

Fund Manager of the Year finalist's interview: Credo

Isabella Gahagan

20 April 2023 • 4 min read

SHARE



Credo are finalists in this year's Fund Manager of the Year Awards in the Global Equity category.

Here, Investment Week hears from Jarrod Cahn, Lead manager of Credo Global Equity Fund about the team running the Fund and the key to their investment process.

Can you give a brief overview of the team running the fund and the resources available?

The fund is jointly managed by Jarrod Cahn and Jason Spilkin. Jarrod is both Head of Equities and a Director of Credo and has been with the company for 23 years. He holds a BA (LLB) degree from the University of the Witwatersrand, and is a qualified attorney on the non-practising roll in South Africa. Jason is Co-Portfolio manager of the CGEF. He has 16 years' experience as a global equity analyst and has been with Credo for 11 years. He holds a B.Com degree from Stellenbosch University, Honours from the University of Cape Town, an MSc in Investment Management from CASS Business School in London and is a CFA charter holder. The team is also supported by Mira Skuleva, and Douw Steenekamp, both equity analysts.

What is key to your investment process on the fund and what are you trying to offer investors?

Credo is a fundamental, bottom-up stock-picker that follows a Value based investment philosophy, meaning that we don't like to overpay for businesses, no matter how good. We filter a broad universe of developed market stocks to find attractive companies whose share price is temporarily out of alignment with their earnings prospects.

A fundamental part of our process is therefore the focus on 'real' companies: those which have solid business models, robust profitability, actually generate cash such that they are able to re-invest in themselves to remain relevant and resilient, with robust balance sheet leverage. We don't necessarily rely on selling at a higher PE multiple in order to generate meaningful returns: we have to be happy with an investment proposition even if we hold it for 5, 10, 15+ years - which means the stock needs to generate EPS growth and/or pay dividends to stand up as a good investment idea.

The Credo fund therefore offers investors access to high-quality global companies that are liquid, diversified and, as much as possible, benefit from good governance. The Credo fund has delivered alpha to investors while being quite different from the broad MSCI World index.

How has the team negotiated difficult market conditions in 2022 and 2023? What is the longer-term impact for the strategy?

From 31 December 2021 to 6 April 2023, we have outperformed the MSCI World by +14.7%.

Breaking out the attribution, we were overweight stocks and sectors that were beneficiaries of a higher interest rate environment and acted as good inflation hedges. Sector allocation contributed +2.4% and a significant portion of that came from being overweight energy and underweight technology. More pleasingly, our stock selection contributed significant alpha, generating 12.8% of the outperformance. The stocks that performed well for us included

- Energy: Shell, BP
- P&C insurers: Progressive, Beazley, Hiscox, Arch
- Healthcare: Bayer, Cigna, HCA, Humana
- Consumer Discretionary: Flutter, Ross Stores.
- Defence: Northrop Grumman, Raytheon

We are bottom-up stock pickers and evaluate each investment in terms of prospective return (IRR) over a 3-5 year holding period. We tend to buy stocks with attractive IRR's, which will generate strong returns over the long term, irrespective of the economic cycle.

Can you highlight a couple of interesting investment opportunities for the fund going forwards? How are you gaining exposure?

We are not a thematic fund and try not to focus on taking big macro bets or invest in the next "new" thing. Our investment process evaluates each individual company on a prospective return (IRR) over a 3-5 year holding period. As such, certain stocks and sectors tend to screen well at a specific point in time (often while that sector is out of favour). At present we are seeing opportunities in the healthcare space, in stocks like Cigna and Humana. In the Tobacco sector, both Phillip Morris and British American Tobacco offer attractive medium-term returns. We have also been long term holders of Flutter Entertainment, which is entering a very exciting period of its lifecycle as it continues to dominate the US online gambling space and will turn profitable there at some point this year. We also see value in car insurance (Admiral in the UK, Progressive in the US), where underwriting margins are temporarily depressed but are poised to normalize over the medium term as material price increases flow through.

The winners of this year's Fund Manager of the Year Awards will be announced at the in-person award ceremony on 22 June in London. Visit the website for more details:

www.fmya.co.uk