

Fund Commentary

The second quarter of 2025 saw the Credo Dynamic Fund ("Dynamic" or "the Fund") close at a new high, returning 6.1% for the period, compared to 3.9% from the comparator and peer group (IA Mixed Investment 40-85% Shares Sector). The Fund remains comfortably in the top quartile of its peers over one, three, and five years, as well as since inception. The Fund Managers were awarded a "Highly Commended" title at the Investment Week Fund Manager of the Year Awards 2025, in recognition of the Fund's strong risk adjusted performance over a three-year period.

Looking back over the quarter, markets delivered a truly astonishing ride. April 2nd, referred to as "Liberation Day" by US President Trump, saw sweeping tariffs imposed on multiple countries, and at a scale far beyond what the market had anticipated. Global equities, already fragile from the threat of tariffs, fell sharply. The US market briefly entered an intraday bear market, defined as a peak-to-trough decline exceeding 20%, before rebounding at breakneck speed as Trump appeared to soften his stance. This gave rise to the viral phrase "TACO" (Trump Always Chickens Out), much to his reported irritation.

All told, it was a dramatic quarter, but blink and you missed it. Confidence continued to build as economic growth proved more resilient than feared, while Fed watchers increasingly forecast stimulative rate cuts ahead. Equities and corporate bonds both finished the period strongly, as illustrated by the MSCI World Index, which gained 5% in sterling terms. Although that marked an all-time high in US dollar terms, the currency weakened by 6% against sterling and 7% against a broader trade-weighted basket in the period. As a result, the MSCI World Index has not yet regained its peak in sterling terms. This dollar weakening and falls in longer dated US Treasuries signal some underlying concerns about the funding of the US government deficit, as well as some unanswered questions around Trump's policy direction.

Focusing on the holdings within Dynamic, the breadth of the rally meant there were four times as many contributors to performance as detractors, and encouragingly, none of the detractors were material, defined as causing a reduction in NAV of 0.5% or more.

The largest detractor in the period, the GQG Global Equity Fund (GQG), is an actively managed strategy with an enviable long term track record. GQG's sector rotation approach has historically provided better downside protection while keeping pace with markets on the upside, making it a complementary position alongside the Fund's core passive equity exposure. However, on this occasion, the manager reduced portfolio risk slightly too late, which meant the fund declined in line with broader markets but was less able to participate in the rebound. Given the significantly derisked positioning, as a multi-asset fund, the portfolio already includes a range of positions that can play a similar role in the portfolio, prompting a decision to exit the holding in full. While GQG has added value to Dynamic over the long term, it detracted approximately 0.3% from the Fund's performance over the quarter.

Polar Capital Technology Trust plc, a core equity holding and the Fund's key exposure to the technology and artificial intelligence sector, was the clear winner over the quarter, adding approximately 1% to investor returns. Gains more than offset the currency drag on this US focused technology fund, and the manager outperformed its market.

Most of the notable gains came from satellite positions, viewed as special situations rather than core long-term holdings. This illustrates the portfolio's breadth and diversity. These satellite positions are typically driven by specific catalysts, such as attractive valuations or identifiable upcoming events. Because timing can play a more important role in these investments, they tend to carry more risk than the core buy-and-hold positions and are therefore usually held in smaller size.

The largest absolute move came from the Fund's holding in TOBAM's Global Blockchain Equity Fund strategy. This fund seeks to capitalise on the adoption of Bitcoin and blockchain technology through a UCITS-eligible thematic approach focused on listed equities, with Coinbase and MicroStrategy among its notable holdings. It has been an exceptional investment for Dynamic, boosted by the US government's increasing embrace of cryptocurrencies, growing institutional adoption, and concerns over the US dollar. The holding gained nearly 60% over the quarter, adding approximately 0.5% to the NAV, and has risen 145% since the initial purchase in January 2024. Dynamic retains its position, for now. Whilst mindful of the high volatility and downside risks, we believe the upside potential remains significant.

Second on the podium with a quarterly gain of around 57% was the VanEck Uranium & Nuclear UCITS ETF. Another compelling thematic play. Dynamic first initiated a position in nuclear-related stocks in 2022, rotating among three different investments over time, driven by the belief that this often-misunderstood technology would gain global traction as a cleaner alternative to fossil fuels and a more reliable energy source than renewables. Confidence grew amid burgeoning energy demands from data centres and artificial intelligence, many of which are exploring nuclear solutions. The holdings were increased following the post "Liberation Day" sell-off. VanEck's ETF offers exposure across the nuclear value chain, including mining, enrichment, construction, and energy-producing utilities. The fund benefited from a series of executive orders announced in May by Trump, signalling support and reform throughout the nuclear sector. This fund was held alongside the LSE-listed stock, Yellow Cake plc, which functions as a uranium tracker by holding substantial uranium inventories stored in Canada. Together, these positions contributed over 0.5% to Dynamic's NAV. The Fund remains committed to the long-term potential of this theme but reduced some exposure following the significant quarterly gains. Given the recent publicity, the opportunity has moved quite far and fast, and a more attractive entry point may emerge in the future yet Dynamic retains a small holding.

Further illustrating the depth of returns and holdings within the portfolio, it was pleasing to see strong performance from new listing MHA plc. This UK small cap is a professional services firm and a member of the Baker Tilly International network. While IPOs in the UK market have become increasingly rare, Dynamic seized the opportunity in April to invest at the flotation, believing that limited investor appetite in UK IPOs made the business look undervalued despite its stability and growth potential. This trade was rewarded with a pop of almost 25% by quarter end.

