CREDO NEWS

Issue 25 | *The art of uphill investing*

Fake flakes, fake finance

...navigating the tricky slopes of finance and getting down in one piece

Deon Gouws

Black slopes and grey swans

What is the chance that equity markets will see double digit drawdowns in the future?

Ainsley To

Happy anniversary

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"Our philosophy continues to be to ignore the crashing waves and invest for the long run."

The storm

The trick is to survive!

2016 was a tumultuous year both from a political and an investment perspective. For those, who like me, feel they have just weathered a financial storm, reading the wisdom of the legendary financial historian, economist and educator Peter Bernstein helps one understand the 2016 that was.

"After 28 years at this post, and 22 years before this in money management, I can sum up whatever wisdom I have accumulated this way: The trick is not to be the hottest stock-picker, the winningest forecaster, or the developer of the neatest model; such victories are transient.

The trick is to survive!

Performing that trick requires a strong stomach for being wrong because we are all going to be wrong more often then we expect. The future is not ours to know. But it helps to know that being wrong is inevitable and normal, not some terrible tragedy, not some awful failing in reasoning, not even bad luck in most instances. Being wrong comes with the franchise of an activity whose outcome depends on an unknown future (maybe the real trick is persuading clients of that inexorable truth). Look around at the long-term survivors at this business and think of the much larger number of colourful characters who were once in the headlines, but who have since disappeared from the scene."

This philosophy echoes the investor, Howard Marks's proposition – that by being in the second performance quartile of your category consistently over a long enough period of time, you become first quartile by virtue of the fact that you never took the risks that blew up so many former first quartile performers.

Our philosophy continues to be to ignore the crashing waves (even the tidal waves that started to emerge in January 2016 followed by Brexit in June 2016 and the election of President Trump in November 2016) and invest for the long run. And if one listened only to our mantra and braved the storm one would know that 2016 proved to be a very profitable year for those who remained invested in equities throughout the period.

In January 2017, the S&P traded in the narrowest range since 1965. This tight range may indicate the calm before the storm or it may simply be that after the overreaction post the Trump election, the recent flatness allowed previously over-bought conditions to recede. Whatever the reason, in the same way as we are prepared to ride the storm, we are also prepared to wait for it to commence again.

In this way, Credo continues to grow and with our very strong investment performance during 2016, it is with great pride that I am able to report that for the first time in Credo's existence, **our assets under administration now exceed £2.5billion.**

Credo employs over 80 people in the group, and each one has assisted us to grow the business organically and maintain the personal relationships which are so fundamental to our culture. I therefore want to thank all of my colleagues who have dedicated themselves to serving you, our clients to the very best of their ability.

Thank you also to our clients who trusted your assets with us in 2016 and may we continue to maintain the faith in 2017.

"If you want to see the sunshine you have to weather the storm."

Deon Gouws - *CIO* | @DeonGouws_Credo

Fake flakes, fake finance

Over the past decade or two, most ski villages in Europe and elsewhere have been suffering increasingly from the effects of global warming, with unreliable snow conditions especially in the first few months of ski season. In response to this, many resorts have introduced snow cannons that produce artificial flakes, largely solving the problem and ensuring skiers are presented with pristine pistes every morning.

Artificial snow not only makes the slopes look better, it also makes them easier to navigate, smoothing over bare patches and icy bits. Best of all, no-one can really tell the difference: a lot of skiers probably don't even realise they're skiing on "fake" snow.

Which brings me to the world of finance and investments, where it's often as difficult to distinguish between fact and fiction.

The most important drivers and variables in markets can often not be measured… so what do we do? We assume them away (whilst ascribing value to others, simply because they're more easily measurable, and then we assume these to be relevant).

Take Economics 101. Any discussion of how markets supposedly work, starts with a set of underlying assumptions... An infinite number of market participants… All of them with unfettered access to exactly the same information… No transaction costs or other frictional loss... Unlimited freedom to trade goods and services (and to do so quickly and efficiently)... All participants being rational and striving to maximise their individual utility… And so the list goes on.

What does it even mean to maximise your utility, in any event? Does anyone in his or her right mind wake up in the morning and say:

Today is the day that I'll focus on maximising my utility to the fullest?

Allowing for a few small adjustments, the assumptions as set out above are also fundamental to the Efficient Market Hypothesis, believed by many to be the best model in terms of which price discovery in stock markets can be explained. Given that each and every assumption is fundamentally flawed when placed under the slightest scrutiny, is it any wonder that we witness all sorts of market flaws, abuse, bubbles and crashes on such a regular basis?

Perhaps the biggest shortcoming in the collective financial thinking over the years has been the one relating to investors being supposedly rational. This is of course demonstrably untrue: not one of us will ever be totally rational. On the contrary, each and every one of us is an emotional human being, suffering from well-documented afflictions such as greed and fear; we get depressed, overexcited and regretful. We are influenced by our history and our environment. We have any number of biases, preferences and prejudices.

Against this background, a whole new branch of academic study has of course been founded: the field of behavioural finance, which essentially recognises that human psychology plays a key part in the way that all of us engage with financial markets.

One of the problems with behavioural finance, is that it falls

...it's probably the best chance you have of navigating the tricky slopes of finance and getting down in one piece.

foul of Einstein's counting fallacy: whilst it can certainly be most interesting and also very useful in terms of explaining all sorts of contrarian behaviour, it is clearly not easy to model a range of not-quite-rational choices. If it can be assumed that A always leads to B (the totally rational option) then we can compute future states with lots of certainty. But if A might lead to any one of B, C, D, et cetera (due to the irrationality of market participants) how does one even begin to forecast a likely outcome with any sort of confidence?

