CREDO NEWS

Issue 30

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Cricket World Cup, Wimbledon, British Open Golf, an Ashes test series… what a summer we are having in the United Kingdom.

To cap it all, before the summer is over we will have had a Conservative leadership contest, and by extension a new Tory prime minster - although we can't be sure for how long he will last. And yes, still no Brexit, of course.

What about financial markets? Well,

they have continued the long-term upward trend. At times we have seen some volatility, yes, but on the whole, the trajectory has been inexorably positive.

The question is when the wonderful Indian summer that stock prices have long enjoyed, will eventually draw to an inevitable end?

At a time when the final of the Cricket World Cup is taking place in London, it is fitting to have the most British of pastimes as our theme for this summer's edition of CredoNews.

Cricket is a sport filled with statistics: matches played, runs scored, wickets taken, and endless other numbers, for interested fans and commentators to consider and manipulate in justifying their own opinions.

Many might say that the field of investments is similar: an activity where analysts, fund managers, brokers, underwriters and other interested parties use a range of statistics such as company earnings, profit margins, dividends, debt levels, or any one of numerous other metrics in order to justify their views and decisions.

The phrase popularised by the American writer and lecturer Mark Twain, namely ***"Lies, damned lies, and statistics"***, certainly comes to mind when we consider the current news around a certain very high-profile UK based fund manager, and the furore around the various statistics used by intermediaries to keep raising cash for the fund.

Having said all of this, I do believe that **knowledge and understanding of statistics can ultimately make the odds more favourable**, both in cricket and in investing.

Cricket is a team game and Virat Kohli, arguably the best batsman in the world today and the captain of the current Indian World Cup side, has been quoted as saying that no cricket team in the world depends on one or two players. Any cricket coach will pick the superstars if he can find them, but it is at least as important to look for and nurture good young players and hopefully discover a new star or two from the pack.

Investments are similar:

no successful portfolio can depend on only one or two winning stocks.

So, whilst it pays to find and then continue to back great companies, the best performing funds and portfolios will be those that manage to also identify and include a sprinkling of promising, yet relatively undiscovered stars.

I am as passionate about cricket as I am about investing, and both have made my life richer figuratively and literally. Michael Holding who spoke recently at an event hosted by Credo (see page 19) is quoted as saying ***"The true test of any cricketer's character is how he reacts when the going gets tough, when it's time to dig in".***

Anyone who know me, also knows that I am a long-term investor who does not run away when the markets are challenging. I am prepared to defend my wicket for as long as it takes… but equally I don't like to miss an opportunity to go for a six when I feel the risks and rewards make sense.

Cricket and investing are perhaps not such strange bedfellows after all.

Howzat!

Deon Gouws - *CIO* | @DeonGouws_Credo

The more things change…

Much has changed in the world of cricket since the World Cup was first contested in England in 1975.

In those early days, both teams still played in traditional whites, for example; multicoloured outfits were only introduced into the one day game at the 1992 tournament (which also happened to be the first time that South Africa participated, following two decades of sports isolation due to the country's political situation).

Also, batsmen were not wearing helmets yet, even though the mid-seventies was an era when arguably the greatest and quickest group of fast bowlers in the history of the game were operating at the same time, led first by Dennis Lillee and Jeff Thomson from Australia, and soon after by a large group of West Indians including Andy Roberts, Michael Holding and Colin Croft.

Even the rules of the game have been adapted: in the early days of one day international (ODI) cricket, there were no fielding restrictions, for example (these were only introduced in the eighties, not only to encourage more attacking batting, but also to restrict negative bowling tactics).

Furthermore, the pace of the game has changed beyond recognition. Forty odd years ago, scores in excess of 300 were rare, today it is par for the course (England recently posted a score above 300 for the seventh successive time in ODIs; the same team also holds the record score of 481, achieved against the old foe Australia a year ago). What makes this even more notable, is that matches consisted of 60 overs per side back in the day, compared to the 50 over format today.

Arguably the biggest changes in the game have however been the result of technology. Take cricket bats, for example, which are larger yet lighter today, enabling batsmen to hit the ball much harder and further.

But it's in the field of umpiring where technology has probably had the most dramatic impact, with frame by frame scrutiny of runouts and other line decisions, as well as hawkeye ball tracking to make leg before wicket dismissals more accurate as well as the decision review system which enables teams to appeal and potentially overturn umpires' mistakes.

What made me think about all these developments on the cricket front, was a question which I was asked during the first week of this year's World Cup when an investment publication in London approached our firm for a contribution, namely what has changed most in the industry since I first started?

In framing a response, I should mention that I started out in investments as an equity analyst with a big institution at the beginning of 1996. This seems like a lifetime ago now… in fact, I realise how much it dates me when I interview prospective new colleagues who had not even been born when I originally joined the industry!

In the mid-90s, we all thought we were very clever and well-informed thanks to that relatively new thing called the internet. Today one realises how little we actually knew at the time: processing speeds, memory capacity, 24/7 news sites, social media and live streaming (to name but a few examples) have all had a major impact, not only on the world in general, but certainly also the investment environment over the past two and a half decades. Not all of this change has been for the better, I would hasten

In the mid-90s, we all thought we were very clever and well-informed thanks to that relatively new thing called the internet. Today one realises how little we actually knew at the time...

to add: too much news flow is certainly not a good thing from an investment point of view, as it tends to feed many of the behavioural flaws and biases that investors would suffer from even if they lived in more of an information vacuum.

