CREDO NEWS

Issue 37 - December 2021

Renewable investing
Ben Newton

ESG & equity investing: an organic approach
Alison Norbury

...and more

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Deon Gouws

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Ainsley To

GREENER FUTURE

Going Green

Writing this towards the end the 2021, it is important to reflect on the passing of another twelve months. It has been a challenging year for all of us, not only in regard to Coronavirus and the slow return to 'normality', but also when considering the environmental issues that all of us now face on an almost daily basis.

As the trustees of your capital, we have decided to 'Go Green' and focus this edition of CredoNews on environmental, social and governance (ESG) issues and share our thoughts on what you should consider in terms of sustainable investing.

ESG funds have now become mainstream, and **Deon Gouws** highlights possible lower expected returns as a result as well as the rationale for this line of thinking. He further suggests that understanding an investor's individual motivation for investing in ESG is important, and that maximizing return is not necessary the top reason for doing so.

Ainsley To reminds us of the importance of diversification by investing in a broad portfolio, and how the margin of safety increases with the level of security diversification. He continues to explore the impact on returns and risk when certain sectors are excluded and highlights that diversification can provide the necessary flexibility to incorporate ESG preferences in future portfolios.

Alison Norbury provides examples where the current industry standards in ESG definitions and scores may lead to inconsistent outcomes; this should change over time as ESG investing becomes more mainstream. **Alison** also reminds us that Credo's primarily responsible is to not to exclude certain investment opportunities based on a fairly arbitrary set of criteria, but to maximize returns on behalf of our clients.

Credo does of course now offer ESG related investment solutions in the form of the recently launched MAP ESG multi-asset portfolios. ESG-related positions are also included in the Credo Dynamic Fund.

Finally, I would like to take this opportunity to wish you and your families a very happy holiday over the festive season and all the best for 2022.

Deon Gouws - *CIO* | @DeonGouws_Credo

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"...if you even begin to question the strategy, you will be seen not only as a contrarian but probably also as a heretic."

One thing we can all agree on, is that each of us should do our bit to save the planet. If you've ever had the privilege of holding a newly born baby and experiencing that sudden injection of overwhelming love which only a first-time parent would ever really understand, you will appreciate why people want to leave behind a better world for their kids than the one we've created through exploitation of resources and pollution of the environment, all in the name of progress, economic growth and the pursuit of wealth.

Just in the past year or two, we have seen a record-breaking Atlantic hurricane season, an ever-increasing number of earthquakes, and countless flash floods around the world. Harrowing scenes from enduring wildfires in New South Wales at the beginning of 2020 are still fresh in our memories. Thousands of people are losing their lives in climate related disasters.

So, please do your bit to slow down global warming.

Pick up your litter and try to pollute less. Separate your glass bottle from your plastic waste and recycle where you can. While you're at it, spare a penny for the poor, if at all possible. And do obey all the rules if you really want to be seen as a good global citizen. Or, in financial parlance: **be mindful of all matters of an environmental, social and governance (ESG) nature.**

Many investors would say that one should also invest accordingly. In the last few years, ESG funds have become mainstream; if you even begin to question the strategy, you will be seen not only as a contrarian but probably also as a heretic.

Take BlackRock, the largest asset management company in the world, for example: in January 2020, the firm announced a number of sweeping changes in an effort to position itself as a leader in sustainable investing. At the time, company chairman Larry Fink warned CEOs that an intensifying climate crisis would bring about a "fundamental reshaping of finance," with a significant reallocation of capital set to take place "sooner than most anticipate." Fink then hopped on a plane, flew halfway around the world to Davos and preached to captains of industry (most of whom also arrived by private plane) on the topic.

Having pivoted so fundamentally and publicly towards ESG, one can only imagine how disconcerted BlackRock must have been when its previous chief investment officer for sustainable investing, Tariq Fancy, resigned from that role and penned a long-form article in three parts and published it on the Medium platform under the heading: *The Secret Diary of a 'Sustainable Investor'* in August last year. Note the inverted commas: they provide the first hint of the author's cynicism about the field that he left behind.

In total, the piece runs to some 23,000 words – that's about a quarter of the length of the typical novel, so it will take most people a good few hours to get through it. Thankfully, however, US Finance Editor for the Financial Times, Robert Armstrong, recently provided a helpful summary of Fancy's article and reduced it to nine key criticisms of the ESG investing industry that the two of them agreed on.

Arguably the main point is this, as articulated by Armstrong:

"The core mechanism of ESG investing is divestment, but when an investor sells a security in the secondary market, another buys. All the ESG selling may drive down the price at which the buyers buy, giving them an opportunity for juicy returns as the price recovers."

Put differently: ESG-compliant companies are thus likely to underperform their "sinful" counterparts over time. This links neatly with the logic espoused by Cliff Asness, the co-founder and chief investment officer at AQR Capital Management, in a 2017 note published under the heading: *Virtue Is its Own Reward: Or, One Man's Ceiling Is Another Man's Floor*.

Asness explains it as follows: "accepting a lower expected return is not just an unfortunate ancillary consequence to ESG investing, it's precisely the point (though its necessity may indeed be unfortunate). As an ESG investor this lower expected return is exactly what you want to happen and really the only way you can effect the change you seek."