Enter the field of probability theory and statistics, and this problem is of course easily solved. Or perhaps not, as the case may be. Take the much-hyped Value at Risk (VaR) metric, i.e. the maximum amount that a firm (or a fund or a product) might lose over a certain period... but crucially, only with a specified level of confidence. So, for example, the calculated VaR over the next month might be, say, \$10m with a 99% level of confidence. Which means that potential losses should never exceed the \$10m level - in 99% of market circumstances. In other words, the parameter works most of the time... except that one day when the market crashes and you really need it to protect you.

And there are investors out there who still take the VaR seriously?

In a similar vein, one often hears about a market move being a six sigma event, i.e. something which is so rare that its occurrence is six standard deviations away from the mean (the expected outcome). Put differently, a six sigma event should happen only 0.0003% of the time. Translate that into trading days in the market, and it means that we should have only one of them every 1,000 years or so. And yet, if one believes the financial press, there seems to be a "black swan" of sorts every year or two.

One of the reasons for these supposed six sigma events (that are in fact just fairly significant but ultimately random events), is the fact that financial theory lazily assumes that market behaviour can in fact be adequately described in terms of normal distributions (or some variant thereof). Which is clearly not the case: markets are self-correcting mechanisms, and the next distortion is always different from the previous one as a large number of (less than rational) participants are involved in driving it in a new direction before being involved in its ultimate unwinding. Whilst the mathematics of normal distributions may be seductively elegant, its validity and application are likely to be dubious at best.

And yet, these are the theories still being taught in practically every finance course around the world, perpetuating the myth. Which is why the most successful investors are often those who shun the sophistication of many of these metrics and simply follow an approach based on common sense. It won't protect you from hitting the odd bare patch (or skidding on an icy one), but **it's probably the best chance you have of navigating the tricky slopes of finance and getting down in one piece.**

Jarrod Cahn - *Director*

Happy anniversary

2016 was certainly a year of surprises. Although investors tend to have a short memory, it was a very dramatic year that involved a number of surprising outcomes, leading to significant market volatility. Let's cast our minds back at some of these events that took place over the course of the year.

Firstly, equity markets experienced the worst start to a year since records began as investors panicked over inter alia the slowing growth rate of the Chinese economy. Likewise oil and base metal prices plummeted on the news. Although markets did regain some composure towards the end of January 2016, it was still a very tough month. February, however, saw the start of a strong recovery in world markets, as investors appeared to become more comfortable with the ways in which the Chinese government would tackle growth going forward.

In spite of the fact that markets were looking expensive and valuations inflated, equities continued to rally through the first half of 2016. Whilst trying to reconcile the continued market rally with looming prospects of rising interest rates (particularly in the US, which started hiking in December 2015 and was looking to quicken the pace of this during the course of 2016), picking value stocks was certainly not as easy as simply playing the market momentum.

On the 23rd June 2016, we experienced one of the biggest surprises of 2016 when the British people voted to leave the European Union. None of the polls predicted this outcome and it quickly became evident that the UK government had not prepared for it either. Markets too were taken by surprise: the FTSE was set to open down over 10% on the morning of the result.

However, with the GBP/USD exchange rate also undergoing substantial adjustment, the FTSE started to recover quickly (given the large proportion of offshore earnings of many of its components). In fact, during the rest of 2016 and following into the first quarter of 2017, the FTSE 100 continued to hit an all-time high level of 7,300 despite all of the negative rhetoric associated with Brexit, once again wrong-footing investors.

The other big surprise of 2016 was of course another political event: the Republican victory in the US general election in November 2016. Again, not only was this outcome not expected by the markets, but all indications from pundits had been that a Trump victory would see the US markets drop by between 10% -15%. In spite of this, we have of course seen a massive rally in US markets since the time of the election, as the new president has put forward an extremely pro-active US domestic program to stimulate growth within the country.

One may argue that this could not have been an easy year to have been a fund manager. We are pleased to report, however, that

the Credo Global Equity Fund has not only managed to navigate all of these surprising events, but it has in fact performed particularly well over the period.

This is testament not only to a disciplined investment philosophy, but also a combination of solid bottom up stock-picking and some careful portfolio construction. The portfolio did not take any large binary "bets" on the outcome of the major geo-political events and there has been relatively low portfolio turnover within the fund.

As we have moved into 2017, the fund has had to continue to deal with a definite style preference, as investors remain fixated on a combination of momentum and growth investing at the expense of value (not to mention world markets that are looking increasingly less attractive from a general valuation stand point).

Going forward

We see the portfolio as well balanced and adequately positioned for what the rest of 2017 may offer. We continue to like both the oil sector (which performed particularly well during 2016, and where we have made some adjustments to the portfolio, moving away from support

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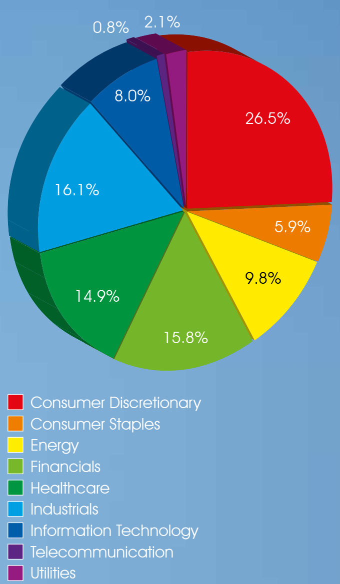
services stocks to some of the more mainstream, integrated oil majors that are screening more attractively). Likewise, we remain bullish on the healthcare services sector in the US that continues to trade at a discount to the market due to the potential regulatory risk posed by the new Republican regime. We are also starting to see a few more opportunities in the UK market, as investors appear to become more concerned about the effects of Brexit, the potential of government austerity continuing, and a weak pound. ■