We've mentioned on numerous occasions in the past that we try to ignore most of the daily news flow when we make investment decisions at Credo.

Over the past few years this has proven to be particularly difficult, especially given a volatile political environment, defined inter alia by Donald Trump's incessant tweeting and all the uncertainties surrounding Brexit.

The last couple of months have however underlined once again why it's generally best to ignore the noise. After posting a strong start to 2019, global equity markets exhibited weakness for most of May. Many commentators agreed that this drawdown related in large part to President Trump's continued pronouncements regarding trade wars and the impact these might have on economic growth. The most recent threats to Mexico were of particular concern, as this country has always been one of the most important trading partners of the USA, given not only its proximity but also its size (in fact, according to a Forbes article in April this year, Mexico recently overtook both China and Canada in becoming the top US trading partner).

As soon as Trump announced that agreement had been reached with Mexico in early June, equity markets shrugged off their recent weakness very quickly and started approaching all-time highs once more within days. All of which just underlines the principle once again: **from an investment point of view, it's generally best to ignore political developments and risks that are outside of your control; rather focus on what you know about the specific investment opportunity at hand e.g. company fundamentals, industry growth drivers and relative valuation (compared to the market, peers and the like).**

Renowned New York based financial advisor and market commentator Josh Brown recently came up with the contrarian conclusion that trade war fears were in fact prolonging the bull market in equities. He based this on the premise that the stock market is more constructive for long term investors when there is negative news flow than it is *"at moments where all potential problems appear to have been vanquished"*. Personally, I couldn't agree more.

There's an old saying that the more things change, the more they stay the same. This is as true in cricket today as it is investments: this year's World Cup may see many more runs and much enhanced technology compared to thirty or forty years ago, but the team that's eventually crowned as champions will still be the one that has the best combination of batting, bowling, and fielding talent (as well as temperament).

Similarly in the case of investments: **technological advancements may have rendered the environment nearly unrecognisable compared to a generation ago, but the best portfolios are still likely to be those that are built in accordance with a "back to basics" approach, including a focus on companies with good profitability, strong cash flows and attractive valuations – regardless of what made news headlines this morning.** ■

Jarrod Cahn - *Director*

Value is in the eye

I was recently on a roadshow in South Africa, presenting the Credo Global Equity Fund to investors. During each presentation I explained how, at Credo, we follow a value-based investment style. This series of meetings reminded me of the variation in views on what value investing truly is.

The concept was established in the 1920s by Benjamin Graham and David Dodd, both professors at Columbia Business School. In 1934 they co-authored a book called "Security Analysis", where the main principles of value investing were explained. The book was well timed as it coincided with a period where investors were still recovering from the Wall Street Crash of 1929 and the Great Depression. The core principle was that you should purchase stocks which are trading at less than their "intrinsic value". This discount represents the "margin of safety". An opportunity to make money as the price increases to reflect the share's true worth and a degree of protection should the future not be as rosy as anticipated. Graham is known for his focus on asset values and on quantitative measurements, which meant that in many cases he was investing in low quality companies that traded cheaply. This was a time when the American stock market was dominated by industrial companies, producing physical goods to be sold and where assets were tangible, such as factories.

This type of investing has also been referred to as "deep value investing" or "cigar butt investing".

As the world has evolved, so has value investing. We now live in a world in which companies provide services, have brand value rather than tangible assets, facilitate transactions and often produce nothing at all, sometimes not even profits.

Warren Buffet is probably the most famous value investor of our time, although by his own admission, under the influence of his partner Charlie Munger, he moved away from the quantitative measurements of value investing, more towards a qualitative investment style. Focusing on quality companies that he could own over the long term, rather than cheap companies that he could extract short term value from. Buffett is famously quoted saying:

"It's better to buy a great company at a fair price, than a fair company at a great price."

The Graham purists might argue that Buffett is actually no longer a value investor, as his investment style focuses on other characteristics of a company, including market positioning, business model, corporate governance and financial strength alongside valuation.

of the beholder . . .

In many ways, we, at Credo, look to incorporate these aspects into our investment process. Frequently, we are aiming to buy quality businesses that we can hold over time. Solid companies, that are market leaders, with strong moats, good management and that screen well with a resilient cashflow, high margins and low leverage. And overriding all of this, is the focus on not overpaying for the stock; hence the value proposition.

Often value investing can be characterised as buying "cheap" stocks, those on low price to earnings ratios, for example. However, a company which is structurally challenged may always appear "cheap" relative to a company which can steadily grow its earnings without requiring much extra investment and has a strong business moat. At Credo, we view valuation as not just an absolute number but instead as qualified relative to a company's own history, peers, to the market or the company's future potential.

We believe that short-term issues such as regulatory change, sector consolidation, spin-offs or changes in business cycles can cause valuation dislocations.

We aim to identify those companies where such issues have not affected the business' long-term prospects and therefore intrinsic value. We view intrinsic value through the lens of the earnings potential of the company, generated by existing assets, and the capacity for growth being created by new investment opportunities. Whilst quantitative measures are important to us, we also believe that it is important to qualitatively understand the business in which we are buying shares.

