CREDO NEWS

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SUMMERCROWDS

ISSUE 36 - JULY 2021

Summer crowds

Slowly the crowds are starting to gather in the summer sun as the developed world emerges from the pandemic

As I write this, I can hear the noise from a wedding celebration party from the garden of one of my neighbours in west London. Slowly the crowds are starting to gather in the summer sun as the developed world emerges from the pandemic. **As the global vaccination program gains momentum, I am confident that similar summer crowds will soon be gathering in the southern hemisphere.**

Picking up on the theme of "crowds", Deon Gouws reminds us of Maslow's hierarchy of needs and how crowds are a powerful force in the world. This includes the financial markets, where market prices are broadly justified by relevant data points over time.

Jarrod Cahn looks back over the last 18 months and summarises certain market events, with a particular focus on the rotation between Growth and Value stocks which we have experienced. More importantly, he looks ahead and questions whether inflation is indeed transitory (or temporary) as indicated by leading central banks. Should inflation not be temporary, we may see a rise in (or move towards normalisation) of interest rates, which will have a positive outcome for Value investors once again.

Ainsley To explores equity returns when investing in specific single country markets and highlights the equity premium associated with the US market. He then reminds us that if you're investing for the long term and you don't have a specific insight into investing in a specific country, then global diversification is the rational choice.

We are all (correctly) becoming more environmentally responsible, and the same principle applies when considering our investments. Environmental, Social and Governance (ESG) investing has become increasingly popular, and Calvin Mclean outlines the various investment strategies followed by ESG providers as well as their performance. Credo is about to launch its own ESG version of the Multi-Assets Portfolio Solution, which follows the same evidence-based investment philosophy with a focus on broad diversification.

With the return of summer crowds, and with the London based staff of Credo having returned to the office, we are all looking forward to our day to day lives increasingly getting back to normal! ■

The weight of an ox

…first, you want to be part of a group, then you want to crush that same group.

Looking back on my life, the most treasured memories are a combination of deeply personal and private experiences, balanced by some very public ones. Needless to say, on the personal side, meeting my wife and being present for the birth of our daughter are highlights that stand out; there have also been many wonderful moments spent with other family and close friends.

Most of the more public ones, however, have been spent in the company of large crowds. I was fortunate enough to attend both the opening match as well as the final of the 1995 Rugby World Cup, for example; I also saw the Springboks victorious in Paris twelve years later.

As human beings, our need to be part of a much larger group is hard-wired. Abraham Maslow identified this when he described our hierarchy of needs in terms of five sets of priorities that essentially build on each other. After taking care of physiological basics such as food and water, the next two imperatives (safety and social needs) essentially depend on those around us; it seems self-evident that the chances of achieving both are enhanced by being in the company of more people, rather than fewer.

It's only in the final two of the five priorities defined by Maslow where we see a return to the private and the personal, namely a person's hankering for esteem and self-actualisation. Or, as a professor of mine once said: first, you want to be part of a group, then you want to crush that same group. It's all part of our evolutionary make-up.

This inter-dependence between personal endeavour and group dynamic is evident in practically every walk of life, including the world of work. Clearly, career success for most will depend on burning some midnight oil on your own from time to time. But practically every company executive will tell you that the strength of a business is ultimately a function of corporate culture: the behaviours that determine how employees and management interact with each other.

How do you develop a corporate culture when the work day consists of putting on your tracksuit and sitting behind a laptop in a corner of the kitchen for most of the day, as most of us have been doing ever since the first news of a novel coronavirus nearly a year and a half ago? How do you really relate to your colleagues, if you've only ever "seen" them via Zoom or Microsoft Teams?

This is part of Covid's legacy: it has provided people in lockdown with an overdose of individual experience, while denying us the opportunity of meaningfully developing the groups we naturally form part of.

Thanks to vaccination programs, there does, however, appear to be light at the end of the tunnel and "Freedom Day" has dawned in the UK. Once again, we are able to get on with our lives without worrying about masks or social distancing. Attendance at sporting events has already started to return to full capacity.

Crowds are much maligned, but they are a powerful force in the world, including in the financial markets. You can lament market inefficiency and the formation of periodic bubbles all you want, but, on the whole, the vast majority of securities trade around levels which are ultimately justified by subsequent data points. This generally holds, whether you have an interest in macro information such as economic activity, or whether you choose to focus on more micro detail such as the fortunes of individual companies.

Take the rapid rise in equity prices during the second quarter of 2020, straight after the quickest and steepest drawdown in market history. Many pundits suggested that this bullish behaviour could not be justified in the circumstances; a year later, we can say with some certainty that the market was actually spot on, as company after company reported record earnings in spite of the Covid blip (and in some cases thanks to it, of course). Put differently, the crowd got it broadly right.

This was the key tenet of "The Wisdom of Crowds", published nearly twenty years ago by James Surowiecki. The book opens with a story about the West of England Fat Stock and Poultry Exhibition, held in Plymouth in 1906, where people were asked to guess the weight of an ox. When individual guesses were averaged, the resulting number was much closer to the true weight of the animal than the individual estimates of most participants. Once again, the crowd got it right.

Roll on, Freedom Day, and let the crowds reconvene. **Personally, I cannot wait to get back to the Emirates Stadium, for example… even if it is just to witness live how my beloved Arsenal loses once more.** ■

Jarrod Cahn - *Director*

Is the rotation trade over?

Picking stocks is difficult. Getting the right balance between qualitative and quantitative metrics is hard enough, and ultimately even when all the metrics line up you need to be comfortable that what you are buying still offers decent value. However, it seems that there are other factors and forces at play here recently, that have less to do with valuation and value, but more to do with momentum, investment style and liquidity.