Performance (%)	**3 Months**	**6 Months**	**Since Inception**
GBP	6.7	13.0	36.9
USD	5.2	6.3	21.2

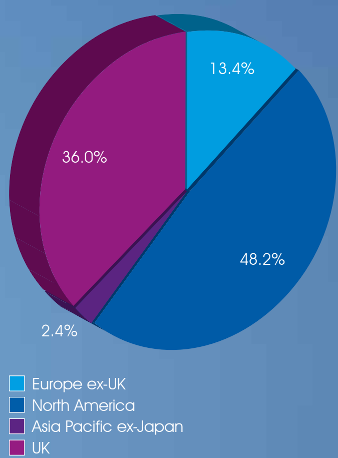
Performance data from 1 March 2016 to 1 March 2017.
Source: Momentum Global Investment Management Limited & Northern Trust International Fund Administration Services (Guernsey) Limited.

Top 10 Holdings	**Sector**	**Weight** (%)
Las Vegas Sands Corp	Consumer Discretionary	5.7
Babcock International Group	Industrials	5.6
HCA Holdings Inc	Healthcare	5.4
Wells Fargo & Co	Financials	5.0
Chubb Ltd	Financials	4.9
ServiceMaster Global Holdings	Consumer Discretionary	4.6
DeVry Education Group	Consumer Discretionary	4.3
Oracle Corp	Information Technology	4.3
McKesson Corp	Healthcare	4.1
BP plc	Energy	3.9

Sector Allocation



Region Allocation



Ainsley To - *Research Analyst* | @AinsleyTo_Credo

Black slopes and grey swans

What is the chance that equity markets will see double digit drawdowns in the future?

Standing at the beginning of 2017 with an inbox full of Investment Outlooks for the year ahead, perhaps it is useful to revisit what might have been going through one's mind during this time at the beginning of last year? The Federal Reserve had raised the fed funds rate in December for the first time in over a decade and some expected four more hikes by the end of the year. In the equity market, the first 10 days were the "worst start to the year on record", and the MSCI World Index was down almost 6% by the end of January. The US dollar had continued strengthening and many were predicting it would hit the heights not seen since the Plaza Accord in 1985. For many the worst was still to come, with the EU referendum in the UK, the US election, and what was perceived to be the imminent collapse of the Chinese banking system. One investment bank even released a report clamouring for investors to 'Sell Everything' as a deflationary crisis loomed.

"To bankrupt a fool, give him information"
Nassim Taleb

The events mentioned above were NOT Black Swans: they fell firmly into the category of "known unknowns" (or Grey Swans, in investment parlance). This was underscored by all the coverage in the media at the time, providing near-daily updates of how the various forecasts were playing out.

Unfortunately for investors, knowing that a potentially market moving event is going to take place doesn't make it any easier to manage their investments. This is not a dig at the inability of mainstream pundits in forecasting the outcome of the events by the way, but a simple observation about conditional probability. Being right twice is harder than being right once.

Scenario analysis is never this straightforward, but for illustrative purposes we will use a simple example. Suppose you were 80% sure that Hillary Clinton would win the US election last year and 60% sure that in the event of her victory, equities would rally. On the other hand, in the 20% likelihood that Donald Trump would win, you believed with 90% probability that equities would fall. The chance of you making a "correct" call, e.g. that Clinton would become president AND equities would rise, was therefore 48% (80% x 60%). If you had bought stocks as an expression of this conviction that the Democrats would win the election, you could also have made money from luck, i.e. your least likely scenario (Trump winning and the market actually rising) would have had a probability of only 2% (20% x 10%). Even if you had known the outcome of events like these in advance, it probably wouldn't have helped you. Framed a different way, if you were told at the start of the year that the Brexit vote would pass and Trump would win the US election, how likely is it that you would have correctly predicted the performance of the US and UK equity markets for the year?

A more humble approach might have been to use objective long-term data (what Daniel Kahneman calls the outside view), which tells you empirically that equity markets have been positive around 74% of calendar years over the long term (going back to 1926). Ironically if one had used this modest and "uninformed" approach as a base case for your prediction at the start of the year, they may have done better than attempting to forecast the outcomes of possible Grey Swans and their impact on markets.

Anatomy of a 20-Bagger

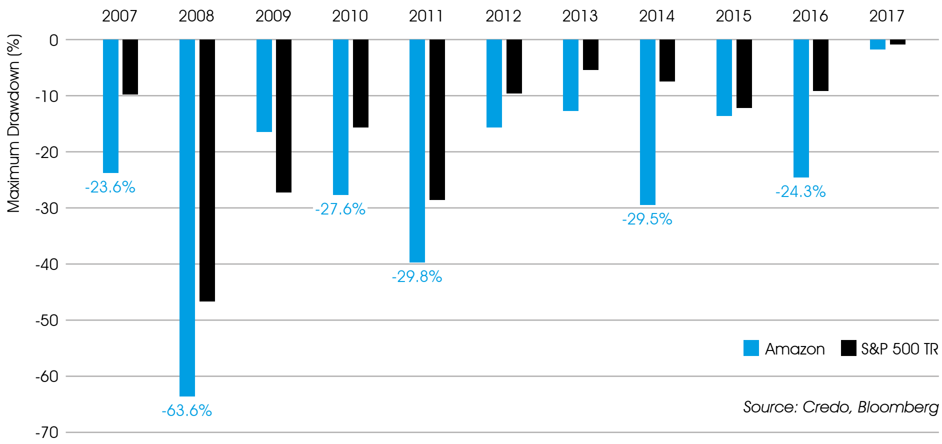
Even if one puts aside conditional probability, knowing with near certainty the performance of markets in advance might not be a panacea either. If you were told a decade ago (at the end of January 2007) that it was possible to know with 90% probability what would be the best performing stocks in the entire S&P500 over the next 10 years, what would you have done?

