Macroeconomic Commentary[1]

Global equity and bond markets had a strong start to the year despite the continuing geo-political tensions. The strong economic data and persistent core inflation reported in February weighed on equity and bond markets, compelling investors to re-evaluate their rate forecasts, but the quarter still concluded positively for both markets. The collapse of Silicon Valley Bank in March caused a decline in government bond yields which in turn led to a resurgence in Growth stocks and saw the Nasdaq (USD) gain 17% during the quarter. The MSCI World Index (GBP) concluded the quarter with a gain of 5.5%, alongside the S&P 500, Euro STOXX 50 and FTSE 100 which finished up by 7.5%, 14.3% and 3.6% respectively, in their local currencies. In fixed income markets, yields on the US, UK and German 10-year government bonds fell by 41, 18 and 28 basis points respectively. Positive sentiment continued to grow in the face of declining energy prices, reflected in the 5.4% decline of the Bloomberg Commodity Index during the period. The pound gained 2.1% against the US dollar and 0.7% against the euro.

Fund Commentary

For the first quarter of the year, the Credo Growth Fund returned 5.3% versus the benchmark, the IA Flexible Investment Sector, which returned 1.6% over the same period[2]. This has resulted in a return of 27.7% since inception, whilst the benchmark has returned 24.4% over the same period (from inception to 31 March 2023)[2].

During the year the Fund's equity exposure remained high such that at the end of the quarter, the Fund held approximately 94% in equities, 4% in fixed income, and the balance of circa 2% in alternative assets and cash.

The Fund remains diversified globally with circa 22% of the assets held being sterling denominated, 64% being US dollar denominated, and the balance of circa 14% including exposure to euros and other currencies. The US dollar continued to weaken during the quarter, and this impacted the Fund's returns negatively given the US dollar exposure remains relatively high.

During the period under review, the Fund exited a number of positions, taking losses, if necessary, as the portfolio was adjusted to take account of the changing economic scenario. Some of the more significant losses taken during the quarter were in Cellnex Telecom and Live Nation Entertainment Inc.

A number of new positions were acquired during the period including, Admiral Group plc, Arista Networks Inc, Charles Schwab Corporation, and GE HealthCare Technologies Inc, which we are confident will provide positive returns during the period over which they are held.

At the end of the period under review, the largest five positions comprised of Costco Wholesale Corporation, Microsoft, Alphabet, Novo Nordisk and Sonova Holding AG, with the top ten positions making up circa 30.8% of the Fund as at the end of the period.

(1) Source: Bloomberg.

(2) Performance of the Credo Growth Fund A Retail GBP Share Class over the period 31/12/2022 to 31/03/2023. Source: Bloomberg, FE Analytics. Inception: 3 July 2017.

Looking Forward

Whilst the Fund still has a large number of equity holdings, the number has been reduced slightly to circa sixty positions. It is the intention of the Fund Manager to reduce the number of equity holdings to closer to fifty over time.

The Fund remains well diversified across both industries and sectors and continues to have a relatively large exposure to the US, although this is slightly lower than in prior years. However, the exposure remains around 64% of the Fund.

We are hopeful that during 2023, inflation will be brought under control, that the central bank tightening, which was a feature of 2022, will be paused, and that interest rates will peak, all of which will be positive for equity markets.

However, as always, there are several geopolitical issues that could negatively impact on equity returns during the coming year. These include, but are not limited to, the ongoing Russian/Ukrainian war, the escalating and continuing frictions between China and Taiwan, and the never-ending Middle East conflicts, to name but three.

We are optimistic that performance for 2023 will be significantly better than 2022, albeit we expect returns to be lower than what they have been in previous years.

Roy Ettlinger, Portfolio Manager