None of this should be interpreted as making light of ESG; it's simply to point out that one should understand your own reasons for engaging with the field, and maximising investment performance as such should not necessarily be top of your list when you do so.

I recently came across a quote which said that the economy is **a wholly owned subsidiary of nature**, not the other way round. I couldn't agree more. But just bear in mind that, if you invest accordingly, it is likely to come at a price.

Benjamin Newton - *Investment Manager*

Renewable investing

A vital part of the path to reduce countries' carbon emissions and ultimately aim for net-zero is the transition away from electricity generated from gas and coal to renewables.

Currently, the global share of renewables in electricity generation is approximately 30%. Coal and gas, two of the most damaging environmental sources of electricity, still represent approximately 60% of the electricity supply. To achieve net-zero, it is estimated that almost 90% of global electricity generation in 2050 will have to come from renewable sources, with solar and wind accounting for nearly 70%.

There are multiple ways to invest in order to achieve one's investment and social goals. To illustrate: in the Credo Dynamic Fund, we have purchased certain investment trusts where the income is generated from renewable sources.

For example, a Trust buys a solar field or wind farm that earns income from energy generation over a long period. This helps increase the share of renewables and provides a different source of return, enhancing income and diversification within a portfolio.

Investment trusts are well-suited to renewable infrastructure projects, giving investors secondary market liquidity as the Trusts are listed on the stock market while providing managers with the ability to take a long-term investment horizon. This is important as the underlying assets are relatively illiquid.

There are several inputs to the income received and current estimated asset values. Weather can impact returns: wind tends to be variable, for example, and in any given year there may be 20% more or less of it, while sunshine or irradiation typically only varies by about 7% each year. Historically, a large portion of renewable income used to come from government subsidies which helped the industry scale; the financial assistance has a direct link to inflation. This, combined with some exposure to shorter-term power prices which have spiked due to global gas prices and several one-off factors, is a further tailwind to returns.

It is widely expected that we are coming towards the end of the ultra-loose monetary policy which was required to help economies navigate the pandemic. Given that these infrastructure investments are valued based on discounted future cash flows (just like equities and all other asset classes), there is an underlying exposure to interest rates.

There are various renewable investment trusts, and all having slightly different strategies within the broader theme.

Additionally, the Trusts trade at either a premium or discount to their underlying value in the market. Dynamic Fund aims to closely manage the swings in share prices around underlying asset value. We prefer to invest in battery storage rather than the steady income from a typical wind farm or solar field. As more wind and solar come on stream, the power price is likely to be more volatile intraday; when it is windy and the sun shines, there will be excess power compared to a still night. Therefore, the renewable energy supply requires many batteries to help balance the grid. As battery storage and its income streams are less established, we believe more outsized returns are available. We have invested in Gresham House Energy Storage plc. and Gore Street Energy Storage plc., for example. We are however cognisant of the premiums to net asset values at which these trade and therefore prefer to invest when the Trusts raise funds from the capital markets.

In managing Dynamic Fund, we will continue to look out for additional options in the space of renewable investing, not only for its diversification benefits, but indeed also based on return profiles which are often attractive within this space. ■

Kathryn Linde - *Relationship Manager, Director Credo ICAV*

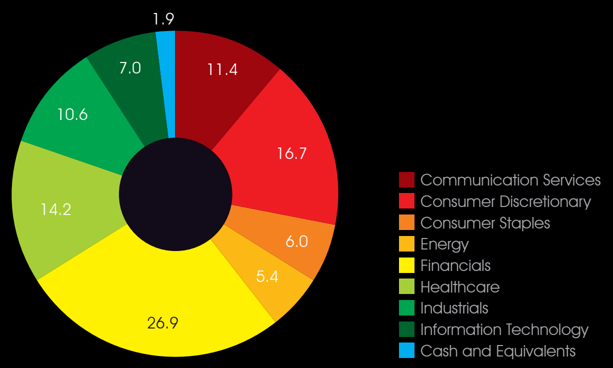
The Credo Funds

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	24.0
USD	59.5
Other (AUD, EUR, HKD, MXN, SGD, ZAR)	16.5

Past Performance (%)

	Fund	Benchmark
1 Month*	1.6	4.0
3 Months*	2.4	5.5
1 Year*	27.1	32.9
3 Years*	43.2	54.1
S. Inception *(Cumulative)*	47.9	68.7
S. Inception *(Annualised)*	9.5	12.9

Top 10 Holdings (%)

Microsoft Corp	Information Technology	4.6
The Progressive Corp	Financials	4.4
Flutter Entertainment plc	Consumer Discretionary	4.3
Meta Platforms Inc	Communication Services	4.2
Wells Fargo & Co	Financials	4.2
Bayer AG	Health Care	4.0
Cigna Corp	Health Care	3.9
Northrop Grumman Corp	Industrials	3.8
Sberbank Of Russia PJSC	Financials	3.6
Arch Capital Group Ltd	Financials	3.5