We now know that the answer to this question is as follows:

Best performers in S&P 500 over 10 years	10 year return from January 2007
1. Amazon.com Inc	2,086.0%
2. Apple Inc	987.8%
3. Allergan plc	704.2%
4. Reynolds American Inc	541.8%
5. Constellation Brands Inc	515.9%
S&P 500 Index	96.5%

Had it been possible to "know" the information set out in the table above in advance, the investment gods would have forgiven you if you had followed a return maximising strategy of throwing diversification to the wind and put your entire investable wealth into Amazon stock. However it is one thing knowing the reward, it is another sticking around to earn it. In this regard, the following bar chart is instructive:

Anatomy of a 20 bagger: Peak to trough losses by calendar year, Jan07 to Jan17



Source: Credo, Bloomberg

As can be seen from the chart*, not only would your "no brainer" have lost you over 60% of your money during the worst periods since 2007, but you would have been looking at repeated peak to trough losses of over 20% at least half the years during your 10 year time horizon. At what point does your confidence in this hot tip from the future thus start to wane?

There is evidence that the human brain places too much emphasis on small probabilities – even if the 10% chance of being wrong is a lot smaller than the 90% of being correct, it is infinitely bigger than 0%. One would guess that during the depths of 2008, with financial media clamouring that the world was about to end, many would have sacrificed their "sure thing" at the altar of intraday liquidity. The black ski slopes are only the fastest if you actually make it to the bottom…

"Sell down to the sleeping point"

Paul Tudor Jones

What is the chance that equity markets will see double digit drawdowns in the future? We would put the probability over 90%. This is not based on an armchair macro view of geopolitics or on precise forecasts of earnings growth this year or the next, it is grounded on the premise that this time is NOT different. As far back as there is data for equities, every bull market has always come to an end. But how is this prediction with 90% confidence or any other discrete probability about a future event actually useful for end investors? Asking anyone's opinion about what will happen in the future is asking the wrong question. **"How can I structure my portfolio to give me the best chances in spite of bad events?" and "Based on my personal sensitivity to losses, what position sizes would enable me to still sleep at night during the inevitable future drawdowns?"** Now perhaps these are questions worth asking.

(*) For an interesting short piece on the return profile of Amazon, see http://theirrelevantinvestor.com/2017/01/04/looking-for-the-next-amazon/

Jason Spilkin - *Co-Portfolio Manager of the Credo Global Equity Fund*

Healthily educated

Generally speaking, the equity portfolios that we build on behalf of Credo clients are filled with shares in good quality companies that we believe are likely to thrive in a competitive market environment. It is probably fair to say that you won't last long as a member of the investment team if you do not subscribe to a capitalist mindset…

However, opportunities also frequently present themselves in companies which operate in that cross-over space between a regulated, government sponsored industry and a more entrepreneurial, free market counterpart. In this piece, we highlight a couple of such stocks that we currently hold in client portfolios.

Firstly, the DeVry Education Group

Supporters of for-profit education argue that incentives encourage efficiency. In 1972, the US Higher Education Act was amended to allow for-profit institutions to receive government funds (student loans and grants). Based purely on the number and size of institutions, the change saw the sector grow rapidly over the last four decades. New businesses took advantage of the easy availability of federal money, and desire to promote wider access to education. Growth of the bottom line has been pursued with varying (and often little) concern for student outcomes. As a consequence, the US Department of Education has noted the five-fold growth of for-profit colleges from 1986 to 2007.

Since student success has evidently not always been the main objective, many students have been left with significant debt and qualifications that are not particularly useful as a result. Increasing regulatory scrutiny has focused attention on these shortcomings, regulations have tightened, and some of the worst offenders have since been fined and/or gone bankrupt.

DeVry was founded in 1931 as DeForest Training School, and officially became DeVry University in 2002. As of early 2017, the DeVry Education Group (DV) has over 45,000 students at more than 55 campuses around North America.

Prior to 2003, DV's focus was similar to its for-profit peers, but while they remained focused on offering courses for which one might frequently question the value, DV diversified. They now generate about 95% of their revenue from the 'Medical and Healthcare' and 'International and Professional Education' segments. These courses fulfil a genuine need, and are significantly differentiated from the courses of a more questionable nature. The evidence comes in the form a higher post-graduation employment rates. According to the Bureau of Labor Statistics, the employment of registered nurses is expected to grow 19% from 2012 to 2022, for example. Furthermore, the Association of American Medical Colleges estimate that the demand for physicians will outpace supply by 17% in 2025. In summary, the DV courses focus on real tools for real jobs.

Most of the listed for-profit educators seem to have been tarred by the same brush, in spite of this change of direction by a player like DV. Once the differentiation becomes more and more evident, we believe that a stock like DV should be handsomely rewarded by the market.