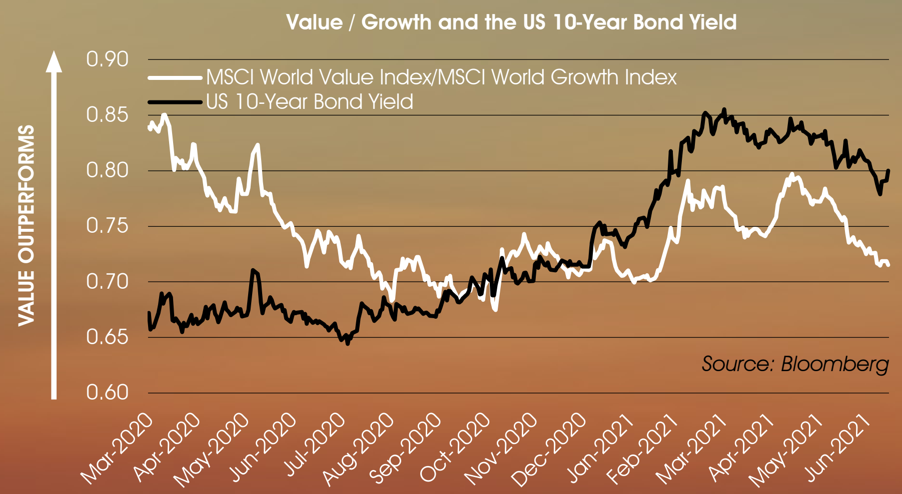
Credo's clients will know that we tend not to focus on macro events and instead focus on bottom up stock picking. Forecasting is a difficult game, and I am yet to meet too many economists who are good at it. Yet, returns can be heavily binary depending on how your short-term view on a host of macro events is skewed. That is why **as long-term investors, we try and not predict short term movements and look to buy quality businesses through the cycle**. Yet, the market and investors have become hooked on the idea of instant gratification and immediate returns. This leaves us as fund managers constantly being questioned and scrutinised, particularly when there is underperformance.

Unlike any time in the last decade (that I can recall) has there been such divergence in returns between Growth and Value stocks. We have written about this before, but it almost seems like one cannot opine without constantly coming back to this theme that has crept into the market and dominated return profiles over the last 18 months.

Growth stocks perform well in a low interest rate and low inflationary environment. As we know, the pandemic has led to a period where rates have been slashed to abnormally low levels, and one of massive liquidity, driven by asset purchasing programs implemented by central banks across the world. This has led to a market environment where Growth stocks have flourished. There are two explanations to this. On the one hand, on a valuation basis, investors are using a lower discount rate to calculate the present value of the business. On the other hand, these businesses have been very effective in competing with incumbents during the pandemic, in many cases capturing market share and gaining leadership positions as consumers have flocked to online platforms and new technologies.

The first half of the pandemic was a fantastic period for Work From Home (WFH) stocks, but as we moved into November onwards and news of successful vaccine candidates came, the rotation out of WFH stocks and into the Re-opening trade was equally as impressive. This rotation out of Growth into Value was a good period for the Credo portfolios.

It has become particularly interesting to see the relationship between the 10 year treasury yield and the relative return performance of value/growth yo-yo. From the period of late January to March 2021, the 10 year treasury yield went from 0.9% to 1.75%. This clearly caught Growth investors by surprise, as we saw a significant rotation back into Value. But even during a period where the Fed had become more hawkish, the 10 year has settled back to levels close to 1.4%, and with that we have seen the reversal of the strong performance of Value over Growth, as Growth strategies have continued to perform well during the second quarter of 2021.



So, where do we go from here?

At least in the short-term the Fed has been able to convince the markets that inflation is transitory. Even during a period where we have seen some very high PPI and CPI readings, the Fed is of the view that the supply and demand imbalances caused by The Great Lockdown will continue to work their way through the system and prices will eventually normalise. Likewise, the all-important labour market is still loose and we are not seeing wage inflation pressures yet. For now, long-term rates look under control and this has fuelled a sustained rally in Growth stocks.

But is this sustainable?

I think it is reasonable to assume that the Fed, as it has suggested, will start tapering. Probably slowly to start and will also try and continually flag its intentions to the markets. If the economy looks to be stalling, they will put their foot on the break.

However, there remains the risk that the Fed and the market are wrong. Inflation may not be transitory, and if it does get ahead of itself, the Fed will have no choice but to step in and raise rates prematurely. This is not a position that the general market is prepared for and will not have a good outcome for Growth stocks. Value stocks would significantly outperform in this scenario.

Likewise, if the economy continues to strengthen at a more rapid rate then anticipated, the Fed will again be more likely to accelerate a normalisation of interest rates and tapering. Again, this is not necessarily a scenario the market or Growth stocks are prepared for. Value should outperform in this scenario.

One would think that in both scenarios, the rotation trade is far from over. ■

Kathryn Linde - *Relationship Manager, Director Credo ICAV*

The Credo Funds

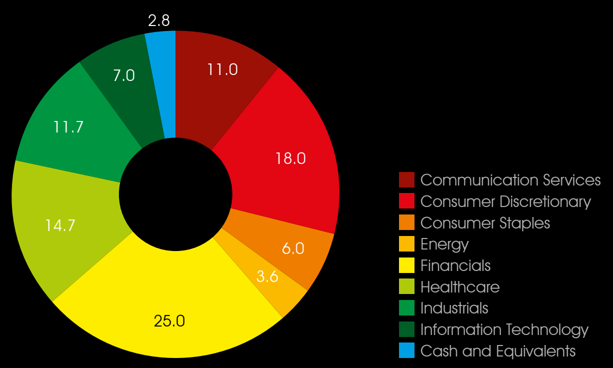
Credo Global Equity Fund

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 Credo Global Equity Fund (UCITS) is actively managed and follows this same investment philosophy. Our aim is to generate sustainable excess returns versus global market indices through careful stock selection.

On 3 February 2020, Credo launched the **BCI Credo Global Equity Feeder Fund**, giving South African investors direct access (in ZAR) to Credo's global equity investment offering.

