GROWTH
FUND

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 have raised rates and tapered 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

For the first quarter of the year, the Credo Growth Fund returned -8.2% versus the benchmark, the IA Flexible Investment Sector, which returned -4.9% over the same period[2]. This has resulted in a return of 43.9% over the Fund's life, whilst the benchmark has returned 27.9% over the same period (from inception to 25 March 2022)[2].

The core equity positions are all now well established, and the Fund Manager continues to selectively add to these positions.

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% in fixed income, and the balance of 94.5% in equities. The Fund remains diversified globally with circa 23% of the assets held being sterling denominated, 69% being US dollar denominated, and the balance of circa 8% including exposure to Swiss francs 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 increased the Fund's holding in The Blackstone Group, and both XPO Logistics and GXO Logistics, as well as initiated small positions in both Northrop Grumman, Nike Inc and Progressive Corp.

We continued to reduce the holding in Scottish Mortgage Investment Trust plc during the quarter, taking some profit after a period of strong performance, and a number of other positions were sold over the quarter, including, but not limited to, PayPal Holdings Inc, Meta Platforms Inc and National Express Group plc. The proceeds were re-allocated to either add to existing positions or to acquire new holdings.

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(1) Source: Bloomberg.

(2) Performance of the Credo Growth Fund A Retail GBP Share Class over the period 31/12/2021 to 25/03/2022. Source: Bloomberg, FE Analytics. Inception: 3 July 2017.

At the end of the period under review, the top five equity positions held comprised of Alphabet, Amazon.com, Apple, Costco Wholesale Corp, and Microsoft, with the top ten positions making up circa 37% of the Fund as at the end of the period.

Looking Forward

Due to the significant volatility during the quarter, and in anticipation of the volatility remaining, the Fund has increased the number of holdings and currently holds circa 74 individual equity positions. It still remains the intention of the Fund Manager to reduce the number of equity holdings to closer to 50 over time, as volatility decreases. The Fund continues to have a relatively large exposure to the US, albeit remains well diversified across both industries and sectors.

The equity markets are anticipating a minimum of a further three US interest rate rises during the year, and there are clear indications that inflation has risen quite significantly globally. We remain firmly of the view that equities will remain the best inflation hedge over the long term, and hence we will tend to remain fully invested despite the anticipated volatility.

We remain cautiously optimistic that the second half of 2022 will be a positive period for equities, as the markets begin to get greater clarity on both inflation and the various central banks' ability to try and avoid recessions.

We believe that over the balance of the year equities will produce positive returns which will be significantly lower than the returns experienced over the last decade.

Roy Ettlinger, Portfolio Manager

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