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Fund Commentary

The second quarter of 2026 saw the Credo Dynamic Fund ("**Dynamic**" or "**the Fund**") appreciate by 6.8%[1]. While this represented a strong return in absolute numbers, it was below the 9.5% generated by the comparator and peer group (IA Mixed Investment 40-85% Shares Sector). Although disappointing to lag peers in any period, the Fund's longer-term track record remains solidly intact. Dynamic remains comfortably in the top quartile performance over three years and since its inception almost nine years ago, from when it has delivered returns almost a third higher than its peers[2]. This long-term outperformance was strongly recognised for both our process and returns. The Fund received a rating from fund research and ratings provider, RSMR. This prestigious rating is held by only around 5% of funds in the IA Mixed Investment 40-85% Shares sector. The Fund was also honoured with the title of "2026 UK Best Mixed Asset GBP Flexible Fund Over 5 Years" at the LSEG Lipper Fund Awards. This marks a hat trick, with the Fund having won the same award in both 2024 and 2025.

Investors entered the quarter nursing some bruises from the shock of a new war in the Middle East. The conflict with Iran had disrupted oil traffic through the Strait of Hormuz, a route through which roughly a fifth of the world's oil flows, duly sending its price surging to over $100 a barrel and fuelling volatility with nervous investors fretting about supply chains and inflation. Markets globally were down whilst energy seemed the only place to hide. April saw the rebound and boy was it fast! The S&P 500, for example, clawed back to its pre-conflict level in just eleven trading sessions. The recovery appeared to be underway before geopolitical clarity arrived, with the market sensing the end was in sight, helped along by US President Trump assuring imminent peace some thirty plus times, and strong investor faith in both earnings and fundamentals. Those fundamentals were in fact unusually strong: first-quarter earnings for the global index grew a staggering 24% on the previous year, an astounding feat, typically seen only in the bounce back from a recession. By the end of the quarter, the "deal" duly arrived. Regardless of who "won" the war, markets were simply happy to see the back of it, and that relief gave equities another push up.

Brent crude oil finished the quarter down by 20% in sterling terms and commodities in general retreated in sympathy. Gold was a notable victim losing 15% of its value in sterling terms. Although commodity-heavy indices such as the FTSE 100 struggled to get fully into the party mood with a more "pedestrian" return of 4%, technology-heavy indices such as the Nasdaq 100 and S&P 500 hit all-time highs in June, seeing the MSCI World Index appreciate by 13.6% over the period.

The quarter saw the largest IPO of all time, minting Elon Musk as the world's first trillionaire. The SpaceX flotation is, however, one piece of a much bigger capital-raising story. The mega-cap US technology firms, long among the most cash-generative businesses on the planet, have flipped from throwing off cash to devouring it, as the sheer scale of AI investment now outstrips even their enormous profits and cash flow. Alphabet was first out of the block with an $85bn raise, and there is chatter that peers such as Oracle and Meta Platforms will follow. With talk of new listings on the horizon, from Anthropic and OpenAI, there was much debate as to who would fund these huge raises, or more specifically, which stocks might be sold to fund a rapidly growing cash requirement.

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[1] Performance of the Credo Dynamic Fund Class A Retail Shares over the period 31/03/2026 to 30/06/2026. Source: FE Analytics.
[2] Inception: 03/07/2017.

Turning to the holdings within Dynamic, there was much to celebrate in the equity portfolio. AI plays were the clear winner in the period. A seemingly insatiable appetite for memory chips required to build the AI rollout pushed Asian markets firmly higher. Large manufacturers such as Samsung and Taiwan Semiconductor now make up a significant part of the emerging market (EM) indices, and Dynamic's holding in the Invesco RAFI Emerging Markets ETF rose by almost 20% in the period, pushed by this theme and those names. The two standout contributors in the quarter, were the funds key AI and technology plays, Polar Capital Technology Trust plc (Polar) and Manchester & London Investment Trust plc (Manchester & London).

Polar has been a long-standing core holding and our principal route into the AI theme. It surpassed its usual lofty expectations delivering a staggering 50% return in the quarter, far outperforming the Nasdaq 100 and adding nearly 2% to Dynamic's NAV single handedly. It captured much of the rebound in the mega-cap names, but the differentiator and driver of this significant outperformance came from the broader "picks and shovels" businesses that sit behind the AI buildout. Manchester & London is the more concentrated and smaller cousin, and therefore a smaller position within the Fund. This unapologetically chip-heavy trust is built with conviction around the AI infrastructure story and thus paid off handsomely, providing outsized returns like Polar although contributing less to performance due to the smaller sizing.