Sector Allocation (%)



Currency Allocation (%)

GBP	23.5
USD	58.7
Other (AUD, EUR, HKD, MXN, SGD)	17.9

Past Performance (%)

	Fund	Benchmark
1 Month*	0.6	4.3
3 Months*	3.7	7.7
1 Year*	28.5	24.7
3 Years*	42.0	45.4
S. Inception *(Cumulative)*	47.1	58.2
S. Inception *(Annualised)*	10.1	12.2

Top 10 Holdings (%)

Facebook Inc	Communication Services	4.8
Progressive Corp/The	Financials	4.3
Bayer AG	Healthcare	4.1
Wells Fargo & Co	Financials	4.1
Cigna Corp	Healthcare	4.1
Alibaba Group Holding Ltd	Consumer Discretionary	4.0
Northrop Grumman Corp	Industrials	4.0
Flutter Entertainment plc	Consumer Discretionary	3.8
Crown Resorts Ltd	Consumer Discretionary	3.8
Sberbank of Russia PJSC	Financials	3.6

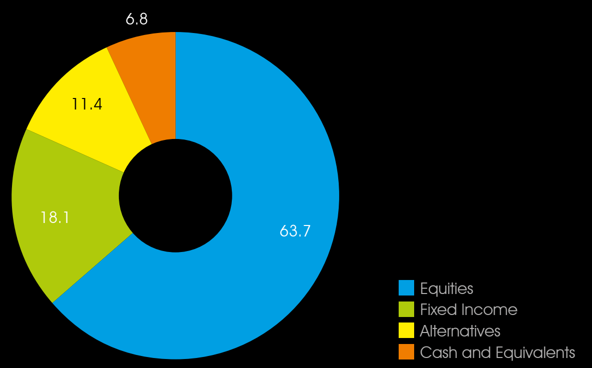
(*) Actual performance of the Credo Global Equity Fund (UCITS) A GBP retail Inception: 03/07/2017. Benchmark: MSCI World Index Net Total Return (in GBP) Highest: 27.0%, lowest: -6.1%

Credo Dynamic Fund

DYNAMIC FUND

The Credo Dynamic Fund (UCITS) 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 and has a bias to UK markets.

Asset Allocation (%)



Currency Allocation (%)

GBP	89.7
USD	9.1
Other (CAD, DKK, EUR, SEK)	1.2

Past Performance (%)

	Fund	Benchmark
1 Month*	2.4	2.0
3 Months*	7.5	5.1
1 Year*	31.5	19.5
3 Years*	27.8	23.4
S. Inception *(Cumulative)*	41.6	29.8
S. Inception *(Annualised)*	9.1	6.8

Top 10 Holdings (%)

X-trackers S&P 500 Equal Weight	Exchange Traded Product	4.3
Allianz Technology Trust plc	Investment Trust	3.4
Aberforth Smaller Companies	Investment Trust	3.2
EKF Diagnostics Holdings plc	Healthcare	2.4
Veritas Asian Fund	Open-End Fund	2.3
iShares Core MSCI World UCITS	Exchange Traded Product	2.3
North Atlantic Smaller Companies	Investment Trust	2.2
Worldwide Healthcare Trust plc	Investment Trust	2.2
Liontrust Asset Management plc	Financials	2.1
Co-operative Group Ltd 11 12/18/25	Corporate Bond	2.0

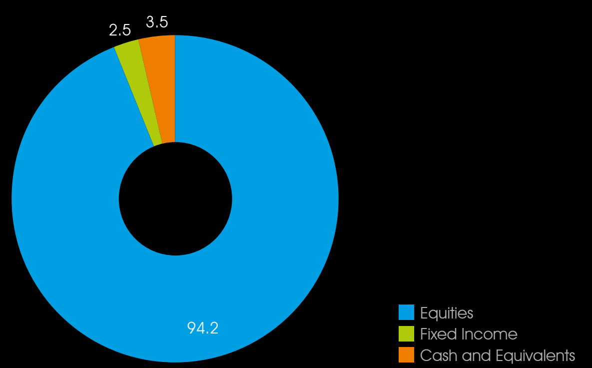
(*) Actual performance of the Credo Dynamic Fund A GBP retail Inception: 03/07/2017. Benchmark: IA Flexible Investment Sector Highest: 15.5%, lowest: -4.9%

Credo Growth Fund

GROWTH FUND

The Credo Growth Fund (UCITS) is 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 is globally diversified and follows a flexible investment strategy with a growth bias. It aims to provide attractive risk-adjusted returns to investors and has flexibility to invest across asset classes.

Asset Allocation (%)



Currency Allocation (%)

GBP	35.2
USD	58.1
Other (AUD, CHF, DKK, EUR, SEK)	6.7

Past Performance (%)

	Fund	Benchmark
1 Month*	4.1	1.7
3 Months*	8.3	5.5
1 Year*	25.5	19.4
3 Years*	36.0	23.1
S. Inception *(Cumulative)*	47.3	29.5
S. Inception *(Annualised)*	10.2	6.7

Top 10 Holdings (%)

Alphabet Inc	Communication Services	5.2
Microsoft Corp	Information Technology	4.6
PayPal Holdings Inc	Information Technology	4.2
Costco Wholesale Corp	Consumer Staples	3.7
Amazon.com Inc	Consumer Discretionary	3.3
SPDR MSCI USA Small Cap Value	Exchange Traded Product	3.2
Entain plc	Consumer Discretionary	3.1
Scottish Mortgage Investment Trust	Investment Trust	3.1
Sonova Holding AG	Healthcare	3.0
Pershing Square Holdings Ltd	Closed-End Fund	2.7

(*) Actual performance of the Credo Growth Fund A GBP retail Inception: 03/07/2017. Benchmark: IA Flexible Investment Sector Highest: 20.7%, lowest: -8.4%

Source: Société Générale Securities Services (Ireland) Limited, Bloomberg and FE Analytics. As at 30/06/2021. Performance is of the Class A (GBP) Retail share class for all UCITS funds and is measured using NAV to NAV dates, net of fees and with income reinvested. Individual investor performance may differ as a result of initial fees (if any), the actual investment date, the date of reinvestment and dividend withholding tax. Annualised performance shows longer term performance rescaled to a 1-year period. Annualised performance is the average return per year over the period. Actual annual figures are available to the investor on request. Highest and lowest are calendar year returns which are the actual annual figures. NAV is the net asset value and represents the assets of a fund less its liabilities.