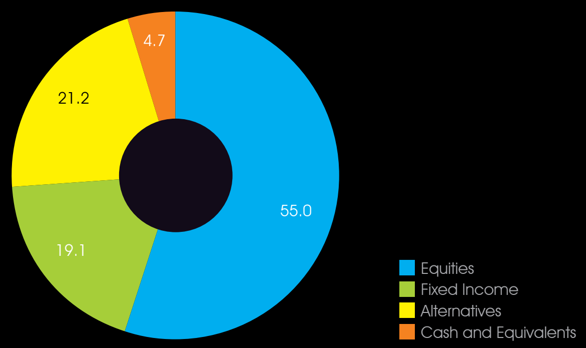
(*) Actual performance of the Credo Global Equity Fund (UCITS) A GBP retail Inception: 03/07/2017. Benchmark: MSCI World Index Net Total Return (in GBP) Highest: 27.0%, lowest: -6.1%

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	88.5
USD	10.1
Other (DKK, SEK)	1.5

Past Performance (%)

	Fund	Benchmark
1 Month*	0.8	0.8
3 Months*	1.5	2.0
1 Year*	28.8	20.8
3 Years*	37.0	30.9
S. Inception *(Cumulative)*	46.1	32.6
S. Inception *(Annualised)*	9.2	6.7

Top 10 Holdings (%)

X-trackers S&P 500 Equal Weight	Exchange Traded Product	4.0
Polar Capital Technology Trust	Closed-End Fund	2.8
Gresham House plc	Financials	2.8
Digital 9 Infrastructure plc	Closed-End Fund	2.7
K3 Capital Group plc	Industrials	2.5
GlaxoSmithKline plc	Health Care	2.5
Alphabet Inc	Communication Services	2.5
Taylor Maritime Investments Ltd	Financials	2.5
Hipgnosis Songs Fund Ltd	Closed-End Fund	2.4
North Atlantic Smaller Companies	Closed-End Fund	2.3

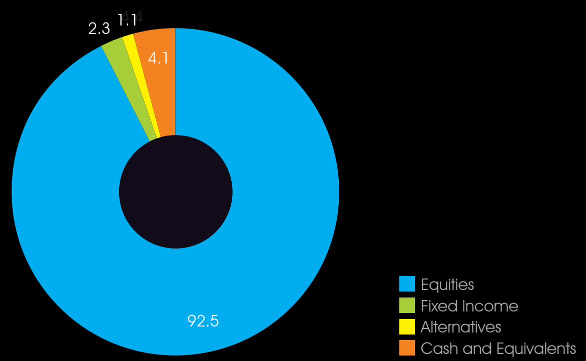
(*) Actual performance of the Credo Dynamic Fund A GBP retail Inception: 03/07/2017. Benchmark: IA Flexible Investment Sector Highest: 15.5%, lowest: -4.9%

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	32.3
USD	58.4
Other (CHF, EUR, AUD)	9.3

Past Performance (%)

	Fund	Benchmark
1 Month*	0.9	0.1
3 Months*	5.9	2.0
1 Year*	26.2	20.8
3 Years*	56.6	31.8
S. Inception *(Cumulative)*	57.7	32.6
S. Inception *(Annualised)*	11.1	6.7

Top 10 Holdings (%)

Alphabet Inc	Communication Services	5.7
Microsoft Corp	Information Technology	5.2
Costco Wholesale Corp	Consumer Staples	4.3
Sonova Holding AG	Health Care	3.2
Amazon.com Inc	Consumer Discretionary	3.2
Pershing Square Holdings Ltd	Closed-End Fund	3.2
Scottish Mortgage Investment Trust	Investment Trust	3.1
Nvidia Corp	Information Technology	3.0
PayPal Holdings Inc	Information Technology	2.9
Gresham House plc	Financials	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 29/10/2021. 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.

Diversity and exclusions

"You must be diversified enough to survive bad times or bad luck so that skill and good process can have the chance to pay off over the long term."
Joel Greenblatt

Margin of safety is a familiar concept in the realm of stock picking - Benjamin Graham, Warren Buffett, and Seth Klarman all espouse the importance of leaving room for error, bad luck, or extreme volatility when selecting individual securities based on estimates of intrinsic value.

In the domain of portfolio construction, one measure of margin of safety is the amount of security level diversification in a portfolio. In all but the most extreme cases, diversification reduces portfolio volatility and portfolio losses - Chart 1 shows the maximum drawdown in each calendar year for the U.S. market compared to the average maximum drawdown experienced by each individual stock in each year. Though the average drawdown of individual stocks was worse than 20% in the majority of years (47) since 1960, the market has only seen this decline in 16 of those years. Whilst the market portfolio is a weighted sum of its constituent parts, its shallower drawdowns highlight the diversification benefits of being exposed to a broad portfolio over holding any individual stock. The chart also shows the average maximum drawdown of the worst 50 stocks each year - for investors unfortunate enough to have held an individual stock with the deepest drawdowns in any year, they would have needed to stomach worse than 45% drawdowns in the majority of years, and as bad as 90% in the worst years.

Nobody purposely chooses investments that suffer losses - if you have perfect prediction accuracy you don't need to be diversified, you just invest in the one asset which will for certain appreciate the most. But for normal investors who don't have perfect foresight, being able to withstand losses is just the cost of admission when investing in risky assets. An investor's level of diversification - their margin of safety - should be proportional to their capacity for loss.

