CREDO NEWS

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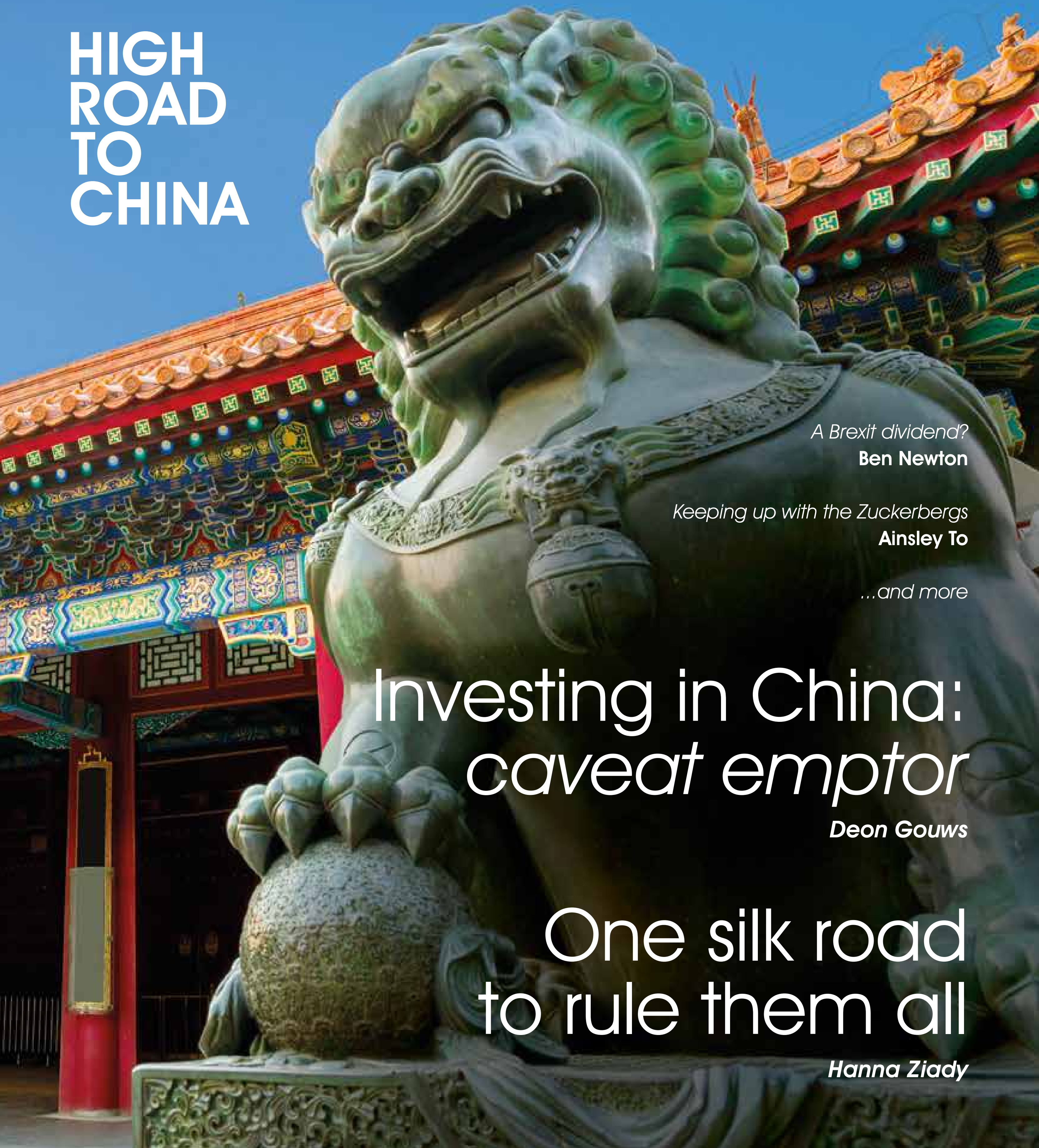