A schedule of fees, charges and maximum commissions are available on request. Credo Growth Fund is weekly dealing. Credo Global Equity Fund and Credo Dynamic Fund are daily dealing. Full performance calculations are available from the Manager on request. The Manager of the UCITS funds is FundRock Management Company S.A. and is Boutique Collective Investments (RF) (Pty) Ltd for the Feeder Fund. Prescient Management Company (RF) (Pty) Ltd is the Representative Office in South Africa for the UCITS funds and is registered and approved under the Collective Investment Schemes Control Act (No.45 of 2002). For any additional information such as MDDs, prospectus and supplements, please visit www.credogroup.com.

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

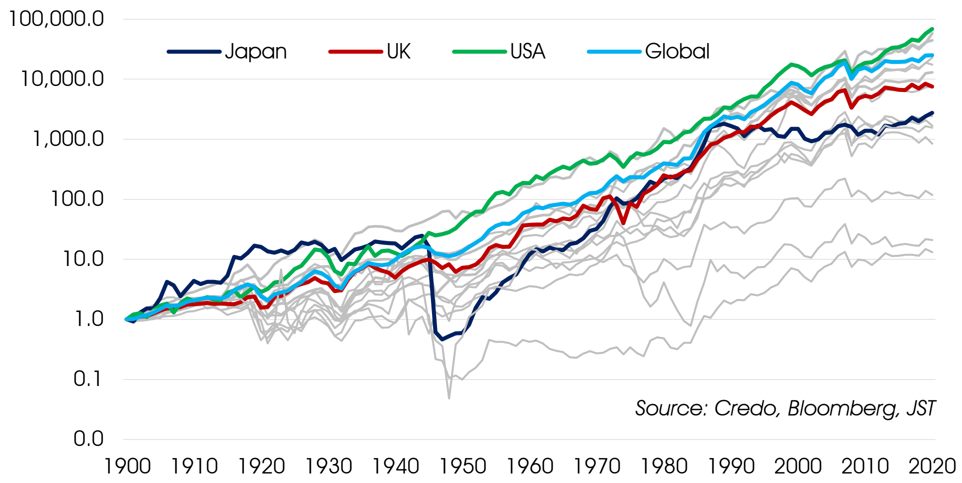
A tale of three time zones

It is no secret that the U.S. equity market has outperformed other countries in recent years. It is also no secret that this has been true over the much longer term – Chart 1 shows how the US has been the best performing equity market in the developed world since 1900.

Despite the very long-term return for all these markets being positive, after drawdowns of over 90% in France, Germany, and Japan during World War 2, the chart masks the reality that many investors in individual countries never had a chance to recover their losses in practice – German and Japanese markets were closed during various periods in the 1940s (in the latter case for over four years). Similarly, over the course of the 20th century, investors in Russia and China (which are not in this sample) experienced total losses - the Russian revolution in 1917 wiped out the equity of the entire country; and having been open since the 1860s, the Chinese market closed in 1949 and didn't reopen until 1990, 41 years after investors had lost everything. Chart 1 also shows that a global portfolio equally weighted by country, rebalanced on an annual basis, would have avoided being fully invested in any one country during its largest drawdowns. And the longer your horizon, the more exposed you are to the risk of ruin in a single country.

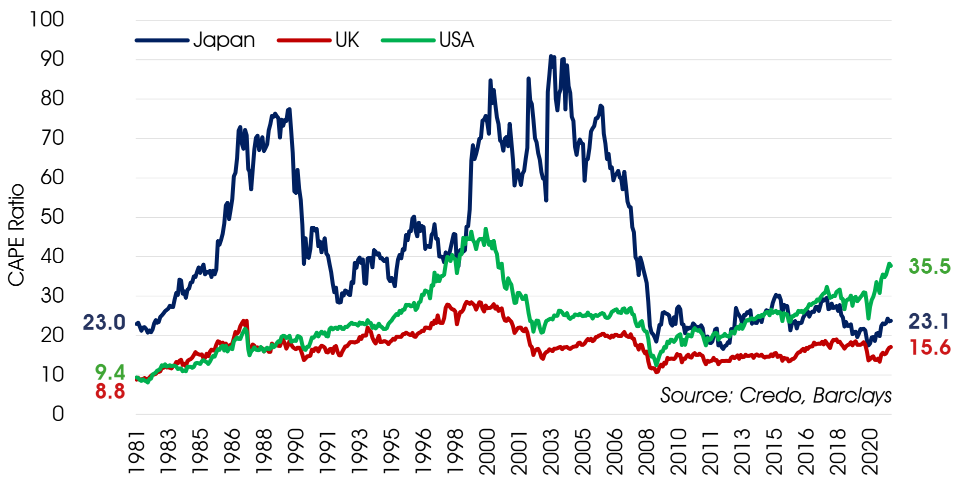
By definition, diversification also meant the global portfolio lagged the US, the ex-post best performer, over the course of the full sample. But history only has a sample size of 1 and must be taken in that context when forming expectations for the future. In addition, no individual investors is investing for 120 years. Over a more realistic maximum time horizon such as 40 years, the US has underperformed other single country markets in a quarter of rolling 40-year periods[1]. When looking at shorter term stretches, there are many notable crises in which the US was at the epicentre, where you saw the benefits of geographic diversification – for example, in the first three years at the start of the Great Depression the US market was one of the worst performing countries, falling over 60% - compare this to a global developed market portfolio which only saw a 45% decline, or the UK market which only fell 15%.

