

# Diversifying through pragmatic conviction

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**D**iversification is one of the core principles of investing. It is an important consideration when deciding upon asset allocation, investment styles, managers or individual securities. The premise is, of course, that the only thing that can protect against negative unforeseen consequences is to avoid having all of one's investments in the same vulnerable position. Don't put all your eggs in one basket, indeed.

In 2021, as we face the prospects of another uncertain COVID year, this theme seems to take on new importance for equity investors. There have been some equity funds and managers who did very well in 2020 by investing in a relatively small group of tech-

driven, growth-style stocks. Having everything on red just before the roulette wheel falls on that colour can produce terrific returns – but it is certainly a high-risk strategy to keep betting on red continuously. At some point the wheel will land on black.

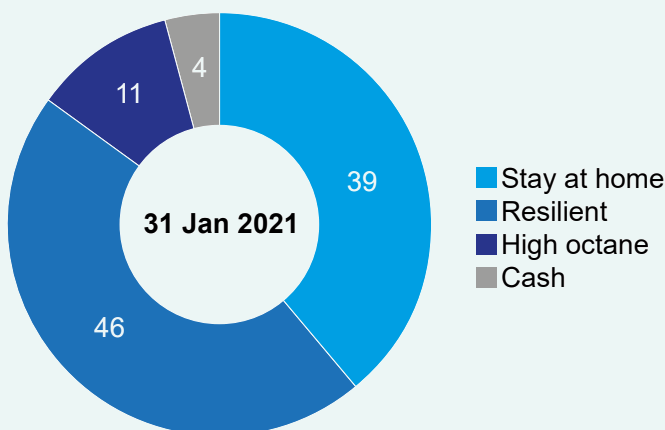
This is the conundrum facing equity managers today: at what point will the market shift? Some continue to place their bets on the same companies and themes that delivered over 2020. Credo's approach is somewhat different. Rather than placing everything on red, Credo has instead continued to invest in a diversified pool of high-quality companies.

Some of these companies will do well in conditions where economies are locked down (so-called 'stay-at-home' stocks). Others may be facing challenges in a COVID-19 environment but are poised to perform strongly when economies start to normalise again ('high-octane' stocks). There are also those with mixed fortunes, where one part of the company is doing well but not others, as well as those that are indifferent to COVID-19 because their business models carry on regardless of lockdown ('resilient' stocks).

Every stock should be a good standalone investment with conviction behind the investment thesis. In line with Credo's investment philosophy, every holding needs to demonstrate good value. Put another way: don't overpay, even for good assets. Finally, the time horizon should be longer than just the next quarter. A well-diversified portfolio should look ahead at least three to five years.

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**Credo Global Equity Fund**  
portfolio allocation by stock type (%)



With all that in mind, the Credo Global Equity Fund seeks to position itself in a sensible, pragmatic way. As the chart indicates, 85% of the Fund (31 Jan 2021, by value) was either in stay-at-home or resilient stocks. As and when the economies open up, the resilient stocks (46%) will get a kicker from the small but important high-octane stock allocation.

COVID-19 restrictions remain an unknown. Funds that have placed a bet on quick economic recovery might be left exposed if the vaccines are less effective than originally thought. Those betting against a recovery are probably being unduly pessimistic. Clearly, though, betting everything on just a single outcome seems ill-advised over the long run when there are so many risky uncertainties. One more reason to adopt a pragmatic approach to investing with conviction.