We see value in many different companies and situations. For example, Cigna screens "cheaply" on both a relative and absolute basis, however AIA Group trades on a multiple in line with the market. This is despite the business being of higher quality, faster growing and with a long runway. On the other hand, Becle SAB de CV is optically expensive when looked at on current valuation metrics. But this analysis misses the fact that margins are temporarily depressed and, in our opinion, have the potential to almost double from here.

As markets change, both in short and long cycles, the way that value is assessed has changed. However, we have the luxury of being able to draw on the principles and guidelines developed over time and adapt to market conditions, whilst remaining true to our core philosophy, namely that value matters. ■

Ben Newton - *Investment Manager*

Navigating a sticky wicket

"In Test matches you assess by sessions; in One-Day cricket you assess by overs; in Twenty20 cricket you assess by balls,"

explains Phil Simmons, who coached West Indies to victory in last year's World Twenty20.

Within the investment landscape, equities can prove to be like Twenty20 cricket, with strong returns often generated within a relatively short period of time. This does however also go hand in hand with dramatic swings that occur relatively often: higher returns can only be achieved by taking on additional levels of risk.

Equity markets can turn in either direction on news, a tweet or sentiment and can thus be rather volatile in the short term; but history shows that investors are typically rewarded for embracing such risk over the longer term. Accordingly, equities are a core long-term investment within the Credo Dynamic Fund (CDF).

With the flexibility to allocate capital across different asset classes, the CDF does however look to deliver attractive returns in all market conditions. This is where fixed income comes in: an investment which is more comparable to Test cricket, with slow and steady returns accumulated over a longer period of time.

As it happens, fixed income is also one of our core competencies at Credo and we have a substantial amount of experience specifically in the field of corporate bond investing. However, given that the Bank of England's interest rate is only 0.75% at present, it can prove difficult to achieve attractive returns over the longer term without taking excessive credit risk.

In response to this challenge, we consider a wide range of investments and have thus been increasing our allocation to Alternatives, defined as listed instruments with sufficient liquidity, providing an attractive total return as well as relatively low correlation to the broader portfolio. Examples include:

Music Royalties

The investment owns income rights from a portfolio of songs earning over 5% for investors.

This is an interesting investment as it has a low correlation to the rest of the portfolio, with a tailwind from the growth in streaming, leading to an expected increase in royalties paid.

Renewables

These investments own income rights from a portfolio of assets that sell renewable power (e.g. solar or wind) into the national infrastructure, with long-term, stable incomes.

As part of a global movement to reduce emissions, the UK has been significantly increasing the proportion of the energy produced from renewable sources which currently stands at 33%; these investments help to fund this long-term development.

Leasing

These are instruments which help companies to finance the acquisition of key assets through asset leasing.

The investment rationale boils down to the combination of an attractive

prospective return and underlying asset value as security. The key to these investment decisions is related to the secondary value of the asset, as well as the credit quality of the lessee.

Infrastructure

This entails investing in either the debt or the equity of infrastructure assets and receiving income payments based on demand or availability. An example includes debt to an international mobile tower portfolio.

Many core infrastructure assets are natural monopolies by design. The monopolistic position of these assets makes the demand for their services resilient to economic downturns and fluctuating prices. There is however a different and uncorrelated set of factors that needs to be borne in mind, including political and regulatory risk, development risk, operational risk as well as leverage.

Within the CDF, we look to utilise the additional advantage of having access to UK capital markets and subsequently look to buy into Alternatives at an attractive price.

As global equity markets have had a strong run and several of the fund's individual equities have been reaching their price targets, we have taken the opportunity to steadily increase the Alternatives' allocation to 17% of the portfolio (as of the beginning of June 2019). The underlying holdings are diverse, have high returns and good liquidity, allowing us to remain flexible and nimble within and across asset classes.

Given the backdrop of political volatility at home and abroad, potentially having ripple effects on the global economy, we believe that the diversification within the CDF is an opportune approach towards navigating the sticky wicket of financial markets today. ■

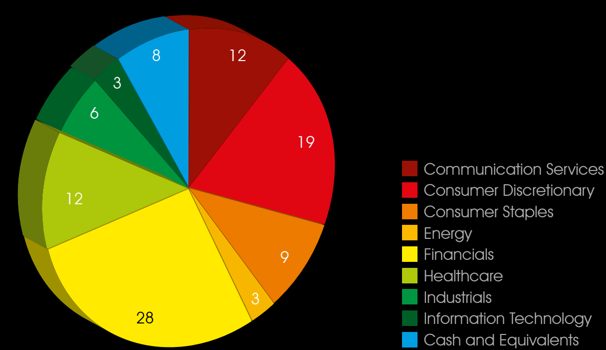
Kathryn Linde - *Relationship Manager*

The Credo Funds

GLOBAL EQUITY FUND

Credo has a strong track record of managing long-only, value-based, direct equity portfolios with a bias towards developed market, large capitalisation stocks. The Fund provides an actively managed, unitised structure through which to gain exposure to this philosophy. Our aim is to generate sustainable excess returns versus global market indices.