Chart 1: Single Country Equity Markets vs Global Equal Weight - 1900-2020



Source: Credo, Bloomberg, JST

Chart 2: Starting and Ending CAPE Ratios - 1981-2021



Source: Credo, Barclays

"Long term" is arbitrary

Performance measurement is extremely sensitive to the specific start and end points you choose. In equity markets, valuation changes between your chosen start and end dates can explain a large proportion of the realised return over the period. One of the most popular valuation metrics for equity markets is the Cyclically Adjusted Price Earnings (CAPE) ratio – the current price divided by average inflation adjusted earnings over the past 10 years. The CAPE in the US has more than doubled between 1900 and today. Unfortunately, international data on valuation has a much shorter history, but still enough to gauge the impact that changes in valuation can have on differences in returns between single country markets. Using Japan, the UK, and the US as a case study, we can see from Chart 2 that valuations have moved quite independently across these three countries[2]:

- Following the largest equity market bubble in history in the 1990s, valuations in **Japan** finished the period roughly where they started.
- The **UK** saw a mild increase in valuation over the period but finished below its long-term historical average.
- The **US** has seen a strong rerating and is high relative to its own history.

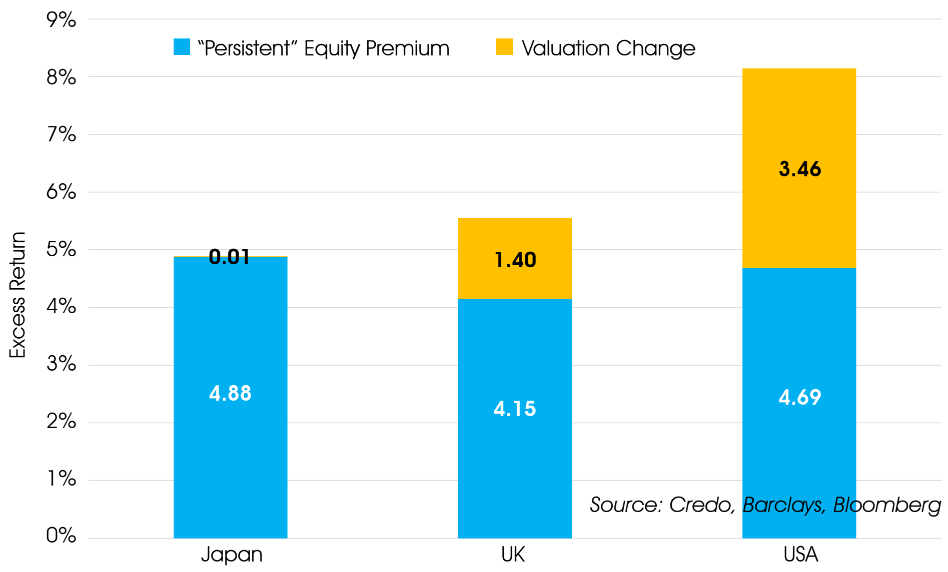
We already know that the equity premiums realised across these three countries have been very different over the last 40 years, with the US significantly outperforming. However, as Cliff Asness highlighted in his brilliant recent piece, the long run is lying to you. When controlling for differences in valuation changes using a similar methodology[3], you will notice from Chart 3 that the outperformance of the US market has been driven by the change in valuation between the starting and ending points of the measurement period (1981 and 2021) **- the "persistent" equity premium after controlling for valuation change has largely been the same across all three countries.**

Conclusion

"Happiness = Reality - Expectations"
Elon Musk

Over the very long term, valuations in the US have increased dramatically. Using the US market to set expectations about future equity returns assumes that valuations continue to increase – a plausible, but aggressive assumption which probably shouldn't be your base case (unless your MO is to overpromise and underdeliver). Performance measurement is extremely sensitive to the start and end points chosen, particular in the case of equity markets where valuations change significantly through time. After controlling for valuations, there is no evidence that an investor should expect a higher equity risk premium in the US over other countries. Yet history shows that the risks from investing solely in one country (included the very real risk of ruin) can be mitigated by diversification. If you're investing for the long term and you don't have perfect foresight of which country will perform the best, global diversification is the rational choice.

Chart 3: Equity Premiums Controlling for Changes in Valuation - 1981-2021



Source: Credo, Barclays, Bloomberg

(1) In common currency terms. (2) A word of caution when comparing absolute levels of CAPE ratios across countries, these are not perfect apples-to-apples comparisons given differences such as sector composition. (3) Running a regression of local equity returns in excess of cash on log changes in the CAPE ratio, taking the intercept as the "persistent equity premium".

William Godsave - *Financial Planner*

How to reduce your inheritance tax bill

The "voluntary tax"

With the rate of IHT (Inheritance Tax) at up to 40% of the value of your assets, and the tax-exempt nil rate band frozen at £325,000 per individual until at least 2026, estate planning is an issue that you can't afford to ignore. For many families who have spent most of their lives paying taxes, the idea of giving 40% of their assets on death to the taxman feels unfair. However, the good news is that with careful planning, there are many opportunities to reduce your liability and ensure that you can pass as much of your assets down to your beneficiaries as possible.

6 ways to reduce your IHT bill

1. Pensions:

Certain types of pension schemes sit outside of your estate for IHT purposes. Making additional pension contributions into a pension for you and possibly your children is an effective way of saving IHT (as well as potentially benefitting from valuable income tax reliefs).

2. Outright gifting:

Gifting generally revolves around the "7-year rule" (surviving 7 years after the date of the gift). However, there are also a number of generous exemptions available which can result in gifts being immediately exempt without having to wait 7 years.

3. Trusts:

Trusts can be used as a way of gifting assets, whilst retaining some control over the gifted funds. Trusts are often used when you are looking to gift to your beneficiaries now but are not comfortable giving them unfettered access to the funds straightaway (perhaps due to concerns around divorce or spending).

4. Giving to charity:

Donations to charity during your lifetime will reduce the value of your estate and can potentially attract additional income tax and capital gains tax reliefs. Gifts to charity on death will also reduce your IHT bill and can potentially reduce the IHT rate on your estate to 36%, a 4% reduction in IHT.

5. Business relief investments:

Certain business assets attract up to 100% relief from IHT – holding shares in companies which benefit from this relief is a way to reduce your IHT liability (for example AIM listed shares).

6. Insurance:

Whole of life insurance is a common way of providing the funds required to pay the IHT liability on death. However, these types of policies can also be used as a savings vehicle – the premiums are unlikely to ever exceed the sum assured, and the equivalent investment return is often in the region of c.5% net per annum.