Diversification embeds flexibility

Portfolio choice is a dynamic, multi-period problem - your decisions today should also take into account future decisions that need to be made. And here is where the margin of safety provided by security diversification can play an additional role, since it offers flexibility in portfolio implementation. Portfolios today are facing uncertainty with regard to future ESG considerations: whether mandated by regulation or imposed via changes in preferences of their end investors, there may come a time where they need to exclude certain securities going forward. A more diversified portfolio has more flexibility to incorporate these constraints in the future without significant impact to the investment process.

Chart 1: Calendar Year Max Drawdowns - Individual Stocks vs Market Portfolio

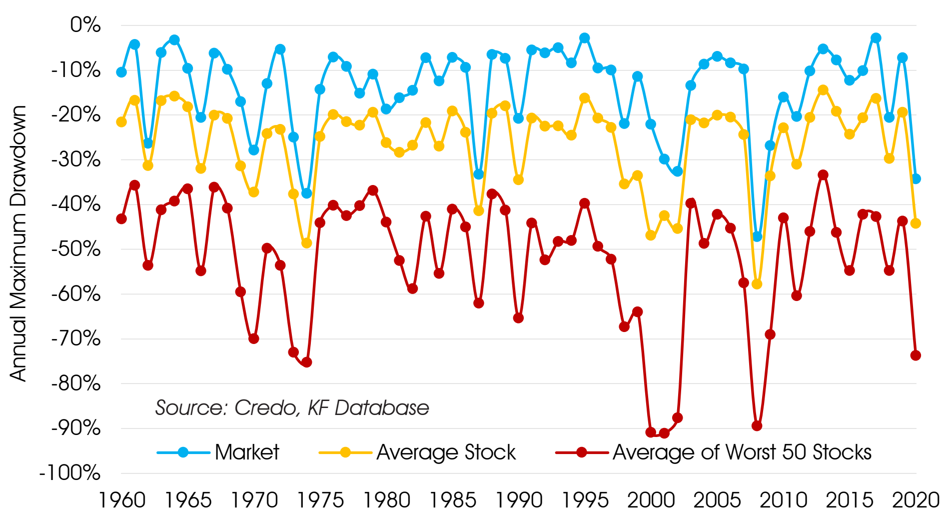


Chart 2 & Chart 3 show the longer-term effects on portfolio return & portfolio risk of excluding entire sectors since 1926 (risk is defined as volatility for purposes of this analysis). This is more aggressive than the majority of exclusionary screens currently, as most of them do not remove entire sectors at the time of writing. Though the risk and return characteristics of individual sectors have varied over the long term (return & risk of individual sectors are in red within Charts 2 & 3 respectively), the market is sufficiently diversified such that long term portfolio return and risk are almost unaffected regardless of which individual sector we exclude (blue bars in Charts 2 & 3).

Chart 2: Portfolio RETURN when excluding entire sectors (1926-2021)

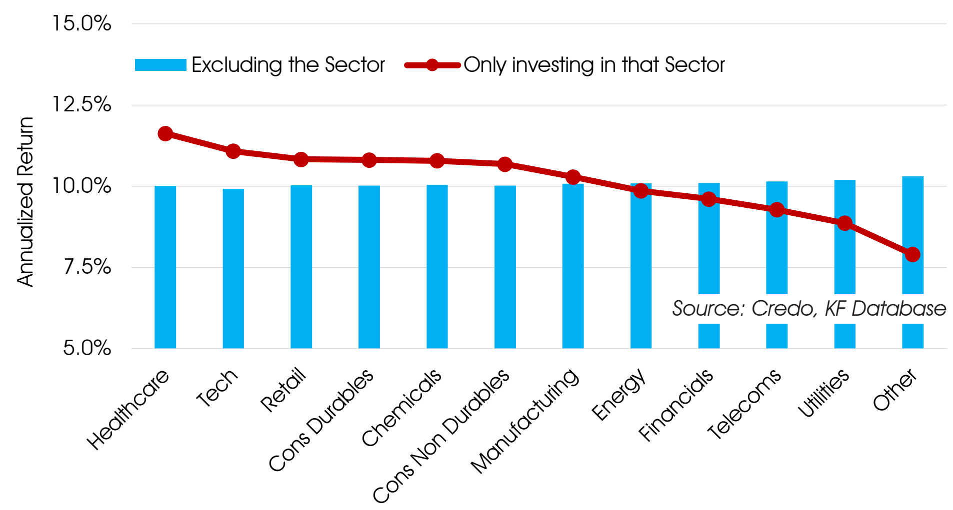
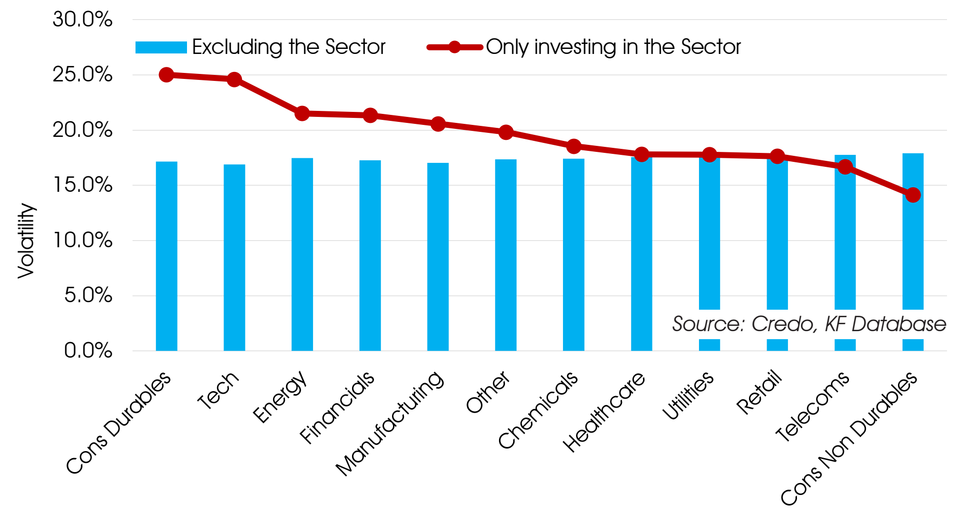