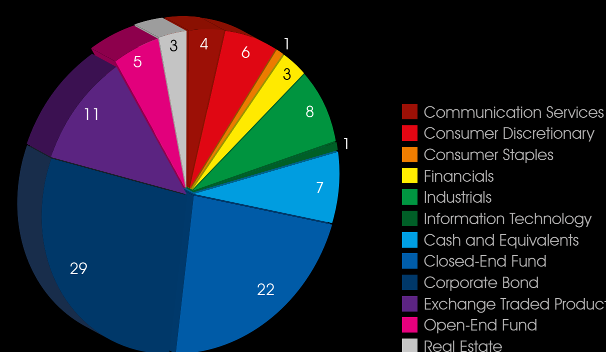
Sector Allocation (%)



DYNAMIC FUND

Utilises the long-term and successful investment strategy that has historically been employed within the traditional stockbroking arm of Credo, and aims to achieve a balance of income and capital growth over the longer term. The Fund has flexibility to invest across asset classes depending on prevailing market conditions.

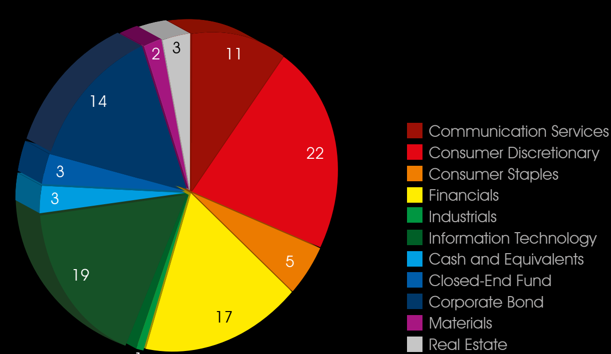
Sector Allocation (%)



GROWTH FUND

A reflection of the Fund Manager's (Roy Ettlinger) personal investment style and strategy which he has successfully adopted for clients in past years. The Fund aims to provide attractive risk-adjusted returns and also has the flexibility to invest across asset classes.

Sector Allocation (%)



Source: Société Générale Securities Services (Ireland) Limited. As at 31/05/2019. Inception date 03/07/2017. Performance is of the Class A

Irish registered UCITS funds

Currency Allocation (%)

GBP	23.2
USD	67.4
Other (AUD, HKD, SGD, EUR, MXN)	9.4

Past Performance (%)

1 Month	-2.8
3 Months	3.1
YTD	9.7
1 Year	2.5
Since Inception	6.1

Top 10 Holdings (%)

Frontdoor Inc	Consumer Discretionary	5.3
Arch Capital Group Ltd	Financials	4.4
PNC Financial Services Group Inc	Financials	4.3
Prudential plc	Financials	4.1
The Walt Disney Company	Communication Services	4.1
IG Group Holdings plc	Financials	3.9
Wells Fargo & Co	Financials	3.8
HCA Healthcare Inc	Healthcare	3.8
Cigna Corp	Healthcare	3.6
Verizon Communications Inc	Communication Services	3.6

Currency Allocation (%)

GBP	91.5
USD	8.5

Past Performance (%)

1 Month	-1.0
3 Months	4.0
YTD	7.3
1 Year	-1.7
Since Inception	8.4

Top 10 Holdings (%)

SPDR MSCI World UCITS ETF	Exchange Traded Product	4.7
Hipgnosis Songs Fund Ltd	Closed-End Fund	4.0
Co-operative Group Ltd 11 12/18/25	Corporate Bond	3.2
PPHE Hotel Group Ltd	Consumer Discretionary	3.0
iShares Core S&P 500 UCITS ETF	Exchange Traded Product	2.4
Burford Capital plc 6 1/8 10/26/24	Corporate Bond	2.2
BB Healthcare Trust plc	Closed-End Fund	2.1
Gresham House Energy Storage	Closed-End Fund	2.0
Helical Bar Jersey Ltd 4 06/17/19	Corporate Bond	2.0
TwentyFour Select Monthly Income	Closed-End Fund	1.8

Currency Allocation (%)

GBP	59.8
USD	38.9
Other (HKD, EUR, ZAR)	1.3

Past Performance (%)

1 Month	-1.6
3 Months	5.9
YTD	13.7
1 Year	0.3
Since Inception	8.1

Top 10 Holdings (%)

Amazon.com Inc	Consumer Discretionary	4.8
PPHE Hotel Group Ltd	Consumer Discretionary	4.3
Microsoft Corp	Information Technology	4.2
Costco Wholesale Corp	Consumer Staples	3.4
Berkshire Hathaway Inc	Financials	3.2
Alphabet Inc	Communication Services	3.0
Burford Capital Finance 6 1/8 08/12/25	Corporate Bond	2.6
Legal & General Group plc	Financials	2.6
JD Sports Fashion plc	Consumer Discretionary	2.5
Crystal Amber Fund Ltd	Closed-End Fund	2.5

Retail share classes. Credo Growth Fund is subject to a performance fee. Please refer to Prospectus and Supplements for further information.

Ainsley To - *Head of Multi-Asset* | @AinsleyTo_Credo

The benefits of a diversified attack

The best cricket teams are those that consist of a balanced line-up. If a team doesn't have a decent spin option to complement an attack made up exclusively of fast bowlers, they are unlikely to thrive in all conditions. The same can be said in the world of investing, where the benefits of diversification have been well documented.

Why not always be 100% in equities?

To illustrate, it is widely known that the chance of achieving a positive return in equities increases with the time horizon – although the stock market is only up on 55% of days, it is up in over 95% of historic 10 year periods. This has led many investors to believe that stocks are not risky as long as you have a long enough time horizon. Which raises the question for long term investors: *Why shouldn't everyone always be 100% in equities*? The best answer to this question is anthropological, as opposed to analytical.