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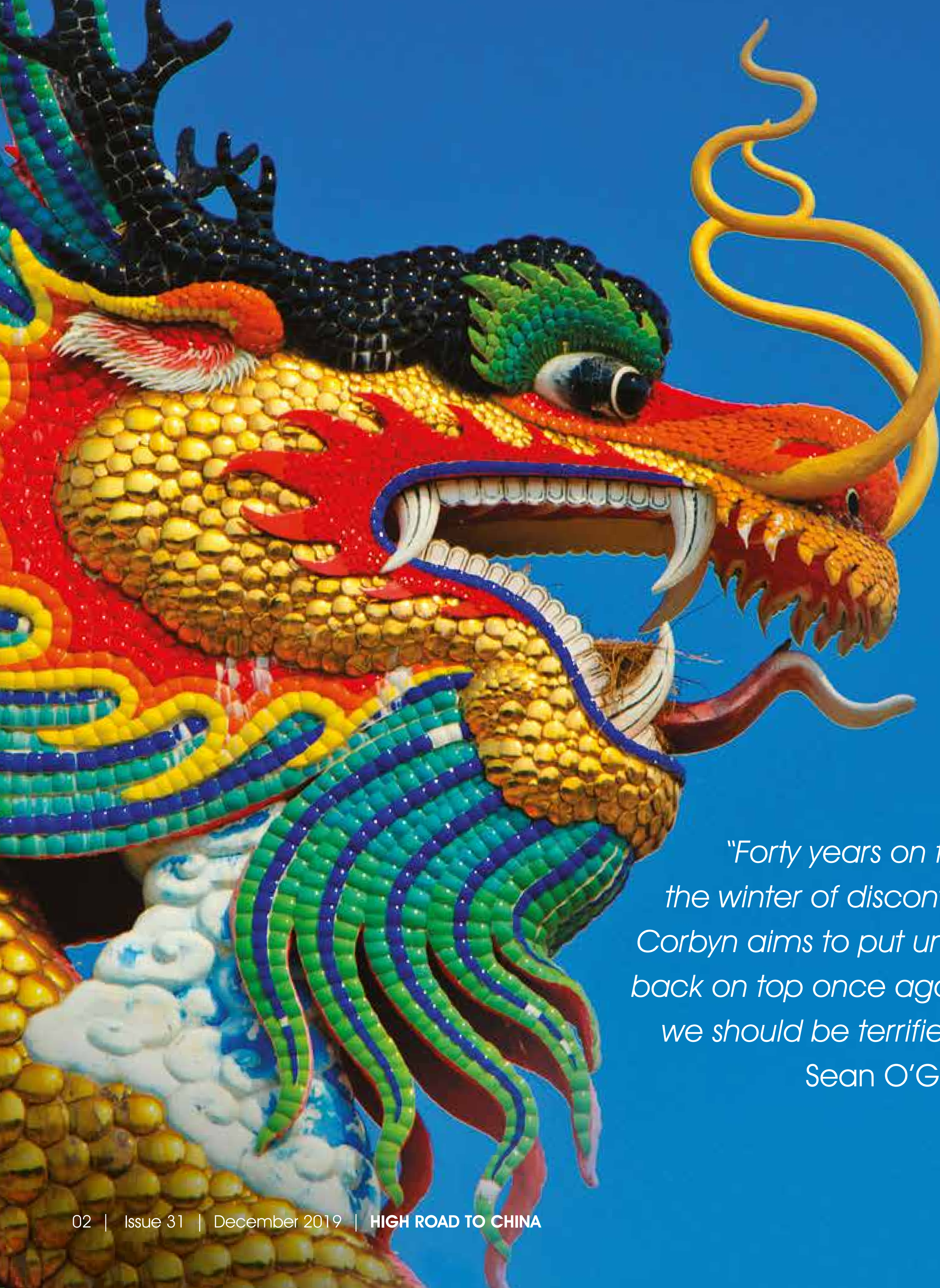


"Forty years on from the winter of discontent, Corbyn aims to put unions back on top once again – we should be terrified..."
Sean O'Grady

A winter of discontent?

One of the major themes for investment markets now and in the years and decades to come is the East meets West theme. As the world and hence economies and markets become more connected and interdependent, there are likely to be tremendous investment opportunities to be had as a result.

We have selected investing in China as a theme for this newsletter and a few of my colleagues cover the opportunities that may be presented by investing in what is now the world's second largest economy.

In this, our last newsletter of 2019, I will briefly reflect on how the markets have performed in the year that has been and, perhaps more importantly, consider what the decade of the 20s could bring.

Despite trade wars, geopolitical issues and warnings of a recession (to mention only some of the issues markets have had to contend with), it has been another year during which investors would undoubtedly have been best served by being invested in the equity markets.