Chart 3: Portfolio RISK when excluding sectors (1926-2021)



It is uncertain how regulation and investors' ESG preferences will evolve going forward but having a sufficient margin of safety with a broader number of underlying securities will keep your investment process robust to future exclusions.

This should make intuitive sense - a concentrated ten stock portfolio is more driven by stock specific risk than a portfolio holding five hundred stocks, which is more indifferent to the idiosyncratic risk of each company. If one of these holdings now needs to be excluded, it will have a more dramatic effect on the concentrated portfolio than in the diversified portfolio where it is a smaller weight and substitution will have a tiny impact.

Conclusion

In a world where change is the only constant, remaining robust to uncertainty should be a priority, not an afterthought. Concentrated portfolios that rely on stock selection are more exposed to stock specific risk and their investment process is less robust to exclusions. It is difficult to predict which stocks will be hit hardest by future risks materialising (whether ESG related or otherwise). Diversification can both mitigate these losses as well as provide flexibility to incorporate changes in ESG preferences going forward.

An organic approach

ESG & equity investing

"...there is no agreed set of standards or exhaustive list of factors that must be considered with regards to ESG investing."

Given the recent COP26 summit in Glasgow, this feels like the right time to address our perspective on the current trend of ESG investing. For those who are unfamiliar, ESG investing is a set of standards which investors can use to screen companies prior to consideration for inclusion in a portfolio. These standards take into account Environmental, Social and Governance factors against which companies are assessed to give an ESG score.

However, we should start by saying that there is no agreed set of standards or exhaustive list of factors that must be considered with regards to ESG investing. This has resulted in a plethora of definitions and calculations for ESG scores.

Although the criteria may seem obvious, for example, reflecting a company's energy usage, waste, pollution, employee and supplier policies, corporate governance etc the details are less clear. Research Affiliates showed last year that apart from their environmental scores, two different ratings providers evaluated every other part of Wells Fargo's ESG performance totally differently, resulting in vastly diverging scores.

In addition, it is not always the case that those companies which we would intuitively class as "better" end up with higher scores. For example, for at least one provider, the oil and gas major Royal Dutch Shell actually had a higher ESG score than Vestas Wind Systems, a wind turbine company. Multiple providers have had Tesla ranked lower than Ford Motors. The reason for this is that Ford is rewarded for the reporting of its emissions whereas Tesla is penalised for not committing to carbon targets and the high environmental impact of battery production. The result is that, according to Morningstar, at least 77% of nearly 500 US open ended and exchange traded funds which self-identified as sustainable earn at least some revenue from fossil fuels.

To add to this confusion, there are also conflicting claims about the impact of ESG investing on investors' expected returns. An NYU paper advised that of over 200 studies published since 2015, the majority concluded that ESG boosted returns. However, a recent paper by Scientific Beta, part of the Edhec Research Institute showed that three quarters of the outperformance could be attributed to exposure to the quality factor. Due to the "Governance" aspect of ESG, scores inherently have a tilt towards quality. Another factor which must be considered is the higher risk that comes with investing in "green" start-ups, with higher risk normally associated with higher returns. In addition, with the exception of recent months, we have been through a prolonged period of low oil and gas prices.

Ultimately, the argument from those proponents of ESG investing, is that by taking into account factors such as a companies' fossil fuel exposure, supplier quality and governance issues, investors exclude companies from their portfolios which have businesses that will be negatively impacted by such risk factors, resulting in lower returns. We would however argue that, as responsible trustees of your capital, if these risk factors are indeed likely to impact the expected return of an investment, these should already be considered as part of our process as an investment manager - one could thus refer to it as a natural, organic approach to the topic.

At Credo we are bottom-up, fundamental investors. By this we mean that we do not tend to focus on macro-economic factors or follow wider market trends to dictate which companies make it into the portfolio.

Instead, we evaluate each investment based on its own individual merits, expected achievable return and associated risk. We approach each investment by working to understand which factors are driving the fortunes of the company. Ultimately, and in true value style, we are looking to buy companies which are trading at a price lower than that which we believe to be justified based upon the future prospects of the business. In general, we also have a clear quality bias, i.e. we prefer to buy businesses which have solid existing and future prospects with regards profitability, growth, returns etc.