Table 1* shows some summary annual statistics with long term data on portfolios allocated between bonds and equities. As one would expect, the average return increases linearly with equity allocation (a higher allocation to equities has led to higher returns). However, historical data always carries with it an inherent hindsight bias – you only achieve those returns if you managed to stay invested throughout the measurement period. Thus, it is important to note from the table that the size of the average down year and the worst year returns also increase with equity allocations, whilst the percentage of years which are positive decrease.

Risk aversion varies dramatically between investors and one's capacity to absorb losses from both an economic as well as an emotional perspective should be key inputs into one's asset allocation decision. Unfortunately, gauging risk aversion is difficult to quantify and often varies over time. This is where scenario analysis can often help to make these ideas more concrete for clients.

Chart 1 shows the annualised returns for the different portfolios if they started investing at the top of the equity market in September 2007. Had the investors put their money in and gone to sleep for 10 years, annualised returns of the portfolios when they woke up in September 2017 were nothing out of the ordinary: returns ranged from 4.8% to 7.5% and increased linearly with equity allocations. However, an

Table 1: 1926-2018 (%)	Bonds	20% Equities	40% Equities	60% Equities	80% Equities	Equities
Average Year	5.5	6.6	7.8	9.1	10.4	11.8
Average Up Year	7.3	8.3	10.9	13.7	17.4	20.8
Average Down Year	-3.2	-3.0	-4.8	-7.9	-9.8	-12.8
Best Year	37.8	34.1	30.3	34.6	44.5	54.4
Worst Year	-7.8	-8.9	-18.0	-26.5	-34.4	-41.8
Years Positive	82.6	84.8	80.4	78.3	73.9	72.8
Annualised Return	5.2	6.4	7.4	8.4	9.2	10.0
Annualised Volatility	5.4	5.4	7.1	9.6	12.5	15.5
Max Drawdown	-14.2	-21.7	-44.3	-61.0	-73.1	-81.8

(*) We use nominal US market returns, calendar years, and assume monthly rebalancing for simplicity.

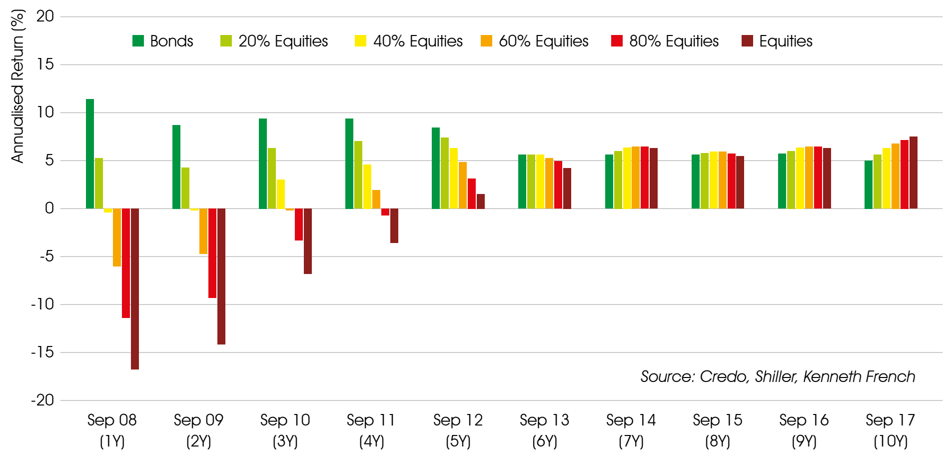
investor who stayed awake had to sit through the Global Financial Crisis (GFC). To make this more visceral, imagine the following:

- You put $1 million of your savings into equities.
- Over the course of 18 months you lose $490,000.
- Market declines are synchronized around the world and every day the financial media have been urging you to sell.
- Leading economic indicators are all flashing red and world-renowned economists are proclaiming this will be the worst global recession in a century.
- Financial firms which are household names are going bust or being nationalised. Pundits are discussing total collapse of the financial system on a daily basis.

Risk is a choice, not a fate

It would have been against human nature to stay invested during this period and mutual fund flows show that many investors did end up selling their equities at the bottom in 2008/9. For any investor who managed to hold on, 3 years after their initial investment they would be sitting on returns of -7% *per annum*. Furthermore, it took almost 5 years before they were able to get back to what they had originally invested. The pain was thus not only in the depth of the drawdown, but also in the length of time that it took to recover. Allocating clients' money based purely on high historical returns whilst ignoring path dependence is not going to produce good outcomes for the majority of investors.

Chart 1: Annualised Returns From Equity Market Top in September 2007



Source: Credo, Shiller, Kenneth French

Contrast the above experience with an investor who had a more balanced asset allocation such as **40% equities / 60% bonds**: they would have experienced a far shallower drawdown of -14% in the depth of the GFC. In addition, as can be seen in Chart 1, they would only have taken 2 years to recover.

Portfolio drawdowns are even more important for investors taking regular withdrawals from their investments. In a 100% equity portfolio, they would have had to crystallise their losses at the bottom of the market, whereas a diversified investor had the option of taking profits from their bond investments for liquidity. The diversified portfolio also had the flexibility of rebalancing into stocks when they became cheaper.

"It is more prudent to build a boat than to try to stop the flood."

Constructing your portfolio on the assumption that it will never face difficult times is a recipe for disaster. Successfully balancing the trade-off between return and the resilience and flexibility of diversification is key to achieving successful outcomes for clients. One way to calibrate risk tolerance going forward is by visualising losses during the worst scenarios.