At the date of writing, most of the major world equity indices have performed very well, with the Nasdaq increasing by over 28% for the year to date, the S&P 500 by 24.5%, and the Euro Stoxx 50 by 24.3%.

The clear laggard has been the FTSE 100, only increasing by 8.5% during 2019. This is perhaps not surprising given that the Brexit uncertainty remains, with the consequential three years of political deadlock and the economic paralysis that this has induced.

So, what could 2020 look like for markets? Whilst there are always many variables – some known and many unknown – which will affect markets, there is one major known event that will certainly impact the economy, as well as equity, bond and currency markets in the UK.

Soon after this newsletter is published, the UK will be holding a general election and there remains enormous uncertainty as to how the British public will vote. However, as both major parties have increasingly moved away from centrist policies, one thing is for certain: whatever the outcome, UK markets will react.

It has been 40 years since the so-called winter of discontent in the UK, and there certainly is a concern amongst British business people that if Jeremy Corbyn was to be the next British Prime Minister, the forthcoming winter of 2019-20 could herald very tough times for the British economy and markets. Hard lessons were learned in that exceptionally cold and harsh winter of 1978-79 and many of the same issues could return under a socialist government.

I feel it thus appropriate to conclude with a recent quote by Sean O'Grady, who is the Associate Editor of the Independent:

"Forty years on from the winter of discontent, Corbyn aims to put unions back on top once again – we should be terrified..."

Having said all of this, opportunities are likely to abound whatever the outcome – such is the nature of animal spirits within the broader business community.

In times of uncertainty, there is typically no better protection for an investor than to have a portfolio which is diversified across jurisdictions, currencies and securities. Which is of course exactly the way in which we've always managed money for clients at Credo. ■

Deon Gouws - *CIO* | @DeonGouws_Credo

Investing in China: *caveat emptor*

...ultimately the lesson is that there are ways in which one can benefit from the Chinese growth story without necessarily having to navigate the potential pitfalls of investing directly in China.

It is trite to say that China is an exciting opportunity which global investors can no longer afford to ignore: the country has a population more than four times that of the USA, its economy is already the second biggest in the world, and it's still growing at an enviable rate of approximately 6% per annum.

To illustrate: just three of the names in the top ten holdings of the Emerging Markets Internet and Ecommerce ETF (EMQQ), are not Chinese companies. There is one South Korean business, one group from Argentina… and Naspers – originally a South African newspaper company founded more than 100 years ago, which has become one of the largest technology investors in the world today.

The success that Naspers has enjoyed ever since investing $32 million in Tencent in 2001 – then a relatively small Chinese internet company – has been the stuff of legends: this single investment has gone up approximately 4,000 times to an overall valuation in excess of $100 billion in less than 20 years, explaining most of the market capitalisation of Naspers (as well as its recent offshoot, Prosus) today.

Some investors may not however realise that Naspers doesn't actually own its stake in Tencent directly. Instead, the group enjoys its lucrative exposure to the Chinese business through a structure known as a Variable Interest Entity (VIE). The same is also true for investors in Alibaba, Baidu, Meituan and all other foreign-listed Chinese internet firms.

In a nutshell, this structure involves setting up two entities: the listed entity as well as the VIE itself. The latter is wholly owned by Chinese citizens, typically the tech firm's founders, and holds the operating licences required to do business in China. Crucially, however, all the VIE's economic benefits are transferred to the listed entity via contractual agreements – effectively sidestepping China's restrictive foreign investment laws (without transferring the "normal" equity or voting rights).

VIEs have questionable legal standing in China and they do not give shareholders the rights typical of direct ownership – as such, they entail a very different level of investment risk. In a column entitled *"A legal vulnerability at the heart of China's big internet firms"*, The Economist magazine described VIEs as *"the weakest link"* as far back as September 2017, for example.

Most investors take a relatively sanguine view of the situation in the belief that neither Chinese companies nor the country's government will compromise the integrity of VIEs: any serious abuse of the structure will clearly damage China's reputation among international investors.

Rob Vinall, founder of asset manager RV Capital, had this to say about VIEs in a recent newsletter:

"The structure is elegant in that it squares the apparent circle of China's insistence on local ownership, Chinese companies' need for capital and foreign expertise, and overseas investors' desire to profit from the growth in Chinese companies' earnings."

It should however be noted that there has been at least one case where VIEs were found to have violated Chinese contract law (just Google the 'Alibaba Yahoo spat').