Formulating a plan

The most important aspect of IHT planning is to ensure you formulate a robust plan. You first need to understand your financial position and how much capital you require for the remainder of your life. We can then objectively review the various options and strategies for saving IHT and put in place the most appropriate long term IHT plan for you. This plan is a "work in progress" document and requires continuous revisiting and finessing over your lifetime.

At Credo, we have specialist tools and expert technical knowledge to assist you in navigating this complex but critical part of organising your personal finances. ■

Planning your retirement

What does your retirement look like?

Retirement often evokes mixed feelings – on the one hand, you may see it as an opportunity to travel more, take up a new hobby, or spend more time with the grandchildren. On the other hand, the thought of having to utilise and rely on your assets to fund the remainder of your life is often a daunting prospect.

It is therefore important to take a methodical approach to your financial planning to ensure that you can enjoy your retirement without worrying about your finances.

How much do I need?

The first step to planning your retirement is to understand your long-term financial position, considering questions such as:

- Will I run out of liquid assets during my lifetime?
- What is the impact of changes in inflation and/or investment growth?
- How will care home costs impact me?
- Can I afford to give my children or grandchildren lifetime gifts?

Your assets may need to support you for the next 30+ years, and it is therefore vital that you map out your financial position over this period.

How to meet your expenditure requirements?

Once you have established your financial position, you can then look at the most effective way of drawing income or capital to meet your expenditure needs. Drawing from your pension is often not the most optimal way of meeting your requirements, and considering other methods, such as selling parts of your portfolio or taking income from your general investment accounts or ISAs, may be more appropriate. Your particular asset mix and retirement needs will determine the most suitable withdrawal strategy.

How to manage your investments in retirement?

Getting the right investment strategy in retirement is more important than ever; it is likely that you will need to maintain capital growth to support your withdrawals, but you will probably want to minimise the impact of large falls in the value of your investments. We therefore need to plan carefully around the timeframe for each investment portfolio to determine the investment strategy that works best for you. ■

Jack Carbutt - *Relationship Manager*

Diversified equity portfolios

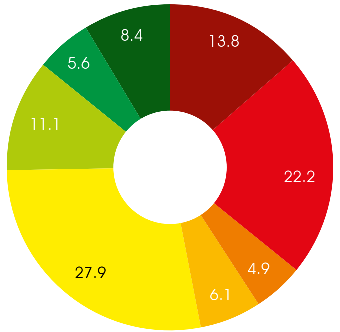
The Credo Best Ideas and Dividend Growth portfolios are diversified global equity portfolios, which we believe to be well positioned to outperform the wider equity market over the longer term. The portfolios have a bias towards developed market, large capitalisation stocks.

BEST IDEAS PORTFOLIO

Performance (%)

Return	
YTD	10.0
1 Month	-0.7
3 Months	2.1
1 Year	25.5
Annualised Return	
3 Years	10.1
5 Years	11.0
Since Inception	11.9

Sector Allocation (%)



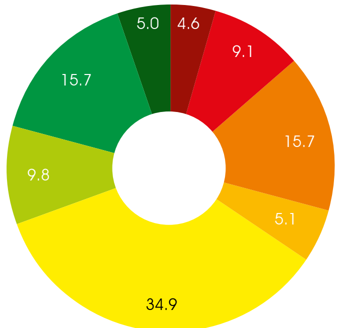
- Communication Services
- Consumer Discretionary
- Consumer Staples
- Energy
- Financials
- Healthcare
- Industrials
- Information Technology

DIVIDEND GROWTH PORTFOLIO

Performance (%)

Return	
YTD	10.8
1 Month	0.4
3 Months	4.2
1 Year	22.8
Annualised Return	
3 Years	10.1
5 Years	11.1
Since Inception	13.3

Sector Allocation (%)



- Communication Services
- Consumer Discretionary
- Consumer Staples
- Energy
- Financials
- Healthcare
- Industrials
- Information Technology

Evidence-based approach

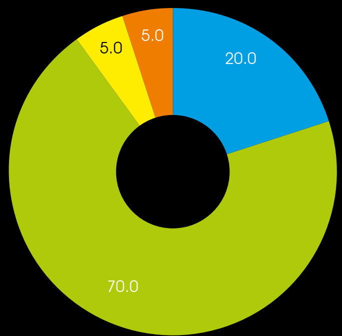
The Credo Multi-Asset Portfolios (MAPs) invest in regulated funds and exchange traded funds (ETFs) on a global basis, with a focus on diversification across a broad range of asset classes using liquid securities. The funds and ETFs are selected using Credo's in-house selection process. The MAPs are offered as four solutions targeting varying levels of equity exposure and are available in both GBP and USD.

MULTI-ASSET PORTFOLIO 20/80

Performance (%)

Return	
YTD	2.1
1 Month	1.0
3 Months	2.6
1 Year	5.8
Annualised Return	
3 Years	4.3
5 Years	4.6
Since Inception	5.5

Strategic Asset Allocation (%)



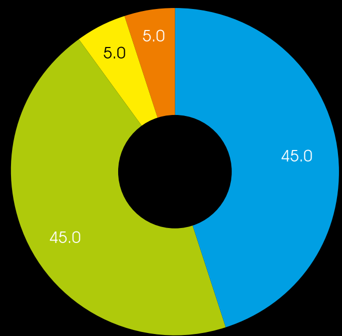
- Equity
- Fixed Income
- Commodities
- Alternatives

MULTI-ASSET PORTFOLIO 45/55

Performance (%)

Return	
YTD	5.7
1 Month	1.5
3 Months	3.8
1 Year	12.5
Annualised Return	
3 Years	6.1
5 Years	7.2
Since Inception	7.4

Strategic Asset Allocation (%)



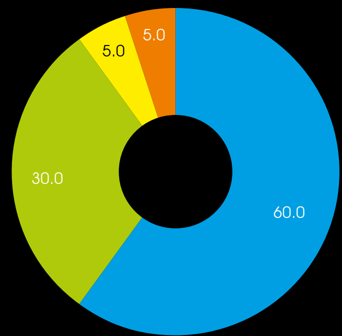
- Equity
- Fixed Income
- Commodities
- Alternatives