Spire Healthcare Group plc (Spire) is a position regularly discussed in this quarterly. This UK-focussed operator and owner of hospitals had seen share price weakness due to earnings disappointments and was a detractor to performance in the previous quarter. Viewing the company as a property play rather than an earnings play gave us the confidence to stay invested, noting the company traded at a large discount to its assets. May saw a large spike in the share price after Toscafund Asset Management (Tosca) tabled a bid at a substantial premium. The shares spiked significantly on the news but still traded at a discount to the bid on the table, reflecting the possibility that the deal (as always) could fall over at any time until completion. As the outcome from this point will be binary, and as Tosca appears to be the only suitor, the Managers took the opportunity to sell most of the holding, locking in a profit on this volatile ride, whilst retaining a residual position where we hope for a little more upside if the deal completes.

Whilst technology stole much of the plaudits, it was a strong quarter for equities across the board and market breadth widened as the quarter grew older. There were some losing positions such as Strategy Inc and Pershing Square Holdings, but the losers were sparse and the damage caused was minimal. The equity portion of the Fund delivered a gain of over 13% akin to the performance of the MSCI World Index in the same currency.

Whereas the equity half of the Fund powered ahead, unfortunately the diversifiers added no value this period leading to the relative underperformance. Roughly a quarter of the Fund is allocated to fixed interest. This vital tool in our armoury is omnipresent in some capacity for when times are tough, but the positive return it delivered was very muted when compared to the excitement in the equity market. Alternative investments, which were the star of the show in 2025, had a tougher period and a similar-sized weighting here produced a marginally negative result in this short time frame. Whilst there were some individual successes in the portfolio, a notable 5% position allocation to hedge simply treaded water whilst our larger exposure to a diversified array of commodities saw notable headwinds pushing the alternative bucket slightly into the red.

The aim of Dynamic is to achieve "equity-style returns over the long run but with reduced volatility". Clearly this dual mandate focusses on delivering upside in a substantial way whilst containing the volatility to some extent and cushioning drawdowns in trickier times. Whilst the Fund has substantially delivered on both its aims over the long haul, it cannot realistically "win" in all quarters and although the Fund has outperformed in up, down and rangebound markets, we have from the outset acknowledged that a roaring bull market is the hardest market to compete in, as we tend to run a notably lower equity weighting than our peers, and that's exactly what we witnessed this quarter.

Under the Bonnet

Asset allocation remains broadly unchanged. Equities continue to make up almost half the Fund, and the other half remains broadly split between fixed income and alternatives. The asset allocation, however, does mask some notable changes under the bonnet, some of which we address below.

In fixed income, the portfolio remains well balanced across the ladder, combining short-duration positions in the main that provide certainty and stability, with a smattering of higher-yielding, longer-duration plays. In general, we remain a touch wary of the long bond given large fiscal deficits globally, and ahead of potential changes to the UK government's already uncertain spending plans. A new issue in the quarter from the Co-operative Group (Co-op) expected to mature in 2031, offering an 8.25% yield more in line with long-dated financial credit, seemed too generous to us. The Co-op is the UK's largest consumer co-operative and is well known to us as bond investors. Talk of caps on food prices at the time didn't help the company with pricing, and perhaps a recent cyber-attack was still in the back of investors' minds, but this seemed an outlier in the tightly priced bond market for a business whose primary focus is the stable arena of food retail. Co-op is now our second-largest bond holding and has pleasingly appreciated since issue.

Whilst the risk-reward of Co-op felt relatively easy to compute, decisions in this rapidly evolving and volatile equity market prove to be a tougher battle. On the one hand it feels compelling to retain a full position in technology for what is arguably the greatest technological revolution of our time. The incredible technological changes are visible for all to see, as are the windfall profits being showered on participating companies at the epicentre of the AI buildout. Focussing specifically on the chip sector, which saw the largest gains, it's interesting to note that valuations have hardly changed. The most dramatic moves witnessed this quarter were in memory chip stocks. The moves roughly reflected the dramatic increase in company earnings and the price of memory, rather than any expansion in the price paid for these earnings, implying the market remains rational and allowing further upside if valuations increase or the hyperscalers continue to increase spending. Both are possible. There is a notion that this time it's different with AI, but that's a scary phrase in the investing world, history has taught us memory chips have always proved to be notoriously cyclical. Production gets squeezed, capacity gets added, and, either because of increased supply or a demand wobble, prices normalise, margins plummet, and stocks follow suit. With so much money invested in the sector and a significant amount in leveraged products, we felt it prudent to take some not insignificant profits off the table and top-slice concentrated plays such as Manchester & London and the Invesco RAFI Emerging Markets ETF in favour of more diversified and less cyclical plays globally.

