Macroeconomic Commentary[1]

The first quarter of 2022 delivered difficult conditions for markets, having been dominated by global concerns over inflation, hawkish monetary policy and geo-political risk following Russia's invasion of Ukraine. After a volatile start to the year, global equity markets began to recover some of their losses towards the end of the quarter. The MSCI World, S&P 500 and Euro STOXX 50 finished the quarter down by 2.3%, 4.6% and 8.9%, respectively, whereas the FTSE 100 gained 2.9%. With the continuation of the Russia/Ukraine war, extreme volatility in energy and commodity prices led to further fears of economic slowdowns across the globe, especially in those areas that are heavily dependent on Russian exports. Inflation soared to 5.9% in Europe, 6.2% in the UK, and hit a 40-year high of 7.9% in the US. Accordingly, the Bank of England and the US Federal Reserve both raised rates and will look to taper asset purchases. Yields on the US, UK and German 10-year bonds increased by 83, 64 and 73 basis points respectively. The pound lost 2.9% against the US dollar and 0.2% against the euro.

Fund Commentary

In the first quarter of 2022, the Credo Dynamic Fund (Dynamic) returned -3.5%, marginally ahead of the IA Flexible Investment Sector (the benchmark and peer group), which returned -3.6%[1].

After a strong outperformance in 2021, we are pleased to have gained an advantage over our peers in the more challenging market conditions of recent months. Dynamic has returned 44.1% since inception compared to 29.6% from the peer group, a notable 14.5% outperformance since inception. Given the strong market conditions since launch, the best performing funds within Dynamic's peer group have typically had the highest weighting to equities and, specifically, growth equities. In the current market environment, these funds would have underperformed in the period, thereby helping Dynamic climb the ranking versus peers where we now rank top quartile over 1 year, 3 year and since inception.

In the closing commentary of 2021, we noted to expect a pick-up in market volatility but never quite expected the start to 2022, which we have seen! The market was already grappling with the impacts of inflation because of the fiscal stimulus from government interventions, combined with supply chain constraints resulting from COVID-19. The initial view was that this was a short-term bump but has subsequently shown no signs of abating. The market quickly changed focus as the potential of the war in Ukraine caught everyone off guard, and there were concerns that it could be the start of a larger global conflict. However, with Western countries moving in unison to implement tough sanctions on Russia while drawing a hard line not to be pulled into a military conflict outside of NATO's borders, the market panic subsided. Russia is a major energy and commodity producer, and Ukraine is known as the world's breadbasket, which has led to notable volatility in related commodity markets and sky-high prices. This has a knock-on impact of embedding inflation and

(1) Source: Bloomberg.

leading global central banks to raise interest rates faster than expected. At the same time, consumers grapple with rising prices of core goods such as petrol, food, and utilities.

While we focus on investments and markets as usual in our quarterly commentary, we also would like to share our thoughts with those affected by the atrocities of the war between Russia and Ukraine.

Historically, bond markets have been more astute at accurately predicting and pricing for economic recessions. Specifically, when expectations of short-term rates rise above longer-term rates, implying rates will go up in the short term and then revert down, this is known as an 'inverted yield curve' and is a red flag that there may be a recession looming in the coming years and one should be wary of economic conditions. Although a useful indicator, albeit not infallible, there typically is a significant time lag until the recession hits and, even if accurate, equity markets can peak up to a year later.

Given this problematic backdrop, stock markets have been remarkably resilient. Investors are focusing on the current economic conditions of a strong labour market combined with a large savings buffer due to the pandemic, enabling the economy to spend through the inflation hit until wages rise to replenish bank balances.

Refocusing back on Dynamic, there has been a lot of movement looking to prepare the portfolio for an ever-changing world, and whilst there has not been a significant change in the asset class mix (equities / fixed income / alternatives / cash), notable changes have been made under the bonnet.

Commodities

Dynamic owns not only a broad-based commodity ETF but also some equities where profitability is inextricably linked to underlying commodity prices. Dynamic started the period with approximately 6.5% in commodity-linked securities; this position was built from almost zero around the tail end of 2021, preparing the portfolio for a more inflationary environment, and the exposure has been turbo-charged by the war in Ukraine. Commodity-linked securities peaked at around 14% before we reduced the exposure as initial panic on the war appeared to be dialling down.

The top 6 securities that produced the highest returns came from this category, including an allocation to a commodity ETF and Uranium Investment Trust within alternatives combined with a UK North Sea gas play and an ETF of global mining companies from the equity allocation.

Let's flesh out the rationale for the Uranium and North Sea investments mentioned above to give some more colour. The Uranium investment is listed in the UK, Yellow Cake plc, which has been a holding since October 2021. Yellow Cake buys Uranium from a miner from Kazakhstan and holds the product mainly in Canada, with the balance in France. Nuclear power generation has been very much out of vogue following the Fukushima disaster, with many countries vowing to shut down their plants at the end of their natural life.

