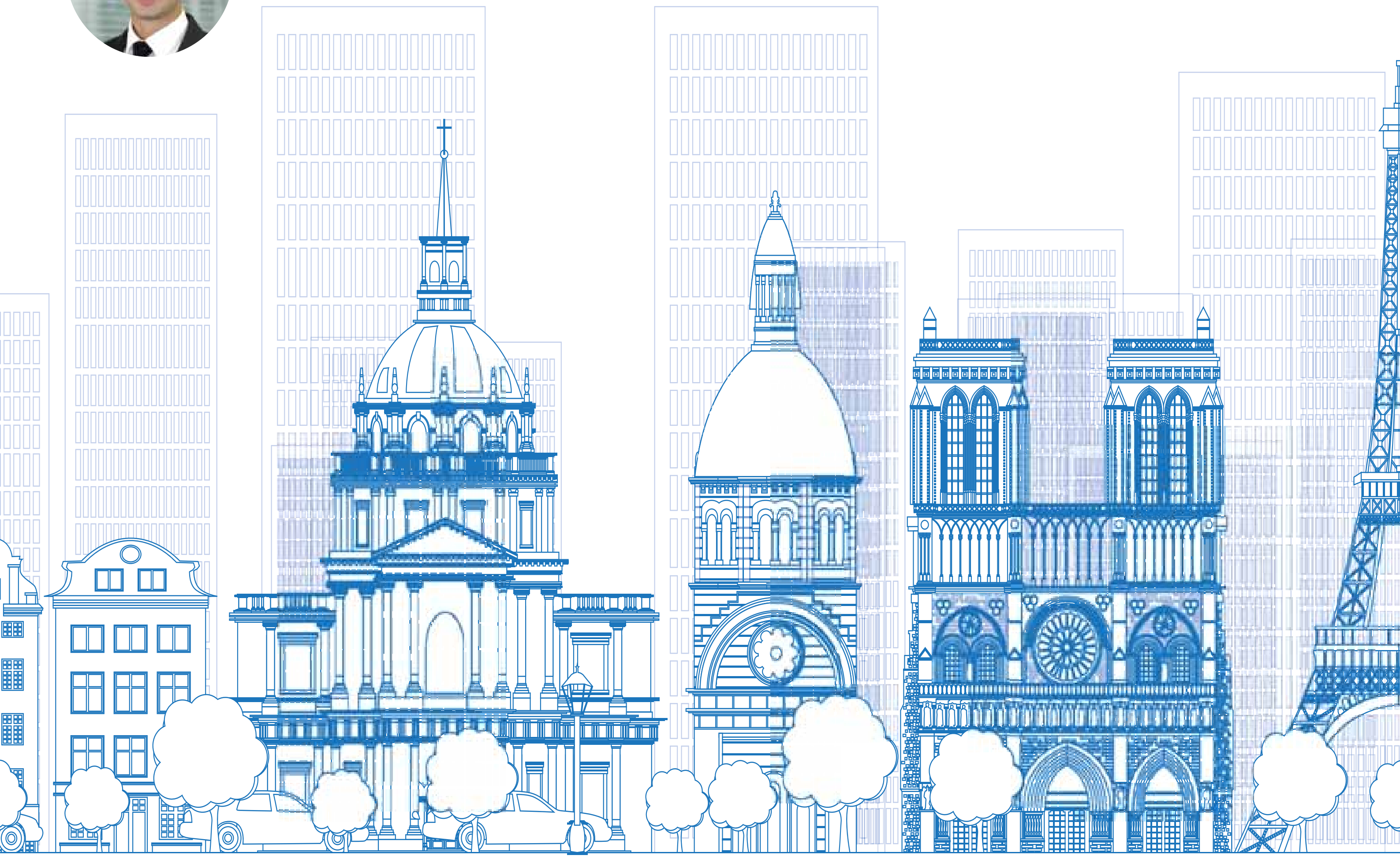
The role of your investment advisor

It is far easier for an advisor to pander to clients' biases and sell them the next hot product based on a good looking performance chart. It is much harder to help them improve their understanding about their own needs and be candid about their expectations. Giving an investor an overview of the intellectual basis behind an investment strategy – how it can help them meet their goals, and the academic evidence supporting these points – can help them tackle some of these biases up front. Developing this trust with investors early on is crucial to help weather the storm during the tough periods for performance that inevitably occur during a market cycle.