Conclusion

For investors who require significant performance to reach their financial goals, they will need to take more risk to achieve their objectives. But it is misleading to analyse risk in hindsight (after all, once all the facts are known, there is no risk). No single investment is the optimal choice in every possible future state of the world. If you haven't thought deeply about your level of comfort with losses, and how this tolerance might change during the worst periods, then a single-minded goal of maximising return can often lead to a lower realised return.

For investors with more modest goals, it may not be necessary to burden themselves with the full drawdowns of stocks and the emotional rollercoaster of being all in on a single asset class. Diversification works in investing as much as it does in cricket.

This data is for historical analysis and should not be used in isolation to gauge future expectations.

Alison Norbury - *Equity Analyst*

Keeping a sense of proportion is important when investing, much as it is in cricket: the ability to neither over nor under react, the calm focus to play each ball on its merits within the context of the game.

Match winners are those who can deliver in difficult situations.

IG Group (IG) is a UK-based company which provides online trading in financial derivatives including, contracts for difference (CFDs), financial spread betting, and options for retail traders and professional customers. When customers invest in leveraged products such as CFDs, the provider requires "margin" to be deposited, representing a fraction of the total desired investment position. The broker effectively lends the customer the balance. The profit or loss that customers make is based on the total value of the position, rather than the margin and so can be large in relation to the amount deposited. The margin must be maintained at a certain threshold or else the broker will close the position.

In 2017, the European Securities and Markets Authority (ESMA) proposed stricter regulations for CFDs, including leverage limits to limit the risks posed to retail customers[1]. This resulted in a sharp drop in IG's share price, which got us interested. Roughly two thirds of IG's revenues were generated from ESMA geographies. We estimated IG's retail customers' initial margin requirements would increase by a factor of 8 times in order to support the same total position. The result would be that the average customer, with a limited supply of cash to post margin, could support

Match winners

Keeping a sense of proportion is important when investing, much as it is in cricket

1. https://www.esma.europa.eu/sites/default/files/library/esma35-36-794_qa_on_cfds_and_other_speculative_products_mifid.pdf

a proportionately smaller trading portfolio. Since IG charge fees as a percentage of the total position size, not the deposited amount, revenues would be significantly impacted.

There were, however, mitigating factors. Nearly a quarter of IG's ESMA revenues were generated from institutional customers who would not be affected by the cap. A proportion of the retail investors could also seek "Elective Professional" classification if they passed an online assessment of expertise, experience and knowledge and meet two out of three criteria related to (1) trading frequency, (2) portfolio size, and (3) professional experience[2] (COBS 3.5.3).

We believe that concerns about the impact of the leverage cap and resultant drop in revenues this year have led to an overreaction, and that the market underappreciates the long-term growth opportunities.

CFD trading is in theory a zero-sum game. Each trade has a "50% chance" of success before taking into account transaction costs and leverage. High leverage magnifies exposure to the underlying asset class movements and so small price changes can more quickly result in a breach of margin rules. This makes it more likely that the position is closed, and customers lose money as a consequence.

Disreputable brokers often do not hedge their customer's underlying exposure, meaning that they effectively take the other side of the bet and so win when the customer loses. These companies are therefore perversely incentivised to offer excessive leverage and increase the chances that this happens. These unscrupulous players operate more as a bookmaker than a financial intermediary and there is a clear conflict of interest. Such businesses are characterized by high churn and focus more on new customer recruitment than the retention of existing customers.

In contrast, IG hedge their customer's exposure, meaning that they only make money from the fees charged and not if the customer's position is closed. This sets them apart from many in the industry. The company wants its customers to trade profitably, as successful customers are more likely to continue trading, ensuring that its interests as a business are aligned with those of its customers.

Within its core market, IG has the largest scale, with the highest value customer base and lowest churn (customers coming and going). Going forward they will benefit from industry consolidation as smaller, less profitable and unscrupulous players fall by the wayside. There is also an opportunity to launch new products in existing markets and expand into new markets.

In Europe, leverage is still tolerated by ESMA regulators, so long as the maximum loss is known upfront. When using an option, although leverage is used, the maximum loss is equal to a fixed premium and so can be quantified upfront. There are thousands of "turbo warrants" listed on the Stuttgart exchange which offer leverage of over 100 times and the market is twice the size of that of CFDs. Turbos provide a credible substitute for CFDs, since they contain a "knockout" which works in a similar way to the "stop loss" in a CFD, typically used by day traders. IG plans to launch their own derivatives exchange in September, for which they recently received approval from the German regulator. However, unlike what is already on offer in Stuttgart, IG's turbos will be structured specifically for day traders. The company has already operated NADEX, the only retail focused derivative exchange in the United States, for a decade. The company believes that they can recoup a "significant proportion" of the lost ESMA CFD revenues "relatively quickly" (i.e. months, not years).

We also believe that there are other developed markets which present attractive growth opportunities for the company. In the United States, IG recently launched a retail foreign exchange trading platform and are aiming to take shares in the market with their compelling offering. Japan and Hong Kong also present attractive opportunities for IG through the business-to-business model leveraging their technology platform.