Further, over time it is likely to become increasingly difficult for Beijing to explain to domestic investors why it is that foreigners are deriving most of the economic benefits of China's most dynamic sector; at the very least, investors need to be mindful of this risk.

Notably, VIEs are absent from China's brand new Foreign Investment Law – legislation indicating that the country is moving to become a more open, rules-based economy. It comes into effect in January 2020 and seeks to level the playing field for foreign investors, while providing certainty on issues such as the protection of intellectual property rights. The devil will be in the detailed implementing rules expected later, but the law is certainly a sign of positive reform.

This opening up to foreign investment comes as China's economy grew at its slowest pace in three decades in the third quarter of 2019 – a slowdown generally ascribed to US tariffs as well as a general slump in global demand. An economy such as the UK would kill for a growth rate of 6%, but economists worry that it's still insufficient to sustain a country of 1.4 billion people, which is already battling over-indebtedness and excess capacity in sectors such as steel and construction. Worse still, any escalation in the trade war or a prolonged global economic slowdown could of course make matters even worse.

Notwithstanding economic growth wobbles, China's consumers remain tremendously powerful. For the first time, there are now more Chinese than Americans in the richest 10% of the global population (according to a report by Credit Suisse). While the average American is still wealthier than the average Chinese person, China is the undisputed engine driving growth in global wealth. This is why in any given quarter the earnings of automakers, smartphone manufacturers and fashion houses, to name a few, are increasingly defined by the performance of sales to China.

Given that China's shift towards a consumption-led economy is now well underway, betting on the Chinese consumer therefore remains a smart move in all likelihood.

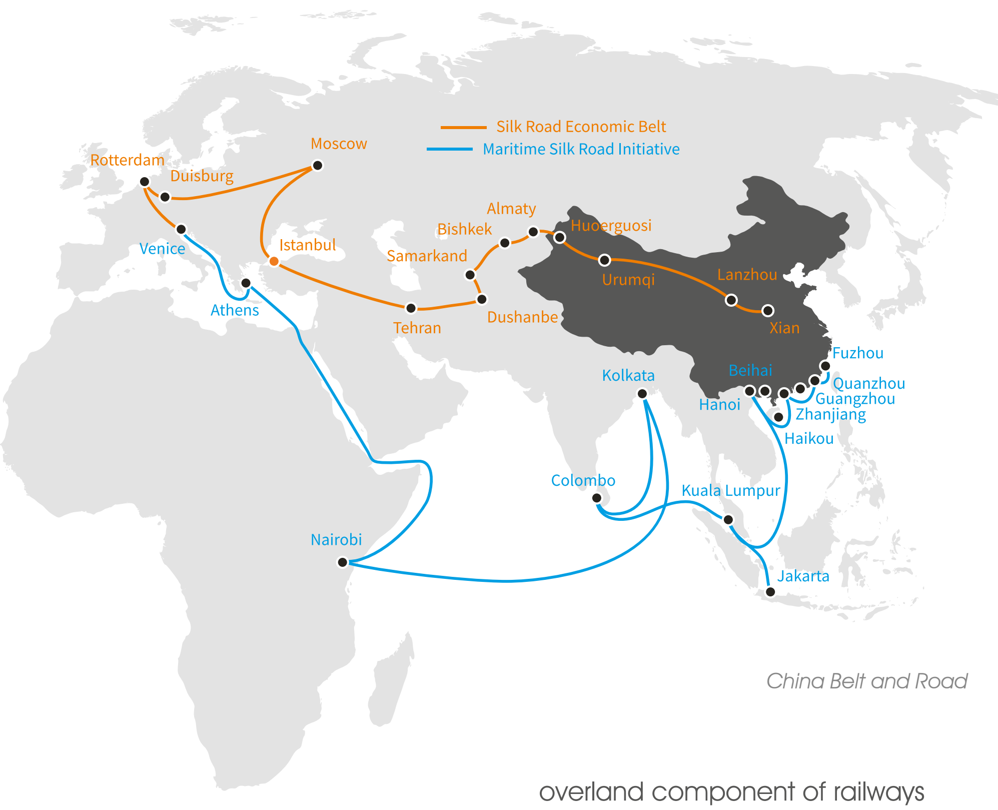
Elsewhere in this newsletter, my colleague Alison Norbury explains how we try to take advantage of this very theme in the management of Credo's range of equity products, without necessarily taking any huge amount of direct Chinese exposure.