Secondly, HCA Holdings Inc

HCA is another example of a "for-profit" company participating in the public service space. It is the largest hospital owner in the United States. The market is split roughly 85% "non-profit" and 15% for-profit. Understandably, the non-profit players tend to be much less operationally efficient than their for-profit counterparts, but they do still benefit from tax exemptions, government funding, and charitable donations. Most importantly, they are of course not expected to generate a return for shareholders.

Due to varying state-wide regulations, the overall market is highly fragmented. HCA's overall US market share of approximately 4% might seem low, but this is highly concentrated within local markets. Roughly half of HCA's capacity is in 2 states (Texas and Florida). HCA enjoys number one or two share in most of the local markets where they operate. As an example, HCA estimates their share in Miami to be as high as 30%. Furthermore, HCA's operating margins are about 6% higher than the rest of the for-profit sector.

Throughout 2014 and the first half of 2015, expectations within the healthcare market had been buoyed by the prospect of higher Obamacare volumes as well as lower bad debt levels, both of which were expected to lead to an increase in profitability. However, these factors did not play out as quickly as had been anticipated, and in spite of increased volumes, there was an unexpected decrease in profit margins due to higher labour costs. As a result, the whole hospital sector sold off during the second half of 2015. Considering that labour markets are "sticky" when adjusting as well as the fact that most vacancies had been filled by more expensive temporary staff; we felt that lower margins were a temporary phenomenon.

Against this background, we originally bought HCA into client portfolios in November 2015.

We remained convinced that HCA had local scale versus peers and that they would thus be able to exert pricing power against insurers. We further took comfort from the fact that they operate in southern US states where the demographics are not only favourable (i.e. ageing and growing populations), but regulatory regimes are generally business-friendly (i.e. Republican states, with less government oversight on reimbursement).

Our analysis suggested that HCA was likely to generate double digit earnings growth over the medium term with relatively high visibility (this, compared to projections by the Centre for Medicare and Medicaid i.e. compound growth in industry revenues of approximately 6% per annum up to 2024). With HCA trading at a price/earnings ratio of only 11, we believed that a re-rating was likely.

After the surprise victory of Donald Trump in the US presidential election, the hospital sector sold off once again, with the market fearing that Obamacare would be repealed without replacement. Whilst we accept that federal healthcare is unlikely to increase at the same trajectory as expected previously, a simple repeal of healthcare entitlements without a replacement being offered would boil down to political suicide in our view, especially in the working-class, north-eastern states such as Michigan and Pennsylvania i.e. the bedrock of the Republican victory.

In addition, HCA stand to benefit from President Trump's plans to cut federal taxes which will not only lead to a significant increase in profits (the company currently pays a fairly "full" tax rate of approximately 32%) but it will clearly also boost its competitive position versus non-profits.

In conclusion

We believe that good money can be made by investing in companies that may be influenced directly by government policy, as long as one has a good understanding of the most important factors that differentiate the individual businesses. Against this background, we continue to be optimistic about the future prospects of both our DeVry and HCA equity holdings within client portfolios.

Trevor Black | @trevorblack

Lightly dusted

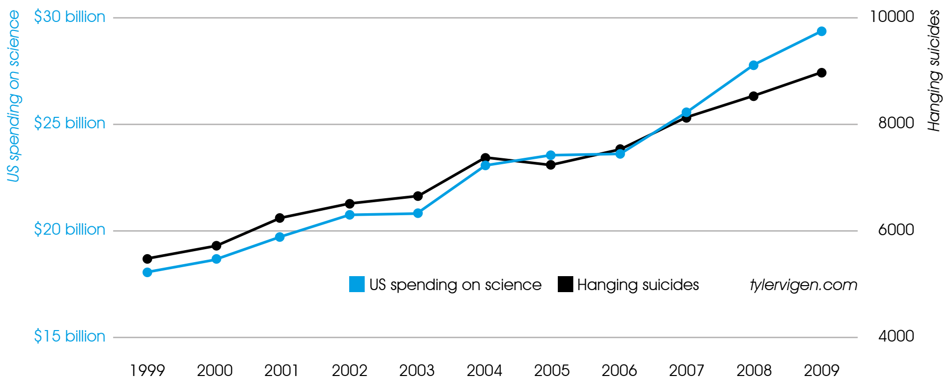
It is beneath some of the generalisations in financial markets where real value can be found

The world is complicated, ambiguous and uncertain. There is too much information, but we have to act anyway. Anything that makes this less difficult feels good. Simplicity feels pleasant. Like waking up and looking out of the window on a world dusted with snow: the snow covers the complication.

The ability to categorise, and understand the world through cause and effect is empowering. If we can group things, and look for patterns, then we can begin to get an understanding of the inner workings of the world; we can control, rather than be controlled.

Tyler Vigen has a wonderful web page where he collects spurious correlations. Patterns, perhaps even over very long periods, that are completely meaningless. For example, US spending on science, space and technology is almost perfectly correlated over a 10 year period with suicides by hanging, strangulation and suffocation. Without digging into the meaning, seeing this pattern would make Musk, Bezos and those at NASA rather nervous about taking out their wallets.

