

Fund Commentary

The second quarter of 2023 saw the Credo Dynamic Fund (“Dynamic” or “the Fund”) return 0.7% over the period¹. The Fund outperformed the benchmark and peer group (the IA Mixed Assets 40-85% Shares Sector), which returned 0.2%² over the period. Dynamic has outperformed the benchmark by 15.4% since inception and was recently awarded a AAA manager rating from Citywire. This maximum rating is awarded to the top 10% of managers based on a 3-year risk-adjusted performance relative to benchmark.

The positive momentum from the first quarter continued into the second. The Artificial Intelligence (AI) frenzy gained pace into the second quarter, and as a result, the largest technology companies drove the markets. Dubbed by some as the “Magnificent Seven”, Nvidia, Tesla, Meta Platforms, Apple, Amazon.com, Microsoft and Alphabet were responsible for approximately 80% of the gains made in the S&P 500 index.

Simultaneously, global markets were coming to the realisation that interest rates would be higher for longer. In the UK specifically, a disappointing inflation print showed that inflation is more stubborn and entrenched than our international peers. This caused the Bank of England to raise rates by a further 0.5% in June. Interest rates are now expected to reach a peak of over 6.0% which has notably impacted sterling assets. With UK assets performing weakly, and overseas assets hampered in sterling terms by the strengthening pound, it has been a particularly tricky period for sterling-based funds to make headway.

Positioning

At the end of the period, the asset allocation was 47% in equities, 42% in fixed income, and 10% in alternatives. The Fund has been relatively stable yet remains liquid and manoeuvrable if so required.

Looking under the hood at individual positions, we see a little more activity. A new position added in the quarter was the GQG Global Equity Fund. We were particularly attracted to this fund's track record of rotating between sectors at opportune times. When adding positions to Dynamic, an important consideration is the performance across a range of market scenarios. A standout point of this fund is its ability to protect capital in weaker markets. After further due diligence and a meeting with management, we have allocated approximately 2% of Dynamic to this fund. As always, we continue to monitor it closely.

Polar Capital Technology Trust (Polar) is an investment trust that we have now owned for some 3 years. Polar owns a diversified portfolio of high-quality technology companies and, like many investment trusts, presently trades at a wide discount to its underlying assets. Having switched our long-standing holding in Alphabet into Polar earlier this year, we took the same path with Amazon.com this quarter. In a world where technological changes are occurring at breakneck speed, the combination of diversity, the expertise of management, and a wider discount than usual felt more prudent than owning a small handful of individual technology stocks. Polar is now Dynamic's second-largest holding and is our vehicle of choice to house its direct technology exposure.

(1) Performance of the Credo Dynamic Fund Class A Retail Shares over the period 31/03/2023 to 30/06/2023.

(2) Source: Bloomberg, FE Analytics.

In the fixed income portfolio, we saw some natural turnover due to maturities and companies tendering bonds at a premium that we typically purchased six to twelve months ago as a way of fixing a low-risk return at a premium to rates on deposit. As yields on bonds continued to climb, marshalled by higher interest rates, we were able to re-fix at notably higher rates. With the addition of names such as Admiral Group plc, BT Group plc, Ford Motor Company and Imperial Brands plc, the bond portfolio now generates a return in excess of 9%. This is primarily from short duration and investment grade credits offering a highly rewarding income stream on a notable portion of the Fund, thereby creating quite an exciting backdrop for investors.

Contribution and Attrition

The top three performers in the Fund in the recent period illustrate the depth and diversity of our holdings.

As mentioned, technology companies had the wind in their sails, and as a result, our large holding in Polar was a notable contributor to the performance of the Fund.

Literacy Capital plc (Literacy) is a private equity fund that focuses on the opposite end of the spectrum, specialising in UK-based smaller companies. It managed to buck the trend that its peers in the sector are experiencing after a positive progress update and accompanying outlook led to a re-rating in the shares. As a small fund with a relatively limited track record, Literacy was initially an experimental, and therefore small holding for Dynamic, but after showing quite staggering growth of over 190% since its listing in the summer of 2021, Literacy is becoming a more relevant position in the portfolio, and we look forward to the next set of results.

The largest contribution within Dynamic came from an individual company, FRP Advisory Group plc (FRP). This professional services firm has a key focus on insolvency and restructuring. The stock had a poor start to the year after a slightly disappointing trading update in the first quarter. We took the opportunity to buy shares at a cheap price and were rewarded with a confident trading outlook followed by an uptick in insolvency cases. Given the continued increase in debt costs for UK companies, we expect this trend to continue and enjoy holding FRP both due to its standalone growth prospects as well as its potential hedging in a somewhat precariously balanced UK economy.

In terms of downside, no investment held cost investors more than 0.25%. The largest detractors were shipping company, Taylor Maritime Investments Limited, following a decline in shipping rates, and Gresham House plc, which drifted in the period after a positive trading update at the end of the previous quarter. We believe both positions have compelling upside potential from the currently depressed levels and remain confident holders.

Looking Forward

One of the most widely anticipated global recessions has so far failed to materialise. Indeed, economic data has remained surprisingly resilient in the face of rising interest rates, causing economists the world over to downgrade the probability of both a hard landing in the US and of a recession. While this more sanguine outlook gives us some reason to cheer, we note that global equities do not offer significant value and we still have some concerns that the global rate-hiking cycle is not yet complete (most specifically in the UK where stocks are cheap compared to global peers). With the knowledge that rates could rise further and the fact that there is a lag between previous rate hikes hitting the real economy, we choose to remain balanced and hold roughly equal amounts of equity and debt.

While the bond portion of the Fund remains significant and could thus face some pressure in the short term if UK rates continue to rise, we feel this is an important and exciting part of the portfolio. We continue to hold many short-duration assets, which will dampen the volatility of the Fund and provide a much better return than cash on deposit. With a medium-term mindset, we believe a yield of over 9% on the fixed income assets will prove highly lucrative in the months and years to come, while allowing us to stick to our stated aim of providing equity-style returns with lower volatility.

Please find further details on the current portfolio positioning below.

Rupert Silver – Lead Manager

Portfolio Top Holdings³

UK Equities	%	Alternatives	%
Gresham House plc	2.6	Hipgnosis Songs Fund Limited	2.9
Entain plc	2.5	Gresham House Energy Storage Fund plc	1.8
FRP Advisory Group Limited	2.5	BH Macro Ltd	1.7
Ecora Resources plc	1.1	Literacy Capital plc	1.6
BP plc	1.1	Taylor Maritime Investments Limited	1.6
Total UK Equities	19.7	Total Alternatives	9.8
Equity Funds	%	Fixed Income	%
DBX S&P 500 Equal Weighted	7.8	IG Group Holdings plc 3.125% 18/11/2028	2.7
Polar Capital Technology Trust	5.9	BP plc Perpetual	2.5
iShares MSCI World Small Cap	2.5	Investec plc Var 06/03/2033	2.3
Jupiter European Opportunities Trust plc	2.3	Travis Perkins plc 4.50% 07/09/2023	1.8
GQG Global Equity UCITS	1.8	Co-Operative Group 08/07/2026	1.8
Total Equity Funds	26.5	Total Fixed Income	41.8
Overseas Equity	%	Cash	%
Rheinmetall AG	1.1	GBP	1.1
Total Overseas Equity	1.1	Total Cash	1.1

³ Portfolio positions of the Credo Dynamic Fund as at 30/06/2023.

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