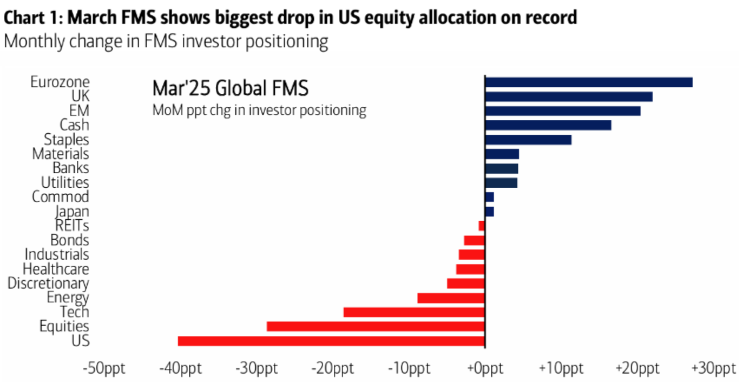
Fund Commentary

The first quarter of 2025 saw the Credo Dynamic Fund (Dynamic) fall by 0.8%, outperforming the comparator and peer group (IA Mixed Investment 40-85% Shares Sector), which fell by 1.2%[1] over the same respective period. The Fund continues to rank in the top quartile of its peer group over 1, 3, and 5 years, as well as since its inception[2]. We are pleased to inform readers that the Dynamic portfolio managers have been shortlisted as finalists for the Investment Week Fund Manager of the Year Awards 2025.

As expected, US President Trump was the dominant focus in the first quarter of 2025. The initial euphoria surrounding a business and market-friendly president expected to trigger an M&A boom, quickly faded. Tariffs, which Trump once called "the most beautiful word in the dictionary," came to the forefront, applied indiscriminately to both allies, like Canada, and adversaries, like China. This created significant uncertainty for both consumers and businesses. Furthermore, the market had assumed that Trump 2.0 would once again view daily equity market movements as a measure of his success and subsequently a backstop to market declines. However, this expectation was tempered when US Treasury Secretary, Scott Bessent, described the administration's early days as a "detox" period from excessive government spending and referred to market volatility as "healthy" to prevent a larger crisis later. The other defining moment of the quarter was the dramatic Oval Office showdown between Trump, JD Vance, and Zelensky, a meeting that will be recorded in the history books. The outcome was clear. The US is no longer positioning itself as the world's peacekeeping authority or supplying weapons to friendly democracies. Instead, the administration appears focused on a swift resolution to the war, guided by Trump's strategy of keeping one's friends close but, enemies closer.

This shift rippled across the Atlantic. Starmer and European leaders swiftly responded by ramping up defence spending. The most striking example came from Germany, a historically fiscally conservative nation, which announced a €1 trillion investment in infrastructure and defence.

As a result, the safe-haven appeal of US assets, including the dollar, took a hit. US growth indices entered correction territory, defined as a decline of more than 10 percent, while European equities in contrast displayed resilience. Closer to home, the UK also managed to eke out positive returns. Although the UK lacks the fiscal flexibility to match Germany's ambitious spending plans, markets found comfort in its lower valuations and long-overlooked stocks.



Just some slides from today's BoA fund manager survey
Reference: FT, Bank of America Fund Manager Survey

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[1] *Source: FE Analytics.*
[2] *Inception: 03/07/2017.*

Polarised Returns

Turning to Dynamic's holdings, polarised markets were felt in equity returns with the geographical exposure playing a key role in determining performance over the period. As a rule, we prefer stock-picking in our home market of the UK while using diversified funds to achieve broader global exposure. After a strong period of outperformance, aiding returns, the six worst performers were all funds with exposure to the US. While none were particularly significant on a standalone basis, the weakening US dollar amplified losses when translated back to our base currency of sterling. Both active and passive strategies struggled, regardless of whether they were focused on growth, value, or quality. The largest detractor from performance was Polar Capital Technology Trust plc, a long-term holding and standout performer in recent years. However, its unwavering focus on US technology placed it at the epicentre of the market turmoil this quarter, costing the Fund approximately half a percent.