Fundamental investing is very different from zero-sum trading. The underlying assets matter, and there is always the opportunity to dig deeper than any single event. Another ball, another over…

another opportunity to find an entry point for those with a longer-term perspective, those who can keep their heads and protect their wickets. ■

2. https://www.handbook.fca.org.uk/handbook/COBS/3/5.html

Jack Carbutt - *Relationship Manager*

Diversified equity portfolios

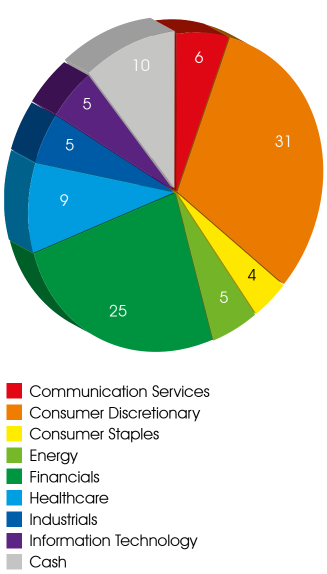
The Best Ideas and Dividend Growth portfolios are diversified global equity portfolios, which we believe to be well positioned to outperform the wider equity market over the longer term. The portfolios have biases towards developed-market, large-capitalisation stocks.

BEST IDEAS PORTFOLIO

Performance (%)

Return	
YTD	9.5
1 Month	-3.3
3 Months	3.1
1 Year	5.4
Annualised Return	
3 Years	13.6
5 Years	11.8
Since Inception	11.9

Sector Allocation (%)

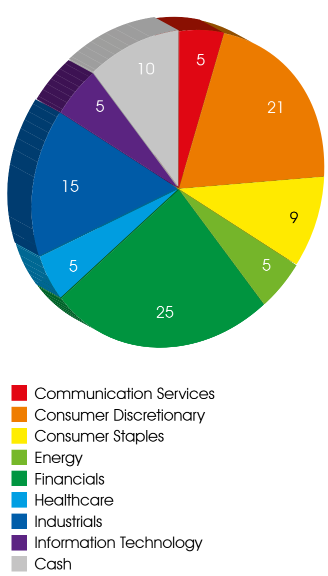


DIVIDEND GROWTH PORTFOLIO

Performance (%)

Return	
YTD	8.3
1 Month	-4.1
3 Months	2.1
1 Year	2.4
Annualised Return	
3 Years	12.5
5 Years	11.5
Since Inception	13.2

Sector Allocation (%)

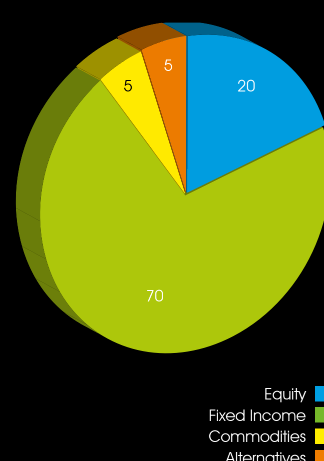


MULTI-ASSET PORTFOLIO 20/80

Performance (%)

Return	
YTD	4.9
1 Month	0.3
3 Months	2.8
1 Year	3.4
Annualised Return	
3 Years	6.3
Since Inception	5.9

Strategic Asset Allocation (%)



Value orientated investment philosophy

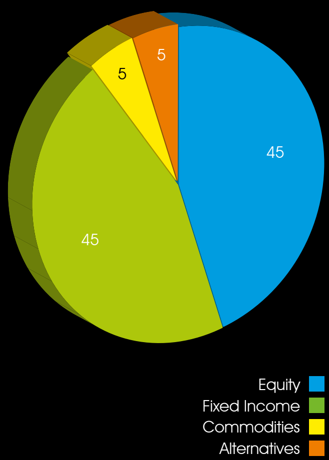
The Credo Multi-Asset Portfolios (MAP) follow an evidence based approach to investing, providing investors with diversified exposure to global assets through a selection of funds and ETFs. Funds are selected using Credo's in-house selection process and offered as four solutions targeting various levels of equity exposure. Portfolios are available in both GBP and USD.

MULTI-ASSET PORTFOLIO 45/55

Performance (%)

Return	
YTD	6.4
1 Month	-0.7
3 Months	2.8
1 Year	2.7
Annualised Return	
3 Years	8.5
Since Inception	7.3

Strategic Asset Allocation (%)

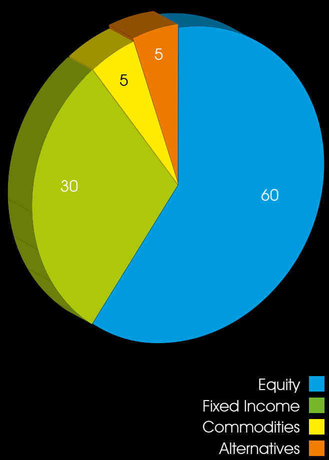


MULTI-ASSET PORTFOLIO 60/40

Performance (%)

Return	
YTD	7.4
1 Month	-1.2
3 Months	2.9
1 Year	2.2
Annualised Return	
3 Years	9.6
Since Inception	7.8

Strategic Asset Allocation (%)

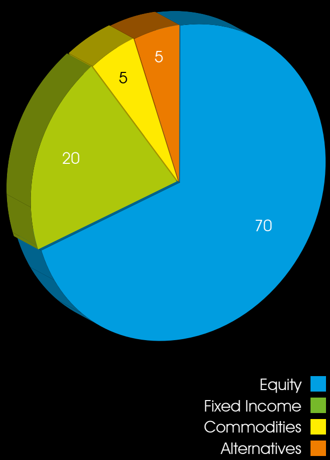


MULTI-ASSET PORTFOLIO 70/30

Performance (%)