In the alternative space, there was by continued takeover interest in our property holdings. Empiric Student Property was a strong performer, surging on a bid from its larger peer, Unite plc. Meanwhile, PRS REIT received a formal approach from Long Harbour Ltd; however, the share price reaction was muted, having already risen significantly in prior quarters after the company indicated it was open to a potential sale.

Under the Bonnet

Asset allocation in the second quarter remained broadly stable. Fixed income held steady at 28%, while equities drifted up by 2.5% to 48%, reflecting increased risk appetite and market moves. Alternatives, meanwhile, declined by 4% to 20%.

As flagged in recent quarterlies, the Managers believed (and therefore invested significantly) in the opportunity presented by unusually high discounts attainable in the Investment Trusts sector and particularly in REITs. At its peak, this theme made up over a third of the Fund's assets. However, following a series of corporate actions and activist activity, discounts have narrowed and so has Dynamic's exposure, now reduced to approximately 20%. A key example is within the property exposure. At the peak, REITs represented almost 10% of the Fund, but now retain less than half that weighting, as several holdings have been snapped up by predators, which in turn has helped awaken investor interest in the value of their peers.

With several property plays vacating the Fund's alternative allocation, there was a significant amount of cash to deploy. However, high equity valuations and tight spreads in the bond market compelled reinvestments in other alternatives. Dynamic invested in a variety of hedge funds over the quarter with the objective of increasing portfolio diversification and enhancing performance across a range of market environments. The largest exposure was to equity market neutral strategies, most notably AQR Adaptive Equity Market Neutral Fund. This is a systematic long-short fund built on a large language model framework, incorporating hundreds of variables and positions. It targets equity-like returns whilst aiming to maintain a low correlation to broader equity markets.

Elsewhere, there was limited notable activity to report outside the GQG sale with more of a focus on finesse around the edges.

From a fixed income perspective, there is ongoing reinvestment as bonds mature within the Fund's laddered portfolio, helping to enhance the yield on cash and reduce market volatility. Additionally, Dynamic increased its holding in the Heathrow bond maturing in 2031, purchased at around a 7% yield to maturity, making it our largest bond position. The higher yield comes from one of the most attractive global infrastructure assets, supported by top-tier shareholders. Dynamic continues to benefit from the yield and safety cushion provided by the barbell approach, which combines short-duration, lower-risk defensive holdings with longer-dated, higher-yielding corporates such as Heathrow. This mix helps meet the objective of delivering equity-style returns with reduced volatility.

Looking Forward

By most measures, assets appear expensive. Corporate bond spreads have compressed materially, equity market valuations are elevated, and price-to-earnings ratios look full across the board. Even the long-time laggards such as Europe and the UK have played catch-up, making up some long-overdue ground and removing the valuation appeal they once offered.

But being a bit expensive is rarely, if ever, the reason for markets to stop their march. Momentum is usually a more relevant factor, and at present the path of least resistance still seems to be upwards. Artificial intelligence continues its charge, the global economy appears on solid footing, and the US administration will

do its bit to be business friendly. Trump seems intent on installing a Federal Reserve Bank Chair who will cut rates, which is likely to push more investors back into stocks.

That said, there are still plenty of things that could throw the party off kilter. No one really knows what the tariffs might do to inflation or the consumer. The US is still trying to land a colossal number of trade negotiations, geopolitics remain on a knife edge, and Trump, one could say, is a hard man to predict. One suspects he will not want to go down in history with TACO on his tombstone. Importantly, it is usually the black swan we are not talking about that catches us off guard.

Dynamic is not positioned explicitly for either a bull or bear market. Instead, the focus remains on balance and breadth, with holdings that offer both offence and defence across all three areas of the portfolio, and a wider geographic spread than at any time in the Fund's history. The portfolio is now more diversified than at any time since launch, allowing Dynamic to participate meaningfully in further upside while remaining resilient in more challenging conditions.

Rupert Silver – Lead Manager

Portfolio Top Holdings¹

UK Equities	%	Alternatives	%
Merchants Trust plc	2.2	AQR Adaptive Equity Market Neutral UCITS Fund	2.9
Aberforth Smaller Companies Trust plc	1.6	Literacy Capital plc	2.0
Plus500 Ltd	1.4	Achilles Investment Company Limited	1.6
Elixirr International plc	1.0	The Renewables Infrastructure Group Limited	1.4
MHA plc	0.7	AQR Alternative Trends UCITS Fund	1.1
Total UK Equities	8.5	Total Alternatives	19.6
International Equity Funds	%	Fixed Income	%
DBX S&P 500 Equal Weighted	7.1	Heathrow Finance plc 6.625% 01/03/2031	2.0
iShares MSCI World	5.2	Electricite De France SA Perpetual	1.9
Polar Capital Technology Trust Plc	4.4	Barclays plc 22/11/2030	1.6
Amundi STOXX Europe 600 Industrials UCITS ETF	2.2	Co-operative Group 08/07/2026	1.5
AB International Health Fund	2.1	Mexico Government 5.625% 19/03/2114	1.4
Total International Equity Funds	39.2	Total Fixed Income	28.0
Overseas Equities	%	Cash	%
Impala Platinum Holdings Ltd	0.6	GBP	4.2
Total Overseas Equities	0.6	Total Cash	4.2

¹ Portfolio positions of the Credo Dynamic Fund as at 30/06/2025.

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