What is the easiest way to become a millionaire using mutual funds? Start as a billionaire and continually chase performance.

(1) S&P performance persistence scorecard
(2) Cornell B., Hsu J., & Nanigian D. (2016), "The Harm in Selecting Funds that Have Recently Outperformed". Available at SSRN: http://ssrn.com/abstract=2732060
(3) The documented cognitive bias that a person is unable to recognise their lack of skill in an area until after they have been trained in that area.

Ben Newton - *Investment Manager*



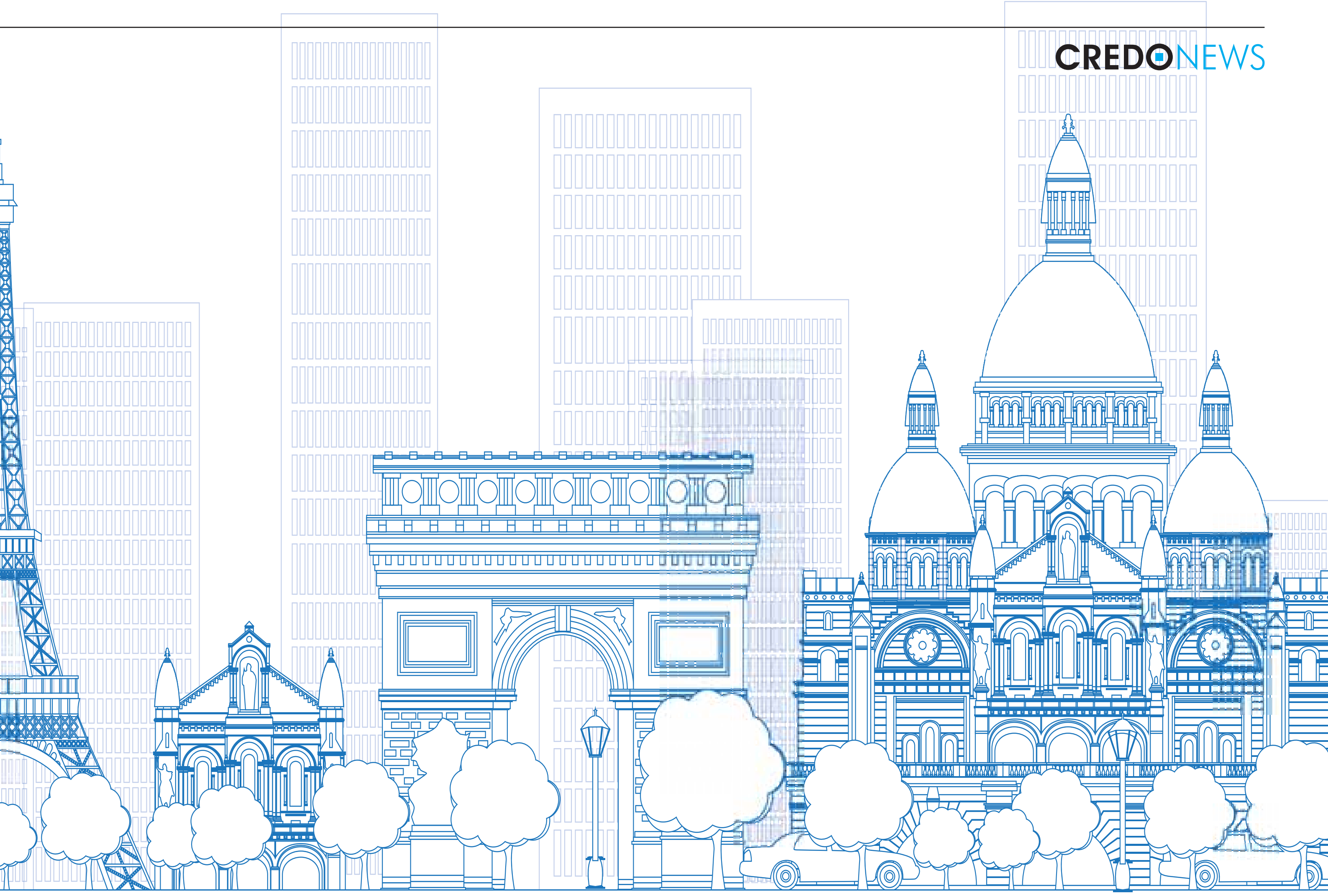
Time to float?