While it may be nigh impossible to replicate the tremendous success that a group like Naspers has had with its Tencent investment, ultimately the lesson is that there are ways in which one can benefit from the Chinese growth story without necessarily having to navigate the potential pitfalls of investing directly in China. ■

Hanna Ziady | @hannaziady

One silk road to rule them all

"The world needs trillions of dollars more in infrastructure investment... ...If done right, the BRI could help address those needs."



China Belt and Road

China wants to be at the centre of the global economy.

And it has a $1 trillion plan to make that happen. It's called the Belt and Road Initiative (BRI).

A throwback to the old Silk Road, an ancient network of trade routes established after the Han dynasty started trading with the West in 130 B.C., the BRI seeks to connect Asia with Africa and Europe via an overland component of railways (the 'belt') and a maritime network of ports (the 'road').

The BRI is as much about creating new markets for China's goods as it is about reshaping the global balance of political and cultural power.

It promises infrastructure, trade deals, people-to-people exchanges and coordination across a host of policy areas, says Jonathan Hillman, director of the Reconnecting Asia Project at the Center for Strategic and International Studies in Washington D.C.

Overhyped?

Since the plan was unveiled in 2013, more than 150 countries and international organizations have signed agreements on BRI cooperation with China, including most African states, South Africa among them, and a number of EU members, notably Italy.

But defining the size and scope of the BRI is tricky, because official information on what it does and does not include remains elusive.

"Beijing has deliberately left the BRI ill-defined. 'BRI projects are only the good ones' is not far off from the Chinese position," says Derek Scissors, China economist at the American Enterprise Institute (AEI), another Washington-based think tank.

Scissors told the U.S. government earlier this year that the BRI is "overhyped commercially" and that activity has scaled back. *"Beijing will inevitably focus on what it sees as the most important countries… these are the richer countries in Southeast Asia for export markets and the Arab world for oil,"* he said.

But other commentators contend that China does not want to "own" BRI and expects other countries and corporations to co-invest.

China first

Whether it succeeds or fails, the BRI remains *"the most ambitious economic vision on the global stage,"* says Hillman.

He views it as a ***"China-centric vision, which despite rhetoric about 'win-win' outcomes, is designed to favour Chinese companies first and foremost"***.

This can be seen in how Chinese contractors have benefited from the vast majority of work on infrastructure projects. The AEI finds that Chinese construction activity in BRI countries between 2014 and 2018 was worth $388 billion, or roughly double the $190 billion invested in projects in those countries over that time.

To be fair to China, it is ploughing money into some pretty challenging jurisdictions, such as Laos and Pakistan, so arguably the companies taking those risks should expect just rewards.

But there are worries that these are mostly state-owned firms, pressured to invest by the Chinese government and peddle a kind of "debt-trap diplomacy."

This refers to the notion that BRI infrastructure projects burden developing countries with unsustainably high debt levels, forcing them to forfeit strategically important assets to China in return for debt forgiveness.

The most commonly cited example is the Hambantota port in Sri Lanka, for which China was given a 99-year lease in exchange for debt relief.

The Center for Global Development, a non-profit, estimates that about eight additional countries are at risk of not being able to repay BRI loans.

Addressing the global infrastructure gap

Seemingly to address these concerns, at the second Belt and Road Forum held in April this year, Chinese president Xi Jinping highlighted the creation of more sustainable financing principles. He also emphasised Beijing's commitment to *"transparency and clean governance"* in pursuing the BRI.

"Belt and Road cooperation has both generated new opportunities for the development of all participating countries and opened up new horizons for China's development and opening-up," Xi said.

Evidence of its benefits can be found in the Piraeus port in Greece. Under China's ownership, Piraeus has emerged as one of Europe's biggest cargo ports and profitability has soared. It has created 3,000 jobs and is contributing 0.6% to Greek's annual economic growth, according to Henry Tillman, CEO of Asia-focused merchant bank, Grisons Peak, who tracks Chinese government investments.

Speaking at a Cambridge University forum earlier this year, Tillman also pointed to the China-Pakistan economic corridor, noting that the value of projects expected to arise from the passage will amount to all the foreign direct investment into Pakistan since 1970 and create 700,000 jobs.

But Hillman contends that BRI's *"aspirational investment levels tell us little, if anything, about the actual impact of new infrastructure projects,"* on areas such as poverty alleviation and climate change.