Return	
YTD	8.0
1 Month	-1.6
3 Months	2.9
1 Year	2.0
Annualised Return	
3 Years	10.4
Since Inception	8.5

Strategic Asset Allocation (%)



Performance figures are based on a notional portfolio, denominated in pound sterling, designed to track the holdings of the Credo Best Ideas, Dividend Growth and Multi-Asset portfolios. Portfolios incorporate all additions and removals. Portfolios may not be fully invested at a point in time and therefore can hold a portion of assets in cash. Performance is calculated before any fees (which can vary depending on the level of service) but includes net dividends, reinvested. Following additions or removals, each holding is rebalanced to the model weighting. Source: Bloomberg pricing as of 31/05/2019 close. All portfolio performance is calculated using Bloomberg PORT, rounded to 1 decimal place. Inception dates: Best Ideas Portfolio 14/11/2011, Dividend Growth Portfolio 28/12/2012 and Multi-Asset Portfolios 02/07/2014.

Debra Chalmers - *Legal and Compliance Director*

Protecting your assets

Asset Segregation

When a client opens an account with Credo, a contract comes into existence between Credo, the client and our custodian, Pershing Securities Limited. This results in Pershing being appointed as the custodian of the assets in the account, which are segregated from Pershing's own assets, from Credo's assets as well as from the assets of other clients. Even if the account is opened by another regulated firm (**FI**) on behalf of the owner of the assets, the identity of the beneficial owner of the assets is disclosed to Pershing and is recorded in Pershing's books. Pershing and Credo are also subject to the FCA's rules governing client money and safe custody of assets (**CASS Rules**) and so in the unlikely event that Credo (or the FI) becomes insolvent, their creditors or administrators would not be able to enforce claims or recover their administration fees from the assets held in custody. Since those assets are allocated to each beneficial owner in Pershing's records, Pershing has the responsibility to return the assets to them. Likewise, in the event of Pershing's insolvency, the custodied assets are not available to be used to settle any debts due to Pershing's creditors. However, the UK's special administration regime recognises that the work required by the administrator to return assets to the beneficial owners thereof, cannot be funded by the custodian's own assets and consequently the cost of carrying out such work would be funded from the custodied assets. Any losses suffered by a beneficial owner as a result of the administrator recovering its costs from the custodied assets, may be reclaimable from the UK's FSCS or Jersey's DCS, if applicable, as explained under the next heading.

Compensation Schemes

For added security, beneficial owners of assets may be able to benefit from the UK's Financial Services Compensation Scheme (**FSCS**) or Jersey's Depositors Compensation Scheme (**DCS**) depending on where their assets are held in custody. If Credo and/or Pershing is unable to pay a claim made against them, eligible claimants may be entitled to claim compensation up to a maximum of £85,000 (from the FSCS) or £50,000 (from the DCS) subject to an overall limit of £100m for the entire Jersey scheme. Further information can be obtained from www.fscs.org.uk and www.gov.je. If you have any questions about the protection of your assets, please do not hesitate to contact your Relationship Manager. ■

CREDO
WEALTH PLANNING

Since inception, our focus has been on preserving and enhancing our clients' wealth. This strategy has resulted in us establishing meaningful and lasting partnerships with our Private Clients and our Financial Intermediary Clients. We are now excited to announce the impending launch of Credo Wealth Planning which will provide financial planning to both existing and new clients on a bespoke, face-to-face, personalised basis. CWP will specialise in providing advice in the areas of retirement planning, estate planning and inheritance tax, protection and investment advice. CWP's offering will complement our other wealth management services so that clients will be offered a comprehensive wealth management package. We are expecting to be fully operational by Q3 this year and we look forward to engaging with you. ■

...and last but not least

At the end of May 2019, Credo arranged a very successful seminar for financial intermediaries at The Ivy Soho Brasserie in London. The audience heard from several key speakers, including Credo's Chief Investment Officer and two of the firm's Fund Managers. Topics included a global markets update, an overview of Credo's Global Equity and Dynamic Funds, as well as Credo's Wealth Platform.

CREDO
CLIENT
SEMINAR

To coincide with the ICC Cricket World Cup being held in England and Wales, Credo invited clients to an informal Cheese & Wine tasting at La Fromagerie in Marylebone in June 2019. Guests were entertained by Michael Holding, the well known British Jamaican cricket commentator and former cricketer. One of the fastest bowlers to have ever played test cricket, he was nicknamed "Whispering Death" due to his quiet approach to the bowling crease and was part of the fearsome West Indian pace battery that devastated batting line-ups throughout the world in the seventies and early eighties. Michael took part in a fascinating conversation with Roy Ettlinger (Credo CEO) and Deon Gouws (Credo CIO).

CHEESE, WINE &
WHISPERING DEATH

A team made up from personnel at Credo recently took part in a charity 5-a-side football tournament organised by Kennedy Pearce, a London based recruitment business. The Credo Allstars team gave a very good account of themselves against some high quality opposition, and were eventually knocked out in the semi-finals of the Plate competition which ended up going to a penalty shootout.

CREDO
ALLSTARS

CREDO

WEALTH

credogroup.com

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