At Credo we typically refrain from making macroeconomic calls. Given the multitude of factors determining events such as interest rate changes, **making predictions is notoriously difficult and they are unlikely to be accurate**. After all, there are many examples of the market being caught off-guard by the actions of the US Federal Reserve (Fed), notably the taper tantrum of 2013 and June's weak unemployment data pushing out expectations of an upcoming rate rise.

However, the Fed has continued to reiterate that the current accommodative stance of monetary policy is likely to tighten gradually over time. Janet Yellen refers to returning to a neutral rate, once the economy is operating near full potential and capacity. At present this rate is deemed to be close to a zero real rate and therefore one may assume that the Fed will aim to move rates towards the target inflation rate of 2%. As ever, the progress towards this end will continue to be data dependent. Given the inherent lag in monetary policy, the Fed will have a balancing act of avoiding being too accommodative while not tapping on the breaks too late.

There are a variety of theories from prominent economists as to why this neutral rate has fallen in recent years.

These include former Fed Chair Ben Bernanke referring to a savings glut,



"…making predictions is notoriously difficult and they are unlikely to be accurate."

Lawrence Summers attributing it to secular stagnation, or current Fed Chair Janet Yellen linking the current interest rate to a variety of factors, including a strong US dollar and economic uncertainty.

Although correlations can be reduced by adding short-dated and high coupon bonds, **fixed income portfolios are inherently exposed to a rising rate environment**. However, we select these investments on the basis of the fixed return until their maturity and the health of the corporate. We seek to take a price agnostic view over the term of the bond. Yet there is another tool to reduce exposure and, potentially, even benefit from rising rates. That is, adding floating rate notes and we are currently recommending the purchase of a floating rate note from Aegon, for clients for whom such a note would be suitable.

As one of the world's largest insurance companies, with a market capitalisation of $9.7 billion, Aegon wrote gross premiums of €20.3 billion in 2015. The bond offers exposure to 10 year US rates, which will move in line with inflation and rate expectations, and currently trades significantly under par, producing a yield just shy of 3%. Our interest in this particular floating rate note was piqued by the fact that is has fallen more than competitors, falling from 80 at the end of 2015 to the current price of around 62. **We believe this investment will be a good diversifier should we find ourselves in a rising rate environment.**