"The world needs trillions of dollars more in infrastructure investment," he says. *"If done right, the BRI could help address those needs."* Easier said than done. ■

Ben Newton - *Investment Manager*

A Brexit dividend?

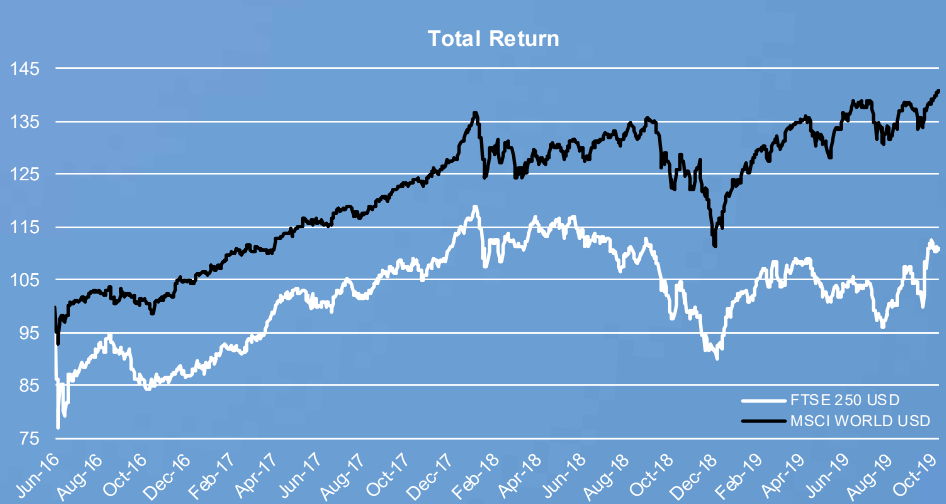
The UK's stock market, economy and currency have all gone through a tumultuous time since the UK's independence vote from Europe in June 2016. Since the referendum, UK indices have significantly underperformed their international counterparts in sterling terms and the currency has depreciated by 14% against a basket of currencies since the referendum.

Politically speaking we appear to be at somewhat of an impasse. Theresa May battled away for three years to no avail. Boris Johnson threatened a no-deal Brexit but managed to get his own compromise, yet Parliament were reluctant to give it their final stamp of approval.

In an attempt to resolve the stalemate, we now have an upcoming general election in the UK, but unfortunately this still does not provide any guarantee of a resolution; in fact, one may argue that it actually compounds the uncertainty. Although Jeremy Corbyn is an underdog in current polling, recent elections have taught us not only that polls can be inaccurate, but also that they can change on a whim. From an investment point of view, it is important to point out that Corbyn's radical economic plans are certainly not business or market friendly.

The impact of all this uncertainty manifests itself in several ways in UK assets. Companies are not able to properly plan for the future, which means that they are not investing, which in turn has a ripple effect across the economy.

The British consumer has lower global spending power than before and house prices have been frail (especially at the higher end), leading to reduced consumer confidence which in turn impacts spending even further. These all affect the earnings capabilities of UK companies and subsequently has a knock-on effect to their current market values.



Source: Credo, Bloomberg

Within the portfolio of the Credo Dynamic Fund, there are numerous examples of UK midcap stocks that the team have been able to accumulate on earnings weakness. The list includes:

- On The Beach, a UK website for package holidays, which lowered their earnings forecast number as weak sterling has been impacting the demand for holidays abroad, and
- Premier Miton Group, a UK asset manager, which has suffered slower inflows of assets predominantly as a result of fragile investor sentiment.

From an investor's perspective, the lack of clarity does make it hard to discern the appropriate price to pay for UK assets.

Focusing on listed equities, for example, the stock market appears cheap compared to other world indices on a whole range of metrics.

One does not necessarily expect global indices to consistently trade at comparable levels as they will always differ in composition. For example, the UK has a larger weighting than most markets in financials due to London's status as a global financial centre, but it does not have the large, cutting-edge technology companies of the United States.