Fundamentally as part of our process of understanding the outlook for a company, many of the aspects of ESG investing will already be studied and deliberated. We also believe that, by narrowing our universe of potential investments according to a fairly arbitrary set of criteria, we would risk excluding too many opportunities for sound investments and potentially better performing securities. Our primary responsibility remains to work to maximise returns for our investors.

Danny Carpenter - *Relationship Manager*

Diversified equity portfolios

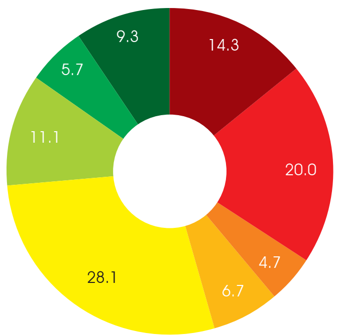
The Credo Best Ideas and Dividend Growth portfolios (BIP and DGP) are diversified global equity portfolios, which we believe to be well positioned to outperform the wider equity market over the longer term. The portfolios have a bias towards developed market, large capitalisation stocks.

BEST IDEAS PORTFOLIO

Performance (%)

Return	
YTD	13.8
1 Month	1.8
3 Months	5.1
1 Year	36.6
Annualised Return	
3 Years	11.2
5 Years	10.9
Since Inception	11.9

Sector Allocation (%)



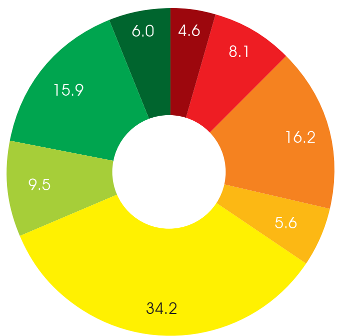
Communication Services
Consumer Discretionary
Consumer Staples
Energy
Financials
Healthcare
Industrials
Information Technology

DIVIDEND GROWTH PORTFOLIO

Performance (%)

Return	
YTD	16.2
1 Month	4.0
3 Months	5.9
1 Year	37.2
Annualised Return	
3 Years	12.5
5 Years	10.4
Since Inception	13.4

Sector Allocation (%)



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

Evidence-based approach

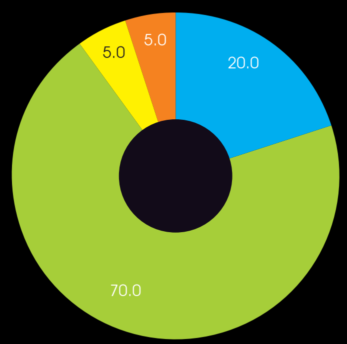
The Credo Multi-Asset Portfolios (MAPs) invest globally across a broad range of asset classes with a focus on diversification. Underlying funds and ETFs are selected using Credo's in-house selection process. The MAPs are offered as four solutions targeting varying levels of equity exposure and are available in both GBP and USD. ESG aware versions of Credo MAP are also available, which utilize the same investment philosophy whilst incorporating ESG considerations. For more information please visit our website.

MULTI-ASSET PORTFOLIO CORE 20/80

Performance (%)

Return	
YTD	3.2
1 Month	0.4
3 Months	0.0
1 Year	6.5
Annualised Return	
3 Years	4.9
5 Years	4.4
Since Inception	5.4

Strategic Asset Allocation (%)



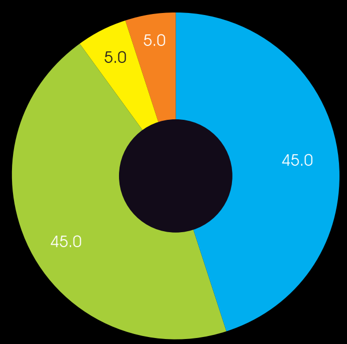
Equity
Fixed Income
Commodities
Alternatives

MULTI-ASSET PORTFOLIO CORE 45/55

Performance (%)

Return	
YTD	8.2
1 Month	1.1
3 Months	1.4
1 Year	14.8
Annualised Return	
3 Years	7.3
5 Years	6.4
Since Inception	7.4

Strategic Asset Allocation (%)



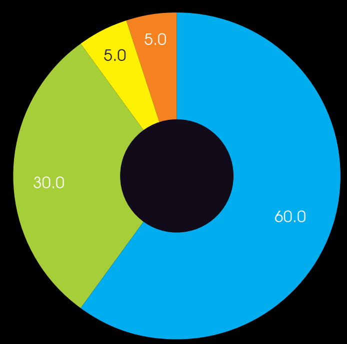
Equity
Fixed Income
Commodities
Alternatives

MULTI-ASSET PORTFOLIO CORE 60/40

Performance (%)

Return	
YTD	11.3
1 Month	1.5
3 Months	2.3
1 Year	20.0
Annualised Return	
3 Years	8.7
5 Years	7.6
Since Inception	8.5

Strategic Asset Allocation (%)



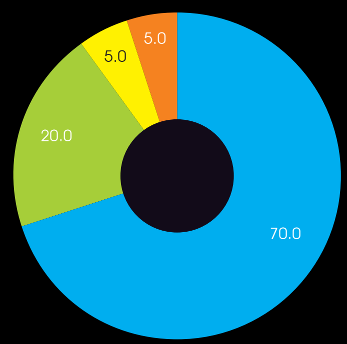
Equity
Fixed Income
Commodities
Alternatives

MULTI-ASSET PORTFOLIO CORE 70/30

Performance (%)

Return	
YTD	13.5
1 Month	1.8
3 Months	3.0
1 Year	23.8
Annualised Return	
3 Years	9.7
5 Years	8.4
Since Inception	9.3

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 31/10/2021 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.