Ed Fincham - *Investment Analyst*

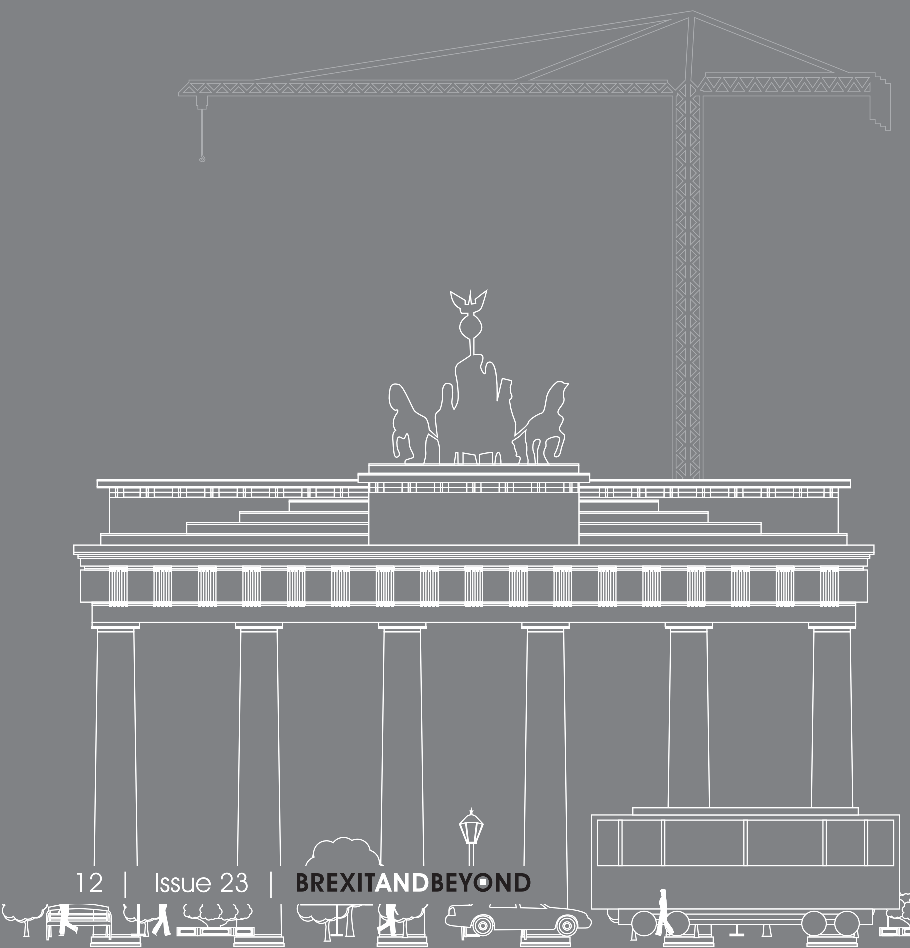
The lesson from the ERM

"...is not that the UK will prosper when unshackled from Europe, but that the interplay of economic forces defies easy characterisation."

The furore over the EU referendum vote has addled many a mind with brash, yet contrary, assertions from both sides of the aisle. **Though such a divisive issue invites zealotry, regardless of our own convictions the landscape in the aftermath of the vote is both unknown and unknowable.** In this sense, all forecasts are wrong and we should treat our own beliefs, and those of others, with scepticism. As we begin to abandon the European project we have, conveniently, a parallel to demonstrate the value of scepticism in economics: the European Exchange Rate Mechanism (ERM). Though our ignominious withdrawal was widely touted as a calamity, the UK defied easy economic explanation and unexpectedly prospered in its wake.

The system – pegging other European currencies to the value of the German Deutschemark – was intended to achieve monetary stability through the Homeric act of tying one's hands to the conservative Bundesbank's mast. After all, if the German central bank could control inflation, why wouldn't you cede monetary control to them? Such was the thinking of John Major who, as Chancellor, entered the ERM in October 1990. However, he did so without negotiating the exchange rate that would make for an appropriate peg. Thus sterling was set at a price of DM 2.95, a level described by the Bundesbank president, Karl Otto Pöhl, as "a little bit on the high side."

The cracks soon began to show. In Germany, the economy was



faltering at the costs of unification. To fight the growing threat of inflation, the Bundesbank opted to increase interest rates. In Britain, already in the midst of a severe recession, such a move was both politically and economically unsustainable. With house prices stagnating under already high interest rates, the euphemistic term "negative equity" was coined as homeowners were forced to sell.

This discrepancy in interest rates led traders to sell the pound and buy the Deutschemark, causing the pound to fall towards the lower bound of its band against the German currency.

In what would later prove a strategic misstep, John Major – by this time Prime Minister – staked the credibility of the government on the ERM project, declaring his fatigue at witnessing successive "British governments driven off their virtuous pursuit of low inflation by market problems or political pressures." The very next day the Italian lira, facing similar pressures to the pound, plummeted. After attempting to sustain their currency, Italian authorities capitulated, and accepted a 7% devaluation in exchange for a mere 0.25% reduction in German interest rates. Helmut Schlesinger, president of the Bundesbank, remained unsatisfied and, with an offhand comment that the realignment had not been sufficient, inadvertently fanned the speculative flames. Traders seized on this and vastly expanded their short positions on the pound.