Alongside renewables, which are typically volatile as they only generate power during sunlight hours and when it is windy, Nuclear is becoming an attractive, stable, low-carbon option. The attraction to nuclear was further accelerated, given Russia's spotlight as the Western powers, especially in Europe, do not want to rely on Russian gas supplies to keep their lights on. Additionally, like many commodities, Russia supplies approximately a third of the world's Uranium, so all available sources outside of Russia are becoming a top asset to own. Dynamic has reduced some of this position into strength while remaining long-term believers in the investment rationale.

The North Sea gas asset bought in the period was Serica Energy plc (Serica), once again with the theme of energy independence. We scoured the market for a cheap North Sea gas play with limited hedging. Serica stood out from the crowd. Its business model is to buy older assets from the major oil players, with a critical focus on operational efficiencies to reduce cost and subsequently look to extend the life of the asset. The assets were already turning into a cash machine, as the investment rationale to purchase these investments was based on historical gas prices, which entered 2021 relatively stable at around 40p per term, then steadily climbed through the year to c.100p and even spiked at the end of the year to c.150p. The price currently sits in the mid-200s, which means the company will be generating material cash flows in 2022 (well in excess of 20% free cash flows on our entry price, even with conservative price assumptions for the remainder of the year). In addition, Serica has drilling results later in the year, which could potentially double the size of the company. Although this is risky and the probability of success is typically 20-25%, this would truly be the cream on top. We want to stress that individual oil and gas players are not our bread and butter. However, in these market conditions, Serica appeared to be too good an opportunity to sail by, given the UK domicile of the asset and high cash flows.

Equities

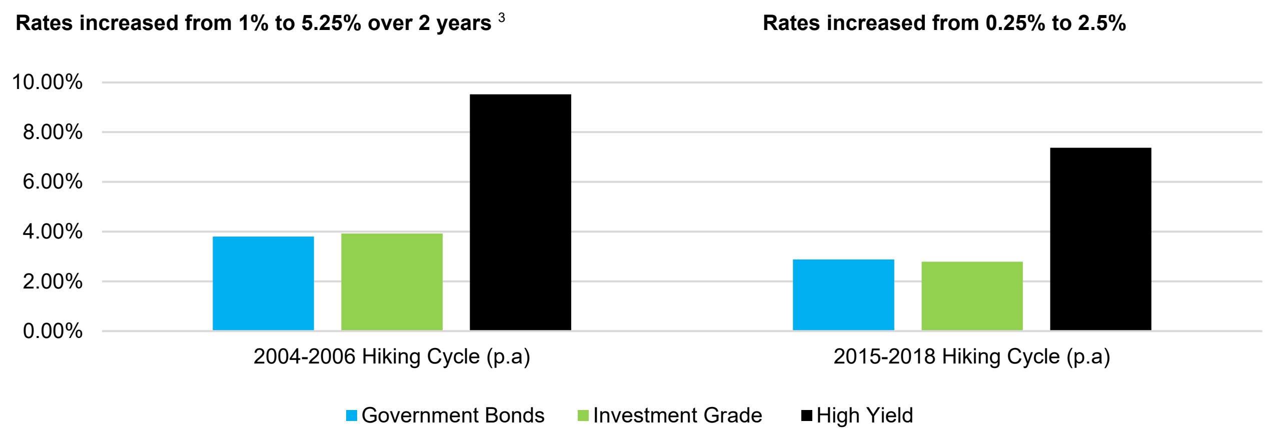
There were limited winners outside of commodity-linked equities as global equity markets produced a negative return. Our home mid-cap market of the FTSE 250 rebounded from nearly -20% to close the period just shy of -10%.

As interest rates rise, one can earn better prospective returns on safer assets like cash and bonds, and speculative investments with higher valuations become less appealing. Therefore, technology stocks are particularly hit in times of rising rates. Dynamic's largest holding in this sector is Polar Capital Technology Trust plc, which owns a portfolio of high quality and higher growth names. The fund's assets fell approximately in line with the Nasdaq 100 fall of c. 9%. However, the share price underperformed by c. 6% due to notable dislocation below the net asset value. We are long-term holders and believe the quality in the underlying portfolio will shine through, and the discount will narrow despite the more challenging environment for technology shares.

After several years of adding value to the portfolio, some UK mid-cap stocks had a difficult time in the period. Made Tech Group plc and Studio Retail plc both detracted approximately 0.5% of Dynamic's performance. Made Tech Group plc is a digital consulting company for the UK government. A change in government accepting third-party contractors hampered revenue prospects, and the share price was particularly hit shortly after the IPO. Studio Retail plc is an online discount retailer which had financing issues due to delayed shipments around Christmas time. Unfortunately, retail tycoon Mike Ashley was a large shareholder and managed to buy the company out of insolvency. Both shares are disappointing, but we note the small holdings and further that Dynamic held no exposure at the end of the period. When investing in smaller companies, on average, we believe we can deliver strong outperformance, as shown in 2021, but within this segment of the market, there are more pitfalls and variability between stock returns. Given the uncertainty in the market, to ensure that Dynamic remains truly nimble, we have actively reduced smaller company exposure.