Calvin Mclean - *Investment Analyst*

Hello world!

"These portfolios, like MAP Core, are built upon the pillars of diversification, cost and being evidence-based, while adding a shade of green."

The end of June 2021 saw the launch of MAP ESG, Credo's multi-asset portfolio offering that goes beyond our traditional investment considerations to include Environmental, Social and Governance factors. These portfolios, like MAP Core, are built upon the pillars of diversification, cost and being evidence-based, while adding a shade of green. This article provides additional detail on two of its defining features - Investment first and Democratised definition.

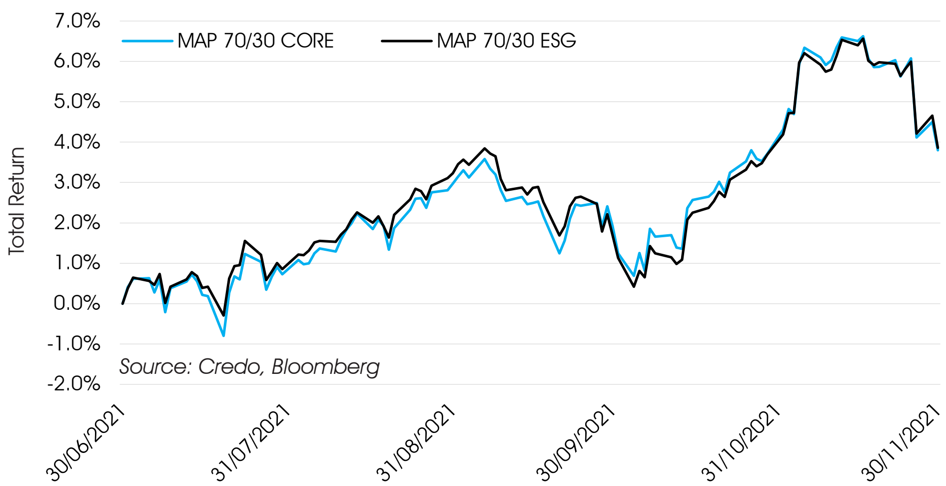
Investment first

MAP ESG will look to replicate as close as possible MAP Core, our unconstrained investment approach, only substituting a core position if there is an ESG alternative that satisfies the investment thesis of its Core counterpart. We hope this straightforward implementation will make the impact of ESG on the portfolio simpler to understand and give investors' confidence that they are still getting the same rigorous investment approach they would expect from MAP Core. Chart 1 shows how similar the performance of MAP 70/30 ESG and MAP 70/30 Core in GBP has been since launch, although it should be stressed it's possible a larger difference could develop as time passes, or as more of the portfolio is converted to ESG promoting funds.

As for present conversion, 90% (soon to be all) of the equity allocation is invested in funds that promote ESG characteristics, while for fixed income it is around 50%. We hope to completely convert the fixed income allocation in the near future, however current difficulties in interpreting ESG with respect to sovereign debt (a vital component given it's a better diversifier than corporate credit to the equity allocation) has seen an absence of viable alternatives in that space compared to corporate. The portfolios also have around 10% allocated to alternative & commodity strategies - these are not expected to convert anytime soon given their dependence on futures contracts with great market depth, which is still overwhelmingly in broad market indices.

An important reason for creating this hierarchy is to remain prudent about exposing the portfolios to an area of growing systematic influence which is still somewhat of an unknown. That is, for the moment, longer term evidence surrounding ESG is still not as strong (both from an investment and societal perspective) as it is for traditional investment strategies. An implication of this is that MAP ESG will not invest in any thematic funds that are concentrated in any particular sector or branch of ESG (read no renewable energy or EV funds). Nor will it include best-in-class or aggressive implementation of ESG integration. In general, it will be our preference that ESG is implemented as an exclusion, with the remaining universe being used freely to construct a portfolio in accordance with the Core investment thesis.

Chart 1: Performance of MAP70/30 ESG and 70/30 Core since the launch of MAP ESG



Source: Credo, Bloomberg

Unsurprisingly given MAP's principal tenets, this investment first approach extends to cost, an important factor in net performance **- no investment strategy is so good that a high enough cost can't make it a bad one -** which is why, as it stands, there is no substantial difference in cost between MAP ESG and MAP Core.

Democratised definition

Perhaps unusually, MAP ESG will not specify any hard-line exclusions or have a target ESG score improvement. Instead, recognising ESG's inherent subjectivity, it will purposefully diversify across a range of broad ESG assessors to give the portfolios exposure to a pseudo market view of ESG and a tilt towards ESG agreement. The only ESG requirement will be that a fund is classified as "promoting ESG characteristics" according to the recently implemented EU Sustainable Finance Disclosure Regulation (SFDR).

