Macroeconomic Commentary[1]

Global equity markets were relatively flat over the quarter as much of the quarter's initial gains were erased in September when several risks came to the surface, such as increasing inflation, supply disruption and concerns over peak economic growth. The S&P 500 and FTSE 100 were up 0.6% and 1.9% respectively whilst the Euro STOXX 50 was down 0.1%. Central banks around the world delivered a hawkish shift with the Federal Reserve announcing it would start tapering asset purchases and the Bank of England suggesting it may put up interest rates, both before the end of the year. On the back of this narrative, combined with the progress of the vaccine rollout around the world, September saw a selloff in government bonds. Yields on US and UK 10-year bonds increased by 2 and 31 basis points respectively. Brent crude oil increased by 8.5% due to rising global demand being met with tight supply due to global lockdowns. The pound was down against the euro and the US dollar by 0.2% and 2.6% respectively.

Fund Commentary

For the third quarter of the year, the Credo Growth Fund returned 6.1% versus the benchmark, the IA Flexible Investment Sector, which returned 2.2% over the same period[2]. This has resulted in a return of 56.3% over the Fund's life, whilst the benchmark has returned 32.4% over the same period (from inception to 24 September 2021)[2].

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

The core equity positions 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.

At the end of the period under review, the Fund's asset allocation was consistent with the previous quarter and consisted of circa 3.5% in cash, 2.4% in fixed income, and the balance of 94.1% in equities. The Fund remains diversified globally with circa 34% 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.

During the period under review, we again increased the Fund's holding in The Blackstone Group, added to XPO Logistics and initiated a position in GXO Logistics

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.

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(1) Source: Bloomberg.
(2) Performance of the Credo Growth Fund A Retail GBP Share Class over the period 25/06/2021 to 24/09/2021. Source: Bloomberg, FE Analytics. Inception: 3 July 2017.

A number of positions were sold over the period, including Chegg Inc, Carvana Co., Jet2 plc 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 Alphabet, Amazon.com, Costco, Microsoft, and PayPal Holdings, with the top ten positions making up circa 37% of the Fund.

Looking Forward

Whilst numerous political and macroeconomic issues remain, and it appears that the outcomes from the recent COP26 conference appear disappointing, the Fund Manager 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.

As always, there are uncertainties as to the outlook and direction for equity markets, however, 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