Turning to the winners, it was both interesting and rewarding to note that all ten of the Fund's largest gainers were investment trusts. Over the last few quarters, we've highlighted this area as a significant focus, due to the unusually wide discounts between share prices and the underlying assets. It was therefore pleasing to see this conviction rewarded.

For example, within equities, the investments trusts, European Opportunities Trust plc and Scottish Mortgage Investment Trust plc, were both top performers. After particularly strong short-term outperformance early in the quarter, coupled with a narrowing of the trusts' discounts to their underlying asset values, Dynamic took profits around the market highs in February, illustrating the benefit of the highly active management employed in a portion of the Fund.

Even more pleasingly, the other eight out of the top ten performers were also investment trusts, but with a focus on the alternative asset class. This is an area of Dynamic that we have recently expanded due to its high yields, reduced correlation to the overall markets, and the unusually large discounts which we believe are unsustainable. Private market buyers have also taken note of these discounts relative to their estimates of underlying asset value and have begun making relatively attractive bids.

For example, two utility-scale battery portfolios featured in the top ten performers following a volatile 2024. The underlying portfolios help balance the grid due to the intermittent nature of renewable power. Harmony Energy Income Trust plc saw a notable jump after receiving a bid from Foresight Group, followed by a counteroffer from Drax. This activity illustrated the value in its listed peer, a larger holding for Dynamic, Gresham House Energy Storage Fund plc.

Property exposure, which now constitutes our largest sector exposure and makes up 9% of the Fund at quarter end, proved to be the shining light in an otherwise challenging quarter. Dynamic was drawn towards the large discounts, easily verifiable asset values, a high and dependable-income stream, coupled with the recent reduction in UK interest rates. The vultures of private market buyers, sensing the same opportunity, began to circle the sector in search of the most attractive candidates. The largest contributor to the Fund was Assura plc, which owns a portfolio of GP surgeries and private hospitals. The stock spiked following a bid from private equity firm, KKR, returning a gain of over half a percent to Fund holders during the period. Smaller, but still notable, gains came from logistics focused warehouse investments. Warehouse REIT attracted the attention of Blackstone, while Urban Logistics REIT is undergoing a shake-up from activist investors (which we are also invested in via Achilles Investment Company Limited) and is setup to hopefully become the next target in the portfolio.

Under the Bonnet

As the market pulled back from its highs, we frequently discussed increasing the Fund's equity holdings. Historically, the S&P 500 corrects roughly every two years, and buying into these dips has often been a highly profitable strategy. However, what held us back from accelerating our exposure was the unusually high level of valuation and market concentration from which the decline began. Rather than presenting a clear value opportunity, it felt more like a justified correction from excessive highs. While this could ultimately prove to be a missed opportunity, we always balance potential upside with a keen awareness of risk and volatility, in line with our stated aim of delivering equity-style returns with lower volatility.

This quarter saw some fine-tuning under the bonnet, as we continuously seek to optimise the portfolio rather than implementing wholesale changes. Equity exposure drifted slightly lower due to market declines, ending the period at 46%, while fixed income closed at 28%, and alternatives increased from 16% to 24%. Cash holdings remained slightly elevated as we await opportunities to deploy capital. Our overall stance remains that after two years of strong market returns, our traditional exposure to equity risk may be below average. However, the Fund is not in a risk-off mode or positioned for a deepening sell-off. Instead, Dynamic is focused on ensuring a broad diversification of returns and underlying assets. Whether through REITs, as discussed above, private equity, which could benefit from an uptick in the M&A cycle, or renewables funds, which remain deeply out of favour despite offering high yields and significant discounts.