US spending on science, space and technology correlates with **suicides by hanging, strangulation and suffocation**



Fundamental equity research looks deeply at data. Data provides better questions than it does answers. The trick is understanding and learning the correct lessons. The lesson of the technology bubble of the late 1990's was not to avoid all technology stocks. The lesson was never to cover all stocks in a layer of snow and pretend they are the same. The lesson was not to get too excited by the first few snowflakes and hope for a white Christmas that never comes. The lesson was that underlying long-term business fundamentals, ("what's under the snow"), do in fact matter. Daniel Kahneman points out that ***"the idea that the future is unpredictable is undermined every day by the ease with which the past is explained."***

Buster Benson has put together a *'Cognitive Bias Cheat Sheet'** which looks at the various tools we are wired with in order to deal with the overwhelming deluge of information we face. Instead of searching for patterns, one of the biggest tasks an analyst has to master is which patterns to ignore. Building a portfolio then becomes less about predicting the future, and more about a process of making good decisions. *Confirmation Bias* is our tendency to search out information that supports our pre-existing beliefs rather than look at new information dispassionately. This can work to our advantage though. Once we know we tend to regularly make bad decisions, we can use confirmation bias to constantly improve:

"See, here is another place I have been regularly making the same mistake! Better change that!"

Bottom up stock pickers will then have to go through the process of treating each business on its own merits. Instead of simply responding to market movements, they will take into account the nuance of the specific situation. They can't, and wouldn't want to, avoid human pattern seeking. It can be a strength if we don't get lost in the snow. Each new stock will build up a library of questions they will be able to ask. The challenge is to avoid believing they have ever 'seen this before'.

At Credo, we have identified a number of instances where we believe issues are being over-simplified by the majority of market participants in a search for cause and effect. It is the heart of our search for value.

Las Vegas Sands (LVS), for example, is a casino and resort operating company with significant exposure to Macau, the Vegas of the east. Industry fears include the sustainability of credit-driven growth, the introduction of smoking bans, and crackdowns on corruption which leave high rollers less free with their cash.

There is however genuine pent up mass-market demand. Roughly 45% of Macau's visitors are from neighbouring Guangdong. That only accounts for around 100 million out of 1.38 billion people. We believe there may be 100 or more casinos in South East Asia servicing the region's 3 billion people in 5 years' time (bearing in mind there are upwards of 1,000 in the USA alone, servicing a population of "only" 324 million). The Chinese Government explicitly supports Macau becoming a mass market tourist attraction (like Las Vegas), and to diversify from VIP gaming into tourism. We do not believe that it is intelligent investing to wipe entire industries from your buy list when there are businesses you believe can face the headwinds and come out stronger.

A second example is Halliburton, a multi-national oil field services company. There may be factors that cause a group of stocks to all become attractive, but that still doesn't mean there aren't other specific factors at play.

At Credo, we originally bought this stock on behalf of clients on the basis that the supply and demand drivers behind the oil sector were favourable. There were sharp declines in the oil price in 2014 and 2015 which we believed were cyclical rather than structural. A return to more normal levels would be favourable. Halliburton more specifically had the chance to benefit from a very favourable takeover of Baker Hughes in an industry where size and profitability are genuinely closely correlated (they wouldn't make Tyler's site). Bigger companies have bigger moats.

As it turned out the deal failed due to antitrust arguments (it was clearly too favourable). The supply-demand leg of the thesis did however play out, with Halliburton in particular rallying strongly as it will continue to benefit from increased industry spending due to the recovery in the oil price. Other companies in the sector have not rallied to the same extent, and so while still attracted to the energy sector in general, a number of alternative names have started to look more attractive in relative terms in our view. As a consequence, Halliburton has now been sold from the Credo portfolios.

In conclusion: there is too much information in our complicated world to understand and have an opinion on everything. The great thing about running a focused portfolio, however, is that you don't have to. You can look at an individual business on its own merits: it exists in the broader storm, and context is important, but each company has different clients, employees, decision-makers and products that add up to make generalisation a very crude tool.

Beneath the snow is where the real landscape unfolds... **In similar vein, it is beneath some of the generalisations in financial markets where real value can be found.**

After 10 years in the Actuarial and Investment profession, Trevor Black now spends his time reading and writing. His daily blog covers a range of topics including investing, financial empowerment, global citizenship and the concept of a universal basic income.

(*) https://betterhumans.coach.me/cognitive-bias-cheat-sheet-55a472476b18#.a7v402f9x

Charles van der Merwe - *MD, Wealth Outsourcing Solutions*

Credo joins James Hay's Managed Portfolio Panel

We are pleased to announce that Credo Wealth has been selected by James Hay as one of their Managed Portfolio providers. James Hay is one of the leading SIPP (Self Invested Personal Pension) providers in the United Kingdom and the Managed Portfolio panel of nine top Investment Managers provide outsourced discretionary management for individuals' personal pensions.

Credo's Multi-Asset Portfolios (MAPs) have been made available to James Hay. The MAPs consist of four risk-scaled model portfolios, offering low-cost exposure to global asset classes, through selected funds. The four risk-scaled models have a strategic asset allocation ranging from 20% in equities and 80% in all other classes (MAP 20/80) to a MAP 70/30 solution for investors with a higher risk tolerance.

Charles van der Merwe, Managing Director, commented:

"Credo joins a very select group of elite Investment Managers in providing a discretionary service to James Hay and their clients, and our selection as a key partner is testament to the quality of our Investment Management team." ■

Ben Newton - *Investment Manager*

Use US rising rates to catch a lift pass

Increases in US interest rates have been on the horizon for some time now. After lifting rates twice in two years, the Federal Reserve (Fed) is contemplating stepping up the pace of these rate rises with the economy nearing full employment, the prospect of tax cuts under the new administration of Donald Trump, and the Fed being on track to meet its target inflation rate of 2% per annum.