The denouement came on Wednesday 16th September 1992. As selling pressures amassed on sterling, the Bank of England intervened and began purchasing at the official ERM rate. The Bank had some £19 billion of foreign currency reserves, yet it was spending nearly £2 billion an hour to support the pound. Under intense pressure, Major agreed to raise interest rates to 12%, an increase of 2%. **This was taken as a sign of acquiescence by speculators, who only increased their frantic selling.** In a last ditch attempt to avoid the inevitable, the government again raised rates to 15%, which only further inflamed the selling. By mid-afternoon the Bank of England had spent £15 billion of reserves and finally, at 4pm, it stopped buying. Within moments, the pound collapsed.

Conventional wisdom dictates that once unshackled from the restraints of the ERM, the UK economy flourished. To a certain extent, this is true. However, **among countries that left the ERM, the UK is the only country that was spared economic suffering**. It is, therefore, very much the exception rather than the rule. This is deeply perplexing: the academic consensus holds that pegging signals inflation credibility. Accordingly, Black Wednesday created two a priori reasons to expect inflation: the cessation of central bank credibility to control inflation, and the normal exchange-rate pass-through effect on the price of imports and exports.

These are standard economic arguments, yet their failure to explain the case of the UK gives us cause to be sceptical: in the five years following 1992, the UK grew at an average annualised rate of 3.5%, compared to 1.6% in the preceding five year period. The unemployment rate also fell to little more than half that of France, despite having a near identical rate in 1992. All this was accomplished without a discernible rise in inflation. The distinguished American economist, Robert Gordon, has attributed this resilience to the UK's "unusually flexible labour market." However, the impact of the UK's exit from the ERM is not confined to economics, but has created a lasting political legacy. Reflecting on the event a few years later, Kenneth Clarke presciently remarked that it provided fertile soil for the germination of "all those crazy European arguments between the Eurosceptic rebellions which will end with the destruction of the government."

Yet hindsight's clarity is blinding: though we may now see the balance of economic forces that led to the denouement on that Wednesday, it is easy to forget that this balance could not be known at the time, much less the subsequent, anomalous effect on the UK economy. **The lesson from the ERM is not that the UK will prosper when unshackled from Europe, but that the interplay of economic forces defies easy characterisation.** Regardless of our own opinions, our political and economic union with Europe permeates the entire economy; our ignorance of what is to come is intractable. ■

Jarrod Cahn - *Director*

Minding the...

The last 18 months* have been challenging times for equity markets. If we take a quick look at the performance of major indices from the start of 2015, the FTSE 100 is down -6.5%, the Eurostoxx 50 is down -6.0% and even the S&P 500, historically one of the best performing indices, is up only 2.2%. Along the way there have been bouts of extreme volatility, thanks in no small part to ongoing concerns surrounding China. Markets corrected sharply following the renminbi devaluation in August 2015 before experiencing the worst start to the New Year on record – including double digit losses – over fears of a hard landing in the Chinese economy.

From a style perspective, however, 2015 was a year dominated by growth and momentum factors. For many investors, 2015 was the year of the "FANG", where four disruptive and highly rated technology companies – namely Facebook, Amazon, Netflix and Google – cumulatively gained 64% over the year. In terms of S&P performance, the index finished up 1.4% yet, without them, it would have ended down -0.3 % for the year.

Looking at a sector decomposition, 2015 proved challenging for much of the market; only 4 out of 10 sectors finished the year in positive territory. While the best performing sector, consumer discretionary, returned 7.4%, the worst three sectors – energy, materials, and utilities – fell -24.1%, -9.6%, and -9.3%, respectively. Without doubt, it was a year to be defensive and very much trying to mind the gaps!

At this stage it may be worth recalling that at Credo, we tend to follow more of a value orientated investment philosophy. So although we have not participated in some of the spectacular gains in a narrow stretch of the investment market, namely the "FANG" stocks, our long-term philosophy of holding quality companies at a reasonable price has stood us in good stead. After all, while growth and momentum strategies succeeded in 2015, over the last 5 years quality has outperformed. This has been borne out by the performance of our Credo Dividend Growth Portfolio, where the majority of our stocks are high quality. That is, profitable companies with strong financial metrics, sustainable earnings,

MSCI USA sector performance*	2015
Consumer Discretionary	7.4%
Health Care	5.5%
Information Tech	3.7%
Consumer Staples	3.1%
Telecom Services	-1.3%
Finance	-2.9%
Industrial	-4.2%
Utility	-9.3%
Material	-9.6%
Energy	-24.1%

(*) US$ until 24/05/2016

...gap

good yields, and disciplined capital management.