In equities, in addition to selling two investment trusts at a profit, Dynamic took profits in Marks & Spencer plc. Despite strong underlying performance, the changes to National Insurance following last year's budget were expected to dampen short-term upside. Additionally, mindful of a significant shift in the mood, Dynamic reduced some exposure to the US, and specifically to growth equities in that region, whilst increasing allocations to MSCI World and European equities. This move was partly in line with our broader diversification strategy and partly due to the more attractive valuations, which we felt offered greater downside protection.

Additionally, in pursuit of greater diversification, the alternative allocation has steadily increased. To complement our outsized position in alternative investment trusts, a new position has been initiated in the AQR Adaptive Equity Market Neutral UCITS Fund. This fund is expected to have a very low correlation with the rest of the portfolio while offering strong return potential. It leverages advanced data science and language models, analysing over 300 broad variables to identify equities to invest in or sell within global equities.

As noted earlier, several of the investment trust holdings saw corporate activity driving up their share prices. Given that takeovers can be a binary process, we decided to lock in some profits, trimming positions that had performed well in favour of new opportunities offering greater upside. Rotating into new positions within the REIT sector, as we gain confidence both from the sector's relative resilience and the increased level of corporate activity.

Turning to, and without forgetting, the fixed income allocation, bond performance was muted, with neither surprises nor disappointments, leaving little notable movement to discuss. Overall, there were no significant changes in interest rate expectations or in the additional compensation required for corporate bonds over government bonds in the period. Broadly, the bond portfolio earned its income yield, with prices remaining largely flat. Turnover is expected to pick up in the coming months as more notable maturities emerge from the short end of the laddered portfolio.

Looking Forward

At the risk of sounding repetitive, the only thing we can say with confidence is that uncertainty remains elevated. Trump 2.0 has taken a different approach compared to Trump 1.0, which has clearly surprised the markets, resetting expectations in the process.

Two questions remain largely unanswered: is this the beginning of a rotation away from US assets, or just a brief blip in a US-dominated world? And will the US enter a recession within the next year? While few would claim a recession is likely, most agree that its probability is increasing. We don't claim to have definitive answers, particularly as policy decisions can change on a dime and be influenced by a single tweet. However, we believe that placing heavy bets on the outcome of these questions would be imprudent. Despite the uncertainty, we remain cautiously optimistic about the future. This is partly due to our long-term conviction that owning high-quality assets will generate strong returns over time, and partly due to our faith in the Fund's process, which ensures that investors are well-diversified and well-positioned to weather any challenges ahead.

We maintain the humility to recognise that any chosen path can always change direction, and remain poised and guided by the key principle of flexibility, ready to adapt as the global landscape continues to evolve.

Rupert Silver – Lead Manager

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Portfolio Top Holdings[3]

UK Equities	%
Plus500 Ltd	1.7
Aberforth Smaller Companies Trust plc	1.5
Park Plaza Hotels Ltd	0.7
Rockwood Strategic plc	0.6
Merchants Trust plc	0.6
Total UK Equities	**6.1**

International Equity Funds	%
DBX S&P 500 Equal Weighted	8.4
GQG Global Equity Fund UCITS	5.8
iShares MSCI World	4.7
Polar Capital Technology Trust plc	4.3
AB International Health Fund	2.3
Total International Equity Funds	**39.7**

Alternatives	%
Achilles Investment Company Limited	2.7
Literacy Capital plc	2.1
The Renewables Infrastructure Group Limited	1.8
Empiric Student Property REIT	1.8
AQR Adaptive Equity Market Neutral	1.7
Total Alternatives	**23.6**

Fixed Income	%
Nationwide Building Societe Perpetual	2.1
Coventry Building Society Perpetual	2.0
Electricite De France Sa Perpetual	1.7
Co-Operative 08/07/2026	1.6
Barclays plc Perpetual	1.5
Total Fixed Income	**27.9**

Cash	%
GBP	2.8
Total Cash	**2.8**

[3] *Portfolio positions of the Credo Dynamic Fund as at 31/03/2025*

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