Although coming into clear focus in the US, a string of UK interest rate rises appears less likely. The Bank of England (BoE) only recently reduced interest rates and introduced further quantitative easing (QE) in the aftermath of the Brexit vote. With the uncertainty of the true meaning of Brexit yet to be felt, we are unlikely to see a quick reversal. Additionally, given that in the UK more mortgages are floating rate or have a short fixed term compared to the US, a change in interest rates has a higher impact on consumer spending, thereby further reducing the possibility of rates rising as quickly as our transatlantic partner.

> Although, broadly speaking, in fixed income the days of significant capital gains appear to be behind us, we are always on the lookout for special opportunities that can deliver outperformance to our client portfolios.

Typically capital values of fixed income investments decline in a rising rate environment. We look to mitigate this effect through selecting high yielding securities, where the price is more related to the health of the underlying corporate. Also, owning floating rate securities aids in balancing out any impact as coupons (as well as potentially prices) of these securities increase in the event of a rate rise. We noted in last summer's edition of the CredoNews (Issue 23) the inclusion of an Aegon floating-rate bond as an opportunistic investment as well as part of a diversified portfolio. This bond is exposed to 10 year US rates, which have subsequently risen from 1.5% to 2.4% and the bond has benefited as a result with its price increasing by approximately 30%. Although the 'exciting' money may have been made in this bond, we still believe there is a place in portfolios for an investment such as this alongside other floating rate bonds. The bond yields 3.1% based on current rates. The key benefit of this bond is the reference to 10 year rates, which not only takes into account any interest rate moves made by the Fed, but also includes expectations of future interest rate movements.

In addition to our holding in the Aegon bond, we have recently started purchasing a XL Group floating-rate bond as a core holding. XL Group is a global insurance and reinsurance company providing property, casualty and specialty products to industrial, commercial and professional firms as well as insurance companies throughout the world. The group is listed on the NYSE and has a market capitalisation of $10.9bn. XL Group combined with Catlin Group in 2015 to create a global leading insurer with specialities in property and casualty and reinsurance. The acquisition was transformational for the group, providing enhanced scale and product offering. XL Group holds an 'A+' rating at a senior level, and this bond is rated as investment grade by two rating agencies even though it is subordinated. From April 2017, the bond coupons will be linked to 3 month LIBOR providing a healthy yield of 4.2%. This investment would benefit from any future interest rate rises. Although still lower than some fixed rate alternatives, this is attractive compared to other investment grade alternatives that typically yield around 3%. The bond is liquid, trades in small denominations and is an attractive floater. We remain comfortable with the underlying issuer. ■

Kathryn Linde - *Relationship Manager*

Diversified equity portfolios

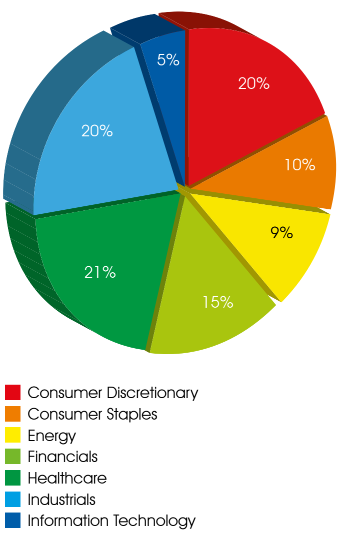
The Best Ideas and Dividend Growth portfolios are diversified global equity portfolios, which we believe to be well positioned to outperform the wider equity market over the longer term. The portfolios have biases towards developed-market, large-capitalisation stocks.

BEST IDEAS PORTFOLIO

Performance

Return (%)	
YTD	3.5
1 Month	4.8
3 Months	6.1
1 Year	33.2
Annualised Return (%)	
3 Years	15.2
5 Years	13.7
Since Inception	13.6

Sector Allocation

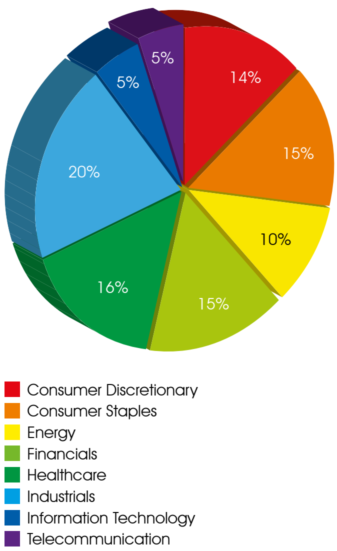


DIVIDEND GROWTH PORTFOLIO

Performance

Return (%)	
YTD	1.7
1 Month	3.9
3 Months	5.2
1 Year	31.5
Annualised Return (%)	
3 Years	17.0
Since Inception	17.8

Sector Allocation

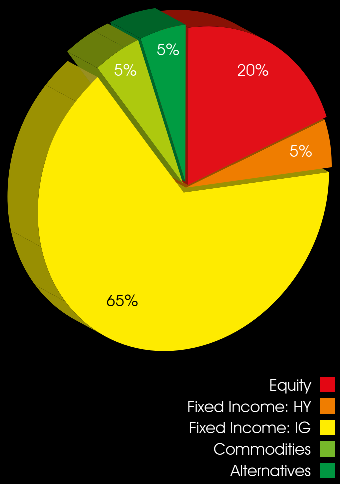


MULTI-ASSET PORTFOLIO 20/80

Performance

Return (%)	
YTD	2.3
1 Month	3.6
3 Months	5.1
1 Year	13.4
Annualised Return (%)	
Since Inception	8.0

Strategic Asset Allocation



Value orientated investment philosophy

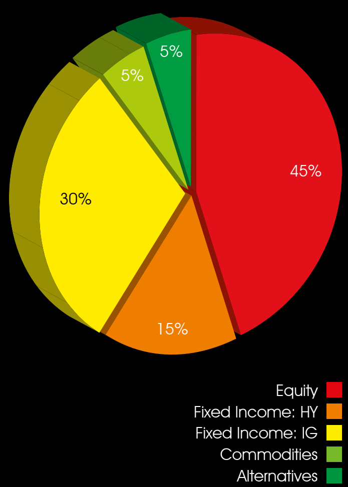
The Credo Multi-Asset Portfolios invest in regulated funds and ETFs on a global basis, with a focus on diversification across a broad range of asset classes using liquid securities. Funds are selected using Credo's in-house selection process and offered as four solutions targeting various levels of equity exposure. Portfolios are available in both GBP and USD.