MULTI-ASSET PORTFOLIO 60/40

Performance (%)

Return	
YTD	7.9
1 Month	1.8
3 Months	4.6
1 Year	16.6
Annualised Return	
3 Years	7.2
5 Years	8.7
Since Inception	8.5

Strategic Asset Allocation (%)



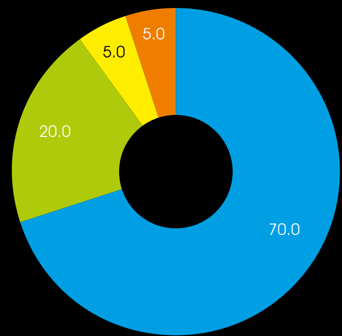
- Equity
- Fixed Income
- Commodities
- Alternatives

MULTI-ASSET PORTFOLIO 70/30

Performance (%)

Return	
YTD	9.4
1 Month	2.0
3 Months	5.1
1 Year	19.6
Annualised Return	
3 Years	7.9
5 Years	9.6
Since Inception	9.1

Strategic Asset Allocation (%)



- Equity
- Fixed Income
- Commodities
- Alternatives

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 30/06/2021 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*

How safe are your assets?

When you open an account with Credo, a contract comes into existence between you, Credo and the appointed custodian of the assets in your account. Credo and the UK Custodian are regulated by the FCA and are required to comply with the FCA's Client Asset Rules (CASS Rules) which help protect client assets custodied in the UK in several ways, including:

Asset segregation and beneficial ownership

The Custodian operates under a "fully disclosed" framework under which your assets are held by the Custodian on trust in accounts clearly identified and segregated from both the Custodian's and Credo's own assets. Under this framework, you and your assets are fully identified in the Custodian's books and records and you are recognised as the beneficial owner of those assets. Even if the account is opened by another regulated firm on behalf of the beneficial owner of the assets, the identity of the beneficial owner of the assets is disclosed to the Custodian and is recorded in the Custodian's books. This protection is important in the unlikely event of:

- The Custodian becoming insolvent – your assets would be ring-fenced and would be allocated to you, as their beneficial owner. These assets would not fall into the Custodian's insolvent estate and would not be used to repay its creditors. Nevertheless, work required by an administrator or receiver to return assets to the beneficial owners cannot (by law) be funded by the Custodian's own assets and so, in extremely rare circumstances, a court may permit an administrator or receiver to recover the costs it incurs in delivering the assets to the beneficial owner out of the ring-fenced clients' assets themselves; and

- Credo becoming insolvent – the Custodian would still hold your assets on trust and would not be impacted by the insolvency. An administrator or receiver would not have the right to enforce any claims it may have or recover its fees from your assets as they are not held by Credo but by the Custodian. The administrator would not be able to recover its costs over and above the normal fees payable for management of your assets, without your agreement or a court order. Credo's authority to continue to manage your assets would be deemed by the Custodian to have been restricted to essential matters only, pending transfer of such assets to a new custodian.

Verification of asset records and instructions

The Custodian is required by the CASS Rules to check regularly to verify that client assets held on trust are accurately recorded. There must also be specific agreement as to who can issue and receive instructions in relation to the client assets and the extent of their authority. In addition to the above, Credo reconciles the Custodian's records with its internal records on a daily basis.

Assessment of custodians and sub-custodians

The FCA undertakes regular assessments of custodians to ensure consistent application of the CASS Rules and any sub-custodians appointed by the Custodian are subject to prior and ongoing assessment to ensure that they extend the same level of asset protection as required by the FCA.

Additional protection

Credo and the Custodian are required to meet a number of global regulatory requirements in the areas of risk management, capital adequacy and financial reporting.

Compensation scheme

The FSCS is the UK's fund of last resort for clients of authorised financial services firms.

If the Custodian goes into liquidation, loss suffered by a beneficial owner who is eligible to make a claim (mainly individuals and small businesses) as a result of the administrator or receiver recovering its costs from the custodied assets, may be reclaimable from the FSCS.

If you have a claim against Credo for negligence and Credo is unable to satisfy that claim for any reason, then you may be entitled to make a claim to the FSCS, if you are an eligible claimant.

The maximum compensation recoverable is currently £85,000 per eligible claimant.

Insurance

Credo has professional indemnity, directors and officers and cybercrime insurance policies which are maintained in line with accepted industry practice for comparable wealth management and financial services firms. This provides an additional layer of protection for your assets. ■

Calvin Mclean - *Investment Analyst*

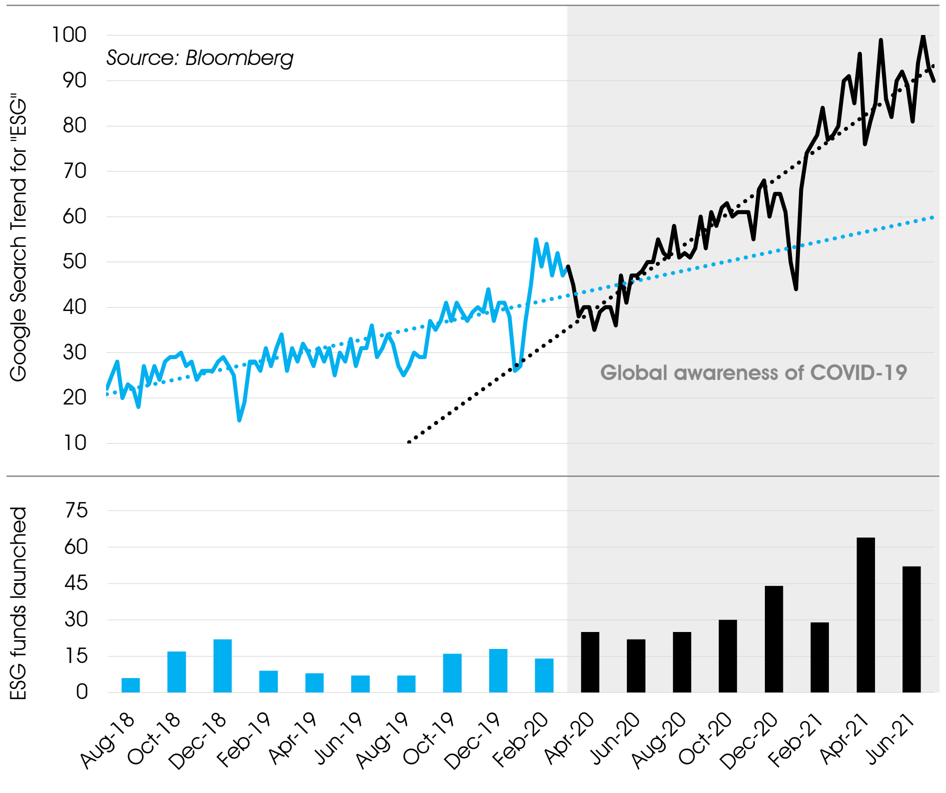
Worried about overpaying for ESG?

