DYNAMIC FUND

Change of Benchmark / IA Sector

The Credo Dynamic Fund ("**Dynamic", or "the Fund"**) currently resides, and has done so since its inception, in the Investment Association (**IA**) Flexible Investment sector. This sector is used as a reference for the Fund's performance to assess other comparable investment options.

After due consideration by Credo, the portfolio managers, and in consultation with both current and potential investors, the Fund will change its sector and reference benchmark from the IA Flexible Investment to the IA Mixed Investment 40-85% Shares sector with effect from 1 January 2023.

Although initially chosen due to its wide range of flexibilities afforded to the portfolio managers, the IA Flexible Investment sector is home to a broad and diversified set of funds, many of which are incomparable to Dynamic in terms of investment returns, asset allocation or objective. As an example, the IA Flexible Investment sector includes funds that mandate managing solely Japanese equities, Property assets and Emerging Markets equities.

After five years of managing the Fund through various market environments, including Brexit, the pandemic, and the current high inflationary environment, the portfolio managers have analysed the quarterly asset allocation since inception and noted that, even with the wide disparity of economic environments, the equity allocation has ranged from approximately 40-70% over the Fund's life. As such, we believe the IA Mixed Investment 40-85% Shares sector is a more appropriate comparison to the Fund. This will ensure fair and meaningful comparisons with peers and will make it easier for fund selectors to locate and assess Dynamic.

In addition to the rationale above, it has become apparent over the years that professional asset allocators invest significantly larger sums in the IA Mixed Investment 40-85% Shares sector than the IA Flexible Investment sector. With a very strong performance since inception against both peer groups we believe this change will expose the Fund to a significantly larger investor base enabling it to grow, and in turn benefiting all investors through reduced running costs.

Please note that we do not anticipate the benchmark and sector change to impact the management of the Fund in any way as we will continue to follow the same investment strategy and objective.

Fund Commentary

The fourth quarter of 2022 saw Dynamic return 0.6% over the period[1]. The Fund lagged the I.A. Flexible Sector and I.A. Mixed Assets 40-85% Shares Sector as the sectors returned 2.5% and 2.9%, respectively[2]. Despite a slow quarter Dynamic outperformed both peer groups in 2022 by 0.2% and 1.3%, respectively. The outperformance since inception now stands at 13.8% and 16.8% putting us comfortably into the top quartile of both the old and new benchmarks since inception. Please note that going forward this report will reference the IA Mixed Investment 40-85% Shares sector only.

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(1) Source: Bloomberg, FE Analytics.
(2) Performance of the Credo Dynamic Fund Class A Retail Shares over the period 30/09/2022 to 30/12/2022.

2022 was a challenging year for anyone invested in financial markets; the war in Ukraine was the final nail in the coffin for the meteoric rise in inflation and the subsequent aggressive surge in global interest rates. This brought an end to the liquidity-driven speculative markets that emerged in the aftermath of the pandemic and, in reflection, some dotcom style bubble valuations particularly in the high growth area.

The story of the final quarter of 2022 was hope that the period of extraordinarily high inflation and respective global interest rate rises was coming to an end and a reversal of fortunes for financial markets. Risk assets and equities had some reprieve as inflation undershot expectations and appeared to be returning to a more reasonable level (although not at the central banks' 2% target). However, sterling's weakness and the US dollar's strength had, to some extent, sheltered sterling investors in the first three quarters of the year and this reversed as Rishi Sunak steadied the UK ship. These two factors largely cancelled each other out, leaving the markets, from a sterling investor's perspective, in a similar place to the end of the third quarter.

In the third quarter update we highlighted how uncertain the short term appeared and that we continued to reduce equity exposure whilst waiting for more certainty or better value. This underweighting of equity exposure felt appropriate at the time and still does today but provided a small headwind for us in what was a positive period for stock markets globally. Additionally, the overseas exposure which has historically provided a nice tailwind to performance was a drag on gains this quarter due to an 8.2% gain in sterling over the US dollar.

Positioning

Overall, the Fund allocations remained stable, liquid, and poised to manoeuvre, and there have not been significant changes to the asset allocation.

The underlying story from recent quarters has continued. Dynamic ticked up the weighting to corporate bonds with a healthy forward-looking return in a balanced and diversified way. This has led to the fixed income weighting matching that of equities at approximately 42% of the Fund. The bond holdings at current prices provide a total return of over 8% per annum until their respective maturities. This return is in line with long-term equity returns but will be earned by investors taking on less risk than the equity markets. With the headwind of rising interest rates dissipating, this is our favoured asset class in the short term and should result in outperformance going forward in all situations bar a particularly strong bounce in equity markets.