Alternative assets also required consideration. Abandoning strategies due to short-term underperformance is highly unlikely to prove a winning strategy in the long run, but we have a firm belief that the merits of each investment must be regularly tested, and especially so on weakness.

After a thorough review, the Managers decided to reduce the exposure to hedge where returns felt too opaque and unpredictable. Much of the hedge exposure is trend-following and, with volatile swings in recent months, we had concerns that such funds will continue to latch on to predictable trends. We also reduced some of the commodity hedges to insure against a more prolonged escalation in the Middle East, given the US and Iran outwardly appear to want to move forwards.

Twelve Capital Catastrophe Bond Fund was the main beneficiary of that recycled capital, offering the potential for double-digit yields. Returns in this diversified and uncorrelated insurance play hinge on the absence of significant natural disasters. Hurricane risk in the Gulf Coast is the key risk for the fund, but the odds of this look somewhat reduced, if history is any guide, given the El Niño weather pattern that appears to be forming. We initiated two new positions: drug royalty specialists, BioPharma Credit, offering an income stream in excess of the bond portfolio, and high-quality London office play, Derwent London plc, which trades on an unusually high discount to assets at the same time as activist shareholders such as Saba appear on the share register - a combination that has worked well for us in prior years.

Looking Forward

Momentum, earnings growth and animal spirits all remain strong. Earnings growth has been exceptional and is expected to continue into the third quarter. As long as it does, it will be hard to hold stocks down, even with valuations elevated across the board. On this basis, we enter the third quarter with confidence. Nonetheless, as Managers we aim to stay grounded. It remains to be seen if the earnings boom stands the test of time, and market participants appear to be well invested, some with significant leverage. It's tricky to assess what will change, or when, but at some point, things will change as they always do. Striking a balance between optimism and caution is challenging, but it is an important role for a fund such as Dynamic, where we aim to manage such risks.

Closer to home, the UK will soon have its seventh Prime Minister in ten years, a turnover rate that feels more emerging market than mature democracy. Keir Starmer finally succumbed to diabolical polling and a string of bad local election results. Whilst a new challenger is technically still possible, the crowning of Andy Burnham looks to be a done deal. A new leader, of course, can bring both new ideas and a renewed sense of optimism, but any path he takes will be somewhat hamstrung as he walks the tightrope, balancing an expansionary fiscal policy with a gilt market that is watching warily. With policy detail still scant so far, we will wait for more colour before making any significant changes in the home-based assets.

The future remains both uncertain and exciting. Whilst we struggle to see exactly which of the holdings will deliver the most exciting returns in the immediate future, we know we have a variety of strong candidates within the Fund and have conviction in the broad, diversified and differentiated portfolio.

Rupert Silver – Lead Manager

Portfolio Top Holdings[3]

UK Equities	%
FRP Advisory Group Limited	1.3
Merchants Trust plc	1.0
Herald Investment Trust plc	1.0
PLUS500 Ltd	1.0
Spire Healthcare Group	0.6
Total UK Equities	**6.0**

International Equity Funds	%
Polar Capital Technology Trust plc	6.0
SPDR MSCI All Country World	5.6
Pershing Square Holdings Ltd	2.5
Xtrackers plc MSCI World ex USA	2.1
AQR Fusion US UCITS Fund	2.1
Total International Equity Funds	**39.0**

Overseas Equities	%
Uber Technologies Inc	0.8
Wheaton Precious Metals Corp	0.7
Strategy Incorporation	0.7
Warner Bros Discovery Inc	0.6
Honeywell Aerospace Inc	0.3
Total Overseas Equities	**3.4**

Alternatives	%
Twelve Capital Catastrophe Bond Fund	3.5
Yellow Cake plc	2.2
Sequoia Economic Infrastructure Income Fund Limited	1.9
SABA Capital Investment ETF	1.7
Cordiant Digital Infrastructure Limited	1.3
Total Alternatives	**26.0**

Fixed Income	%
BP Capital Markets plc Perpetual	2.4
Co-operative Group Ltd 15/12/2031	1.9
Electricite De France SA Perpetual	1.9
Heathrow Finance plc 01/03/2031	1.9
Barclays plc 14/11/2032	1.8
Total Fixed Income	**25.3**

Cash	%
GBP	0.2
Total Cash	**0.2**

[3] *Portfolio positions of the Credo Dynamic Fund as at 30/06/2026.*

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