MULTI-ASSET PORTFOLIO 45/55

Performance

Return (%)	
YTD	3.0
1 Month	3.5
3 Months	6.3
1 Year	20.3
Annualised Return (%)	
Since Inception	10.1

Strategic Asset Allocation

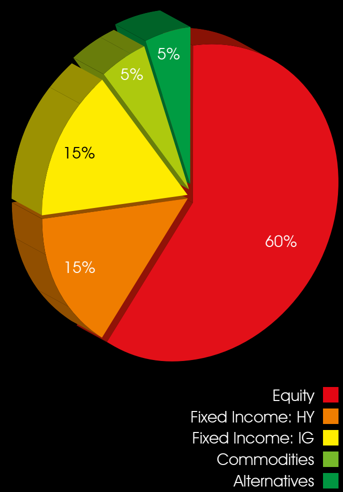


MULTI-ASSET PORTFOLIO 60/40

Performance

Return (%)	
YTD	3.3
1 Month	3.5
3 Months	6.9
1 Year	23.8
Annualised Return (%)	
Since Inception	10.9

Strategic Asset Allocation

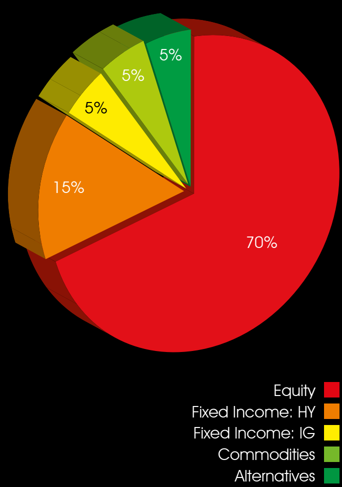


MULTI-ASSET PORTFOLIO 70/30

Performance

Return (%)	
YTD	3.5
1 Month	3.5
3 Months	7.2
1 Year	26.4
Annualised Return (%)	
Since Inception	12.0

Strategic Asset Allocation



Performance figures are based on a notional portfolio, denominated in pound sterling, designed to track the holdings of the Credo Best Ideas, Dividend Growth and Multi-Asset portfolios. Portfolios incorporate all additions and removals. Portfolios may not be fully invested at a point in time and therefore can hold a portion of assets in cash. Performance is calculated before any fees (which can vary depending on the level of service) but includes gross dividends, reinvested. Following additions or removals, each holding is rebalanced to a 5% weighting. Source: Bloomberg pricing as of 28/02/2017 close. All portfolio performance is calculated using Bloomberg PORT, rounded to 1 decimal place. Inception dates: Best Ideas Portfolio 14/11/2011, Dividend Growth Portfolio 28/12/2012 and Multi-Asset Portfolios 02/07/2014.

Natalie Ledwick - *Executive Assistant*

Not for the faint-hearted

39th Pirates Half Marathon

It is not every Sunday morning that one gets up at 4am and decides to run 21km, however on 19 February 2017, this was exactly the case for a record breaking 3,800 runners who took part in the 39th Pirates Half Marathon in Johannesburg. This is one of the oldest road races in South Africa and has been sponsored by Credo Wealth for the past two years.

Surprisingly, for a group of Joburgers awake that early in the morning, everyone was rather upbeat and excited to run the race regarded as one of the most challenging half marathons in the country. As the race was about to start at 6am, the streets of Greenside were filled with many optimistic faces (and a few nervous ones too!).

The runners followed a circular route, running up Northcliff Ridge, past the water tower at the top and back down the other side again.
The first half of the race had three very challenging hills, the first starting after only one kilometre. The race continued with a further two climbs, the last peaking at the King of the Mountain point close to 14km. At the top of this hill, an altitude of 1,807m was reached (only 1 meter lower than Johannesburg's highest point).

The downhill after that was fast, which enabled the runners to pick up their pace. This may not sound too punishing to some, however following a net elevation gain of some 370m, the runners were sure to feel the burn at some stage during the race.

Back at the finish line, South African olympian Elroy Gelant took first place in a record time of 1:07:22 and following him was female winner Louisa Leballo in a time of 1:21:57.

The Credo team along with the crowds in the stands cheered on the runners charging towards the finish line with big smiles on their faces and evidently a sense of joy at completing this gruelling race. Some were so excited, they even decided to do a few push ups at the finish line! Congratulations to Credo CEO, Roy Ettlinger and CIO, Deon Gouws who were amongst those completing the race (both improving on their times from the previous year in the process).

Gold medals were awarded to the top five finishers, silver medals were handed out to all runners who completed the race within 90 minutes and bronze medals were handed out to all other runners who completed the race within the 3:30 hour cut off time.

Well done to all the runners who completed the race. To conquer this challenge is no simple feat and anyone who has run the Pirates Half Marathon will agree. ■

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