Macroeconomic Commentary[1]

Global equity markets finished the second quarter of 2023 in mostly positive territory. The quarter began on a positive note, with most indices posting gains in their local currencies. The MSCI World experienced a positive return of 6.8% (in USD) over the quarter. In the US, the Dow Jones Industrial Average, S&P 500 and Nasdaq all delivered positive returns of 4.0%, 8.7% and 13.1%, respectively. This performance was mainly driven by the strength in Technology stocks and strong corporate earnings results, despite rising inflation. In Europe, the Euro STOXX 50 gained 4.2% over the period. In contrast, however, the FTSE 100 experienced a slight decline and returned -0.4%. This was driven largely by the Bank of England's decisions to raise rates twice in the quarter, and weak economic growth. In fixed income markets, the yields on US and UK 10-year bonds increased by 37 and 90 basis points, respectively. Brent crude oil declined by -3.5% due to concerns over rising global demand and the impact of ongoing supply disruptions. Copper experienced a more significant downturn, dropping by -7.3%.

Fund Commentary

For the second quarter of the year, the Credo Growth Fund returned 4.6% versus the benchmark, the IA Flexible Investment Sector, which returned 0.2% over the same period[2]. This has resulted in a return of 33.6% since inception, whilst the benchmark has returned 24.6% over the same period (from inception to 30 June 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 cash.

The Fund remains diversified globally with circa 22% of the assets held being sterling denominated, 65% being US dollar denominated, and the balance of circa 13% 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 several large positions, all of which were profitable exits, and included the following stocks, Pershing Square Holdings, AbbVie Inc, BHP Group, Raytheon Technologies Corporation, Northrop Grumman Corporation, and Deere & Company, although after the exit, we have started rebuilding back a position in Deere & Company.

Due to the very dramatic increase in the share price of Nvidia Corporation, a quarter of the holding was sold over the period, and significant profits were taken.

The Fund also added the following names to the portfolio, Charles Schwab, Admiral Group plc, GE Healthcare Technologies Inc, and Oracle Corporation, as well as increasing holdings in several existing positions, including Ryanair Holdings plc, and Berkshire Hathaway.

At the end of the period under review, the number of equity holdings has reduced to circa fifty-five, and the intention is to reduce this further to between forty-five and fifty by the end of the current calendar year. The

(1) Source: Bloomberg.
(2) Performance of the Credo Growth Fund A Retail GBP Share Class over the period 31/03/2023 to 30/06/2023. Source: Bloomberg, FE Analytics. Inception: 3 July 2017.

largest holdings were all equity positions comprising of Microsoft, Costco Wholesale Corporation, Alphabet, Blackstone Inc, and Berkshire Hathaway A & B shares.

Looking Forward

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, as noted above, the exposure remains around 65% of the Fund.

It appears that we are very close to the top of the interest rate cycle in the US, and US inflation has reduced quite substantially, but remains above the Federal Reserve Bank's target of 2%. The UK and Eurozone both still seem to have stubbornly high inflation rates and hence, interest rates look likely to rise and stay higher for longer in both of these geographies.

After a very positive first half of 2023, we remain cautiously optimistic for the second half of the year. We anticipate that it will be a period of continuing volatility, and we would not be surprised to see a 5% to 10% "correction" in the markets sometime during 2023. Consequently, we are looking at reducing the equity exposure of the Fund to between 85% and 90% in the current quarter, with a view to using any such "correction" as an opportunity to top up the equity exposure.

As always, we remain firmly of the view that equities remain the best inflation hedge over the long term, and hence we will tend to remain fully invested in equities over the long term.

Roy Ettlinger, Portfolio Manager