Fixed Income

The fixed income allocation hit a low of around 20% mid-way through last year. It remained approximately around that level as there were limited opportunities to deliver on our aspiration for all aspects of the portfolio to generate appealing returns. This has proved the correct decision as bonds as an asset class[2] have returned -7% in the last 9 months. It is important to note that Dynamic focuses on higher-yielding paper; if history has any predictive powers, high yield tends to outperform when rates rise in response to inflation.



Dynamic has slowly added to this allocation as rates have risen, ending the period at 23.6% exposure. We have initiated positions in several corporate bonds, which have started to look attractive, and we will continue to add if yields rise.

(2) Index: Bloomberg Global Aggregate Credit Total Return GBP hedged Source: Bloomberg.

Additionally, almost 4% of the portfolio is due to mature this year. This enables us to outperform cash in the interim and revisit all available investment opportunities when the bonds mature.

Alternatives

The alternatives allocation remains an essential part of Dynamic; resolute over the market sell-off with some holdings even reaching new highs, diversification to the broader portfolio and an attractive yield.

As a reminder, 'alternatives' are an eclectic collection of assets from song royalties and real estate to loans to life-science companies.

Renewable energy investment trusts that typically hold wind, solar, hydrogen, and some battery assets look attractive in the current market. These funds tend to have exposure to power prices which have increased with gas prices, and their underlying asset value also has exposure to inflation. The combination of a 5-6% yield and some moderate capital upside potential feels particularly attractive. For example, Dynamic purchased Foresight Solar Fund Ltd at a discount to net asset values. Their most recent net asset value at the end of 2021 increased 4% in the quarter because of increasing power price and inflation expectations. This is before the current turmoil in Ukraine. Therefore, we are hoping for another uplift to net asset value in upcoming announcements in addition to the 6% yield. We are looking to add to the 4.2% allocation with Dynamic across several holdings in the sector and will also look to rotate between the sector as pricing opportunities present themselves.

Furthermore, as inflation and uncertainty remain high, we believe that owning real assets such as infrastructure, renewables, and real estate all within our alternative allocation, is a prudent place to invest.

Looking forward

Slightly surprisingly, given the backdrop of inflation, war and economic uncertainty, the markets have bounced notably from their recent lows. So, uncertainty remains at elevated levels as we forge the path forward. This appears to be on the premise that the Federal Reserve will walk the precipice of controlling inflation while avoiding recession.

The diversification within Dynamic, not relying on purely equities to deliver the returns, with an attractive income from fixed income, and low correlated returns from alternatives, is particularly appealing in times of uncertainty. Additionally, we aim to be opportunistic throughout the portfolio, especially compared to more typical buy and hold mandates. We believe we have shown our dynamism by the swift rotation into more commodity-linked securities. There will be opportunities to deliver returns on a sector or stock level, even if the market is providing less of a tailwind. Inflation is currently at 6+%, and the UK Office for Budget Responsibility has suggested that the war in Ukraine could push inflation into high single digits and a 40 year high. There is a significant cost to keep cash under the mattress. Noting that markets are likely to remain a bumpy ride given the backdrop, the best place for investors in search of long-term inflation-beating returns is to stay invested and even add on weakness. We hope you stay with us for the ride.

Benjamin Newton, Co-Portfolio Manager

UK Equities	%
Gresham House plc	2.4
K3 Capital Group plc	2.2
Serica Energy plc	2.0
Entain plc	1.9
North Atlantic Smaller Companies Investment Trust plc	1.9
Total UK Equities	**23.9**

International Equity Funds	%
Polar Capital Technology Trust	6.5
DBX S&P 500 Equal Weighted	4.8
Worldwide Healthcare Trust plc	2.7
VanEck Global Mining ETF	2.3
iShares MSCI World ETF	1.6
Total International Equity Funds	**22.3**

Overseas Equity	%
Alphabet Inc	3.4
Amazon.Com	0.6
Total Overseas Equity	**4.1**

Alternatives	%
TwentyFour Income Fund Ltd	2.3
Abrdn European Logistics Income plc	2.2
Taylor Maritime Investments Limited	1.9
The Renewables Infrastructure Group Limited	1.7
Hipgnosis Songs Fund Limited	1.6
Total Alternatives	**22.2**

Fixed Income	%
Co-Operative Group Ltd 11.00% 20/12/2025	2.6
Aviva Preference Shares	2.4
Burford Capital plc 6.125% 26/10/2024	1.6
Sainsburys Bank plc Var 23/11/2027	1.5
Severn Trent plc I 11/07/2022	1.2
Total Fixed Income	**23.6**

Cash	%
GBP	3.9
Total Cash	**3.9**