Macroeconomic Commentary[1]

Global equities maintained their upward momentum throughout the second quarter as progress of the global vaccine rollout allowed many economies to gradually reopen. The MSCI World, S&P 500, FTSE 100 and Euro STOXX 50 indices were all up 7.7%, 8.5%, 5.6% and 5.2% respectively over the quarter. As markets rallied, rising inflation became a concern for investors as increased consumer demand, coupled with supply chain disruptions across the world, contributed to rising output prices. As a result, many central banks took a more hawkish tone. Although the US Federal Reserve sees the rise in inflation as transitory, it acknowledged the possibility of tapering bond purchases. Brent crude oil was up 20.7% over the quarter driven by increased demand and continued production cuts by OPEC+. In the UK, Prime Minister Boris Johnson announced the delay of “Freedom Day” until July 19th, due to a rise in new coronavirus cases caused by the Delta variant. Yields on UK and US 10-year bonds decreased by 13 and 27 basis points respectively over the quarter. The pound ended the quarter up 0.3% against the US dollar and down 0.7% against the euro.

Fund Commentary

For the second quarter of the year, the Credo Growth Fund returned 8.3% versus the benchmark, the IA Flexible Investment Sector, which returned 5.5% over the same period[2]. This has resulted in a return of 47.3% over the fund's life, whilst the benchmark has returned 29.5% over the same period (from inception to 25 June 2021)[2].

We are pleased with the performance over the quarter as the Fund continues to outperform the reference benchmark.

The core equity positions held in the Fund are all now well established, and the Fund Manager continues to selectively add to these positions over time, particularly if periods of weakness in the markets are encountered.

Whilst a buy and hold investment strategy is preferred, the unprecedented volatility during the past quarter, and indeed, over the past six months, has resulted in more trade activity than is anticipated going forward.

At the end of the period under review, the Fund's asset allocation consisted of circa 3.5% in cash, 2.0% in fixed income, and the balance of 94.5% in equities. The Fund remains diversified globally with circa 36% of the assets held being sterling denominated, 57% being US dollar denominated, and the balance of circa 7% including exposure to Swiss francs, Australian dollars and euros.

As mentioned in previous commentaries, the Fund does not hedge the currency exposure as we believe that, over the long-term, well managed companies will themselves hedge the currency where they believe it to be appropriate to do so, and we further believe that the equities selected will have price appreciation in excess of any long-term currency fluctuation.

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(1) Source: Bloomberg.

*(2) Performance of the Credo Growth Fund A Retail GBP Share Class over the period 26/03/2021 to 25/06/2021.
Source: Bloomberg, FE Analytics. Inception: 3 July 2017.*

During the period under review, we increased the Fund's holding in Alphabet, which together with its performance, resulted in the stock being one of the largest holdings as at the end of June 2021. We also added to our holding in the Blackstone Group.

We reduced the holding in Scottish Mortgage Investment Trust plc, taking some profit after a period of strong performance. The proceeds were used to add to other existing holdings of the Fund.

A number of positions were sold over the period, including Chewy Inc, ITM Power, Keywords, Linde plc, Lululemon, Madison Square Gardens Entertainment, Orsted, Salesforce.com, Shop Apotheke Europe, SSE plc, and Thermo Fisher Scientific and the proceeds were re-allocated to either add to existing positions or to acquire new holdings.

At the end of the period under review, the top five positions held comprised of Amazon.com, Microsoft, Alphabet, Costco, and PayPal Holdings.

Looking Forward

As always, there are uncertainties as to the outlook and direction for equity markets, so whilst it appears as if much of the developed world is over the worst of the Covid-19 pandemic, we have no certainty as to when the new normal will be in place and, as importantly, what this will look like.

In addition, there remain numerous other current political and macroeconomic issues, not least the increasing tensions between China and much of the rest of the world.

The Fund Manager, however, has always believed that we should ignore the noise and continue to invest in and hold quality companies run by good management teams, and we continue to look for businesses that we believe fit these two key criteria.

We remain cautiously optimistic on the global economic outlook and we are confident that the Fund will benefit from its holdings in companies that will be able to prosper and make good long-term investments. We continue to believe the Fund is well-positioned to navigate the current macroeconomic environment.

Roy Ettlinger, Portfolio Manager