There can be no denying that ESG has become popular, particularly since the beginning of the pandemic.

Common concerns around Environmental, Social and Governance (ESG) investing are that it is a "fad" or "overcrowded". Yet ESG's humble beginnings date back to the 18th century, with the Quakers prohibiting members from participating in the slave trade - for a "fad", it has certainly stuck around for a long time. Yet, there is rarely smoke without fire, and without proper context some of the headline evidence could send an otherwise virtuously-minded investor running for the exit.

There can be no denying that ESG has become popular, particularly since the beginning of the pandemic. Chart 1 demonstrates this with both Google searches for "ESG" trending higher, and product launches increasing following March 2020 (product providers are all too happy to market what's in vogue, particularly if they can charge higher fees).

Chart 1: ESG popularity has risen since COVID-19



And perhaps unsurprisingly then, ESG appears to have performed well with global equity funds reporting ESG characteristics returning on average 35.0% annualised since the end of February 2020 (USD, before fees) compared to the 31.4% achieved by the MSCI World Index.

Going one step further though, and sorting these funds according to their ESG strategy, a clear outlier emerges (see Chart 2). The strategies have been separated as follows:

Broad ESG: those that look at the entire universe and invest based on what they believe are universal values.

Tech and Energy Themes: those that focus on pioneers within the technology and clean energy space.

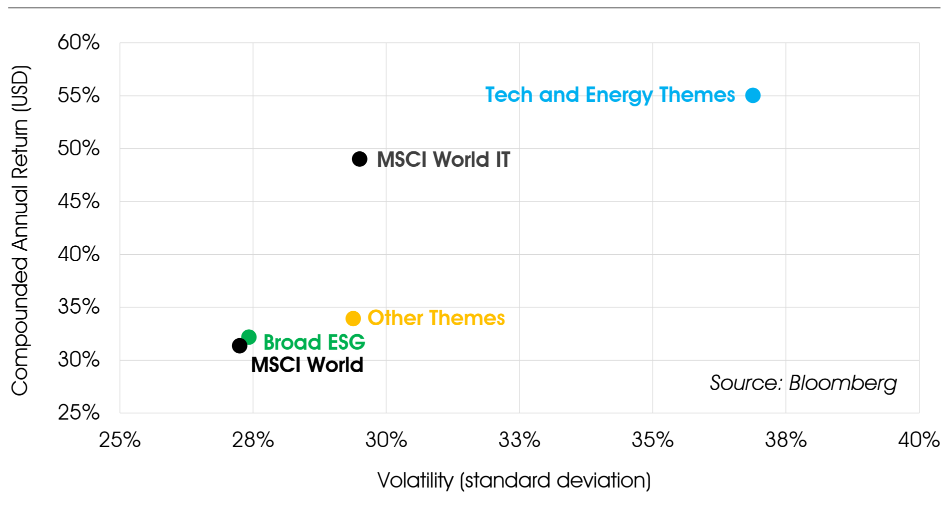
Other Themes: those that focus on other particular aspects of ESG, such as gender equality, water scarcity, forest protection, mega trends etc.

As can be seen from Chart 2, the **Tech and Energy Themes** group has performed exceptionally well, even when compared to the headline grabbing IT sector (albeit with much higher volatility). This group, which represents a minority of the universe, operates at the technological frontier and is a direct contributor to the prevalent climate change agenda. As such, it has caught the public's imagination and is now often mistaken for a wider representation of ESG – this may be playing a significant part in that feeling of fad or overcrowding.

To that point, a further dissection of the performance of companies that typically characterise **Tech and Energy Themes** provides some justification for this overcrowding prognosis - a large majority of the return has been from a re-rating in their price-to-earnings multiple, more so than that of general ESG leaders or the IT sector as a whole. Even putting to one side the possibility that this is a result of speculation - in which case there may indeed be a fire in this particular house – this source of return cannot be indefinitely relied upon. It essentially reflects that future growth expectations have improved, and as such current investors have received an advance on that earnings growth.

Conversely, the much larger **Broad ESG** group has performed very similarly to the MSCI World (this is true even over longer time periods). And why is this the case? Well firstly, the number of companies and the diversity of them tends to be much greater than thematic funds, and can nearly be as high as the broad market when dealing with approaches that constrain relative deviations in sector or geographic exposure. This has the effect of reducing the probability of extreme outcomes and bringing the fund performance much closer to the average (represented here by the MSCI World).

Chart 2: Risk-return since end of February 2020



Additionally, it's also the case that there is more than one way to peel a potato (as the animal rights friendly idiom goes), and so when dealing with a broader, more subjective definition of ESG, opinions of a company's virtuosity can vary significantly – one look at the correlation between ESG ratings of the largest providers shows this (it ranges between 0.4 and 0.7).

When considering ESG investing, we believe in a broad approach which not only avoids concentrated bets on specific themes but also enables an evidence-based approach as used in the core Credo Multi-Asset Portfolios.

Whilst it may not appeal to the ESG purists, such an approach allows investors to take a step towards social responsibility within their portfolios, whilst avoiding the fads and areas of overcrowding.

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