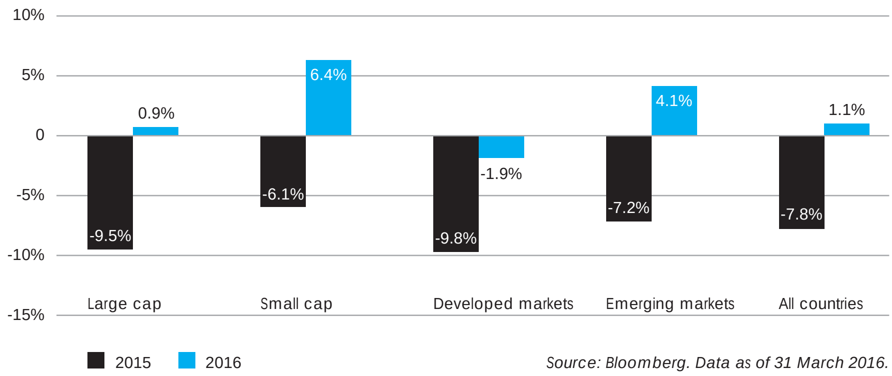
Though the worst performing investment style during 2015 was value investing – suffering across regions and market capitalisation – throughout 2016, we have seen a very deliberate shift away from growth and momentum strategies back into value.

As staunch proponents of the long-term success of value investing, this move has proved particularly beneficial for our Best Ideas Portfolio, which has enjoyed superior outperformance on a year-to-date basis. Yet we are not only beneficiaries of this move, but have actively participated in it. During the latter part of 2015 and so far in 2016, we have seen a substantial repositioning across our client portfolios away from some quality names – such as McDonald's, Coke, and Diageo – in favour of better value propositions. Though our previous positions remain excellent businesses, earnings and growth have become muted, and much of the performance has come from significant re-rating.

Regarding the healthcare sector in the US, which has moved from the second best performing sector of 2015 to the worst performing sector of 2016, we continue to see considerable value and attribute much of the recent underperformance to noise emanating from the particularly unusual course of the current US election cycle. As the US spends a disproportionate amount of annual GDP on healthcare, and continues to run a massive budget deficit, there continues to be pressure to cut funding and costs within the sector. Coupled with Hillary Clinton's pledge to regulate the cost of specialist pharmaceutical drugs, it is little wonder the sector has fallen from favour. Yet we have identified a number of names who we believe will remain largely insulated from these risks and, given the demographic drivers that exist, we believe that this could be a very interesting sector going forward.

As we move through 2016, and markets remain pre-occupied with macro events such as US interest rates, Brexit, and US elections, we shall continue to navigate the markets, minding the gaps, and looking for excellent, bottom-up investment opportunities for our clients.

Total return of value over growth
In 1Q16, value has performed better relative to growth across most market caps and regions



Source: Bloomberg. Data as of 31 March 2016.

Debra Chalmers - *Legal and Compliance Director*

Brexit: the road ahead

On Friday 24 June 2016 the United Kingdom woke up to the reality that it has now decided to leave the European Union. The result came as a shock to many, especially in London where voting to remain in the EU was the strongest in the country. And yet, **despite the result, it's as hard as ever to gauge what Brexit will actually mean, in any helpful sense, to the ordinary course of business**. Up until now, the UK has been at the mercy of the confusing rhetoric and statistics fiddling that both the "Brexit" and "Bremain" parties have relied so heavily upon. In reality no-one knows the answer.

On the one hand, UK autonomy sounds like an appealing proposition; the consternation surrounding a possible Greek exit from the EU, for example, and the threat of resultant market contagion lingers in the not-too-distant memory. On the other hand, the idea of a potentially cumbersome untangling from Europe seems like it might raise more problems than solutions. For one thing, it will take a long time.