This increase in the fixed income allocation was partially funded from equities, which we reduced from 45% to 42%, and from our old stomping ground of UK mid-cap stocks, as the relative prospects of the UK remain challenging. Higher energy costs, labour shortages and changes to interest rates have a more significant impact on the UK homeowner, especially when compared to the US. To a degree, the inflation story feels like it is no longer the key focus and, going forward, investors will look at the degree to which consumers and companies can weather the storm from raised interest rates. Although in the short term the risk feels like it is on the downside, markets can move quickly and somewhat unpredictably. Therefore, we retain our core long-term equity exposure.

In a similar manner to equities, alternatives were marginally reduced to 15% as the underlying assets became relatively less attractive compared to the higher fixed return from UK corporate bonds. Additionally, the ripple effects of higher interest rates lead to uncertainties of a wide range of asset valuations from song royalties or potential distressed sales in the coming year from debt ladened real estate investors.

Contribution and Attrition

The standout performer was K3 Capital Group plc, a diversified professional service group with services including M&A and insolvency. In December K3 received a bid from private equity group Sun Capital Partners. Whilst the premium was not huge the stock had run up in the weeks before the bid, and although terms were not overly generous, they were probably fair with such a tricky economic background. The price offered by the acquirers was almost double that of our initial entry price in the early days of the pandemic and whilst in some ways sad to part ways with a promising and very well managed company it is also a relatively attractive time to be receiving liquidity to redeploy. Unfortunately, the gains in K3 were to a degree balanced out by the performance of Saietta Group plc. This UK based electrical motor company has an array of exciting opportunities with large and established market participants. However, as a small company investing heavily in its technology, the market is concerned by the lack of concrete contractual wins and subsequently the stock was a detractor to Fund performance of approximately 0.5%.

GSK plc, a long-term holding in the Fund, also performed strongly, rebounding from its lows as the first set of legal cases of thousands of lawsuits claiming that the heartburn drug, Zantac, caused cancer was dismissed on the basis that they were not backed by sound science.

As previously mentioned, sterling was strong in the period, so those US dollar assets that did not participate in the bounce in markets, for example US Technology and Growth shares or the AQR Managed Futures Fund, which had been a very strong performer in declining markets, were all a drag to performance.

Looking Forward

From an investment perspective it feels good to close the door on 2022 and start a clean slate. The good news is that on a broad range of metrics, assets have found a new 'fairer' value which bodes well for longer term returns. Nonetheless, the economic backdrop is highly uncertain, and valuations cannot be described as rock bottom even though we are relatively excited by our fixed income portfolio.

For the moment we believe positioning within the Fund should remain balanced and somewhat cautious. Exposure to equities is near its lows and within this sector the focus is on larger companies and strong balance sheets. A decline to new lows would cause us to revisit our cautious stance as would a stronger economic outlook.

Please find further details on the current positioning below.

Rupert Silver, Lead Portfolio Manager

DYNAMIC FUND

UK Equities	%
Gresham House plc	2.7
GSK plc	1.9
North Atlantic Smaller Companies	1.5
Entain plc	1.2
FRP Advisory Group Limited	0.9
Total UK Equities	**12.5**

International Equity Funds	%
DBX S&P 500 Equal Weighted	6.1
Robeco Capital Growth Funds SICAV	5.4
iShares S&P 500 Hedged	4.2
Polar Capital Technology Trust	4.0
Worldwide Healthcare Trust plc	2.1
Total International Equity Funds	**25.8**

Overseas Equity	%
Alphabet Inc	2.0
Amazon.Com	0.6
Total Overseas Equity	**2.6**

Alternatives	%
AQR Managed Futures UCITS Fund	3.1
Gresham House Energy Storage Fund plc	2.2
Marshall Wace TOPS UCITS Fund	2.2
Hipgnosis Songs Fund Ltd	2.1
L&G Multi Strategy Enhanced Commodity ETF	1.1
Total Alternatives	**14.5**

Fixed Income	%
IG Group Holdings plc 3.125% 18/11/2028	2.4
BP Capital Markets plc 4.25% Perpetual	2.3
Investec plc 9.125% 06/03/2033	2.1
Vodafone Group plc 4.875% 03/10/2078	2.0
Burford Capital plc 6.125% 26/10/2024	1.6
Total Fixed Income	**41.7**

Cash	%
GBP	2.0
Total Cash	**2.0**