We believe such an approach has standalone philosophical appeal, especially for those without preference for targeted values, but it has practical benefits as well.

Firstly, given the lack of established material ESG relationships in the public domain, most assessors consider their process and models as intellectual property, hence they generally do not provide full transparency. This makes it difficult to translate between an assessor's headline issues and their ESG score, or to find the extent to which one process differs from another. Whether it's on the issues covered, how to measure an issue, or how each issue and measurement is brought together, there are many potential points where an assessor could get creative and come to a unique interpretation. This is demonstrated in the correlation between ESG assessors' ratings, which is around 0.5 - much lower than the more established, less opinion-based credit ratings, which is around 0.9.

Similarly, given that quantitatively driven approaches (such as MAP), depend on data to accurately captures a company's ESG profile. If the data is inaccurate, there is no guarantee that your portfolio will even have an improved ESG profile - garbage in, garbage out as they say. Unfortunately, availability of non-financial data (an important source for ESG) is still not universal, with the same mandatory disclosures not required across all jurisdictions or for companies of all sizes. This means an assessment beyond business involvement (which is determined by financial data such as revenue and assets) may require estimating missing data, or relying on proprietary datasets (survey data for example).

In both cases, diversifying across ESG assessors helps reduce the risk that the deviations which MAP ESG takes from MAP Core could be arbitrary (if not in fact counterproductive).

William Godsave - *Financial Planner*

Planning your financial future

How cash flow planning can help

Advisers love talking about investments, whether it's the strategy, the specific stocks, or the return that has been achieved in your portfolio. And there is nothing wrong with that, I enjoy talking about investments too. However, the focus on investments has led many advisers to lose perspective on what is really important to clients: ensuring they can achieve their goals and aspirations whilst not running out of money.

We use cash flow modelling to help clients understand their financial position and whether they can achieve their objectives, considering questions such as:

- What is the impact of inflation and lower investment returns on my retirement plans?
- Can I afford to fund my grandchildren education costs?
- How will serious illness or death affect my family?

The modelling provides cash flow and asset projections over the medium to long term, under a variety of scenarios and assumptions, enabling us to objectively make decisions around the most appropriate financial planning strategy.

Cash flow modelling case study

The following is based on a real-life cash study

Background:

David is age 52 and a senior executive at a large insurance company; he is married to Rachel and they have three children. David had had enough of the long hours and pressure of the City and was considering leaving the company to undertake consultancy work. However, he was concerned about the significant reduction in the income he may receive, and the impact this may have on his long-term position.

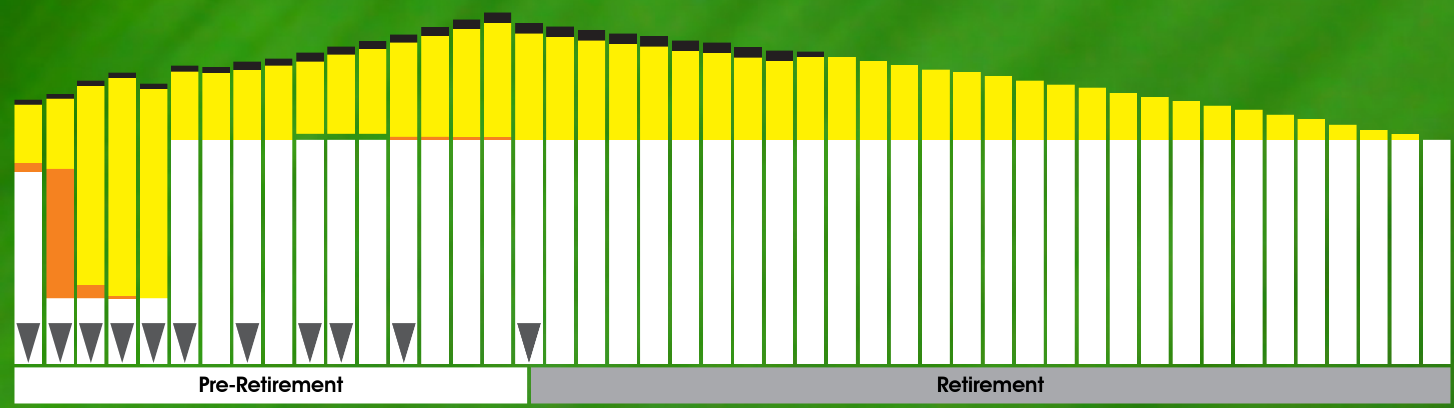
Analysis:

We undertook a cash flow modelling analysis to understand, under a variety of different growth rate and inflation assumptions:

1. How much David would need to earn, under the various scenarios, to maintain his long-term financial security.
2. How the income numbers may be affected by staying on at the insurance company for another 1, 2, or 3 years.
3. How death and serious illness during the period of consultancy would impact his family.

Outcome:

Based on the modelling and discussions, we agreed that David should continue working for a further three years before leaving the company. Staying on a few more years would significantly reduce the amount of income that he would be required to earn, not place reliance on high investment returns and low inflation and avoid him having to downsize his main residence in the future. David was delighted that he was able to review his position objectively and come to a sensible decision about his future plans. ■



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