Since the birth of the EU, UK financial services firms have been subject to a range of laws and regulations adopted in the EU and then either implemented through Parliament in the UK or applied directly in the UK. For the most part, these have been beneficial. UK authorised firms have, for example, been able to rely on "passporting" - a process that enables them to conduct financial services activities in other EU states by virtue of their domestic regulated status with the UK's FCA. **This has essentially granted them free access to EU markets to promote their regulated services.** It has worked both ways too: financial services firms in other EU states have been free to bring their own business to the UK. London's position as a global leader in financial services has only been enhanced as a result. But now, passporting (to stick with this example) may cease to exist in its current form with all the inconvenience this may entail.

It is accordingly clear that the consequences of the UK leaving the EU will have an impact on the financial services industry, although the precise extent, is not yet known or knowable.

Opportunistic speculators will predictably benefit from short-term volatility but it's the medium and longer term where the Brexit result will have a more profound effect.

A departure could still mean continued access to EU markets but without, say, the ability to vote on financial services legislation. Or, it could mean restricted "third country" status, requiring UK financial services firms to set up branches in EU jurisdictions in order to conduct business there (something that passporting originally did away with). Operationally, Brexit might force firms (both UK and European) to move their headquarters away from the UK, or withdraw services they offer in London and the UK and relocate these to cities such as Paris, Dublin, or Frankfurt, with unknown repercussions.

Although these sound like drastic consequences, it isn't in the interests of the UK or Europe to sever ties completely. The UK is still one of the largest economies in the world. For one, it seems highly unlikely that the UK Parliament and the FCA would wish to reinvent the wheel, especially in terms of financial services regulation. Fortunately, London's predominance as a global financial centre should carry some weight when it comes to negotiations. What we will probably see is that UK legislation will continue to mirror EU law so that the UK will retain equivalence status with countries in the EU and so maintain a level playing field. However, for the optimists out there, Brexit could even provide the UK with the opportunity to implement a more flexible and robust approach to regulation which may make it more attractive.

It is worth remembering that under Article 50 of the Treaty of Lisbon the UK must officially notify the EU of its decision to leave before any actual exit can take place and it isn't yet clear when this notification will be given. After notice has been served, negotiations over the UK's exit will then take place over a two-year period. So, once the dust from Brexit settles and the world has had time to pause for thought, there will be time for the UK to consider the best path towards severing or perhaps only loosening, its European ties. ■

Monthly tips in your mailbox

June 2016

May 2016

April 2016

In order to improve the user experience of our online reporting and trading system, MyCredo users are now receiving monthly tips on features, functions and updates.

Visit *credogroup.com/blog* to access the full newsflashes and watch this space for even more exciting news.

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Natalie Ledwick - *Executive Assistant*

CREDO INTERNATIONAL CONFERENCE 2016

Johannesburg's prestigious Summer Place

Deon Gouws thrilling the audience

Ainsley To talks about investment decisions

While the UK struggled to make the most of the few rays of sunshine that this summer has so far provided, here in South Africa, the temperature was touching 30°C – typical winter days. It was thus the perfect time to host the Credo International Conference, spanning five cities in five days. Starting in Pretoria, the team travelled to Durban, Johannesburg, Port Elizabeth, before our finale in Cape Town. Thankfully, the good weather travelled with us until the last day, when we were finally reminded that South Africa does have a winter season.

This year we had in the region of 500 attendees, a marked increase from previous years. Among our guests we counted current and future private clients, financial advisors and their clients.

Roy Ettlinger, our CEO, began the proceedings with a brief overview of Credo's growth over the past year followed by our MD, Alan Noik, who showcased Credo's product suite.

Our third speaker, Ainsley To, one of Credo's Research Analysts, presented an overview of the various biases we as individuals suffer from, and how these can affect our investment decisions.

Jarrod Cahn, Director and Senior Portfolio Manager at Credo, provided an insight into two sectors - oil and healthcare - which our portfolios are currently positioned towards.

Finally, to round off the show, our CIO Deon Gouws gave a broad market overview, highlighting how short-term noise dominates the marketplace. Ignoring this noise, he offered a fresh perspective on the current state of global markets.

If you do not already have a copy of the presentations, please visit *credogroup.com* where you will find them under the "News" tab.

We are already planning next year's conference so, if you did not make it this year, be sure not to miss the next one.

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CREDO
WEALTH

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