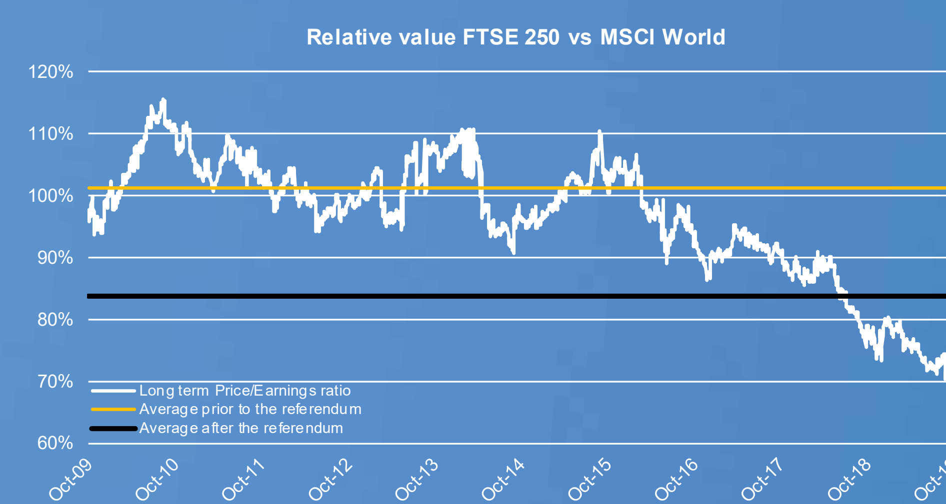
Compared to the S&P 500 (even after adjusting for the different sectors), the UK currently trades at a discount of over 15%, while prior to the referendum each sector traded around similar multiples to that in the S&P 500. This would suggest that the political uncertainty is having a direct impact on the price of UK assets.

A sector which appears to be in the midst of the storm is UK property, where many of the listed companies are currently trading at record discounts to their underlying property valuations. One must, however, be wary because this reflects not only Brexit weakness, but also concerns for the value of retail shops due to the ever-increasing impact of internet shopping. In the Credo Dynamic Fund, we have invested in a select number of names with limited exposure to retail that are trading at close to record lows.

The recent bounce in sterling which has been ascribed to Boris Johnson agreeing a new deal with the EU (even though he has not yet managed to get it through the UK parliament) illustrates not only how unpopular UK assets have been, but also the nascent value they still appear to have. Banks and housebuilders have surged on the same news: The Royal Bank of Scotland, to quote but one example, was up more than 12% on no company-specific company news at the very time of Johnson agreeing his deal.

The combination of cheap UK assets as well as a weak exchange rate have made UK companies attractive acquisition targets for global peers. The likes of Dairy Crest Group plc (whose brands include Cathedral City Cheddar cheese), Merlin Entertainments (the owner of Legoland), as well as Greene King (the UK's largest pub retailer and brewer) have all been gobbled up by exchange-rate-enriched predators.

While markets have been eagerly awaiting a conclusion to all the Brexit uncertainty, the team managing the Credo Dynamic Fund has been selectively adding to midcap names that could benefit from a resolution. Although there are likely to be more twists to the tale, the Fund and team are ready to further tilt the portfolio's Brexit exposure if and when we gain further clarity. ■



Source: Credo, Bloomberg

Kathryn Linde - *Relationship Manager*

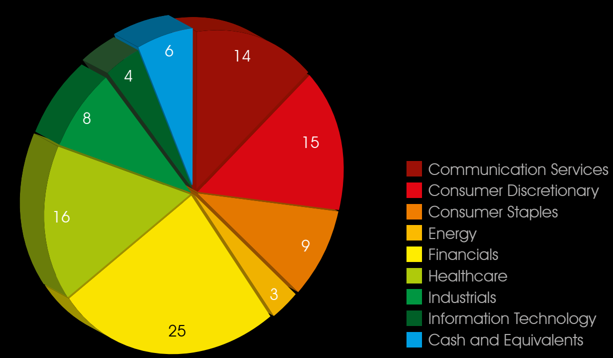
The Credo Funds

Irish registered UCITS funds

GLOBAL EQUITY FUND

Credo has a strong track record of managing long-only, value-based, direct equity portfolios with a bias towards developed market, large capitalisation stocks. The Fund provides an actively managed, unitised structure through which to gain exposure to this philosophy. Our aim is to generate sustainable excess returns versus global market indices.

Sector Allocation (%)



Currency Allocation (%)

GBP	20.0
USD	70.0
Other (AUD, HKD, SGD, EUR, MXN)	10.0

Past Performance (%)

1 Month	-0.9
3 Months	-2.4
YTD	19.5
1 Year	12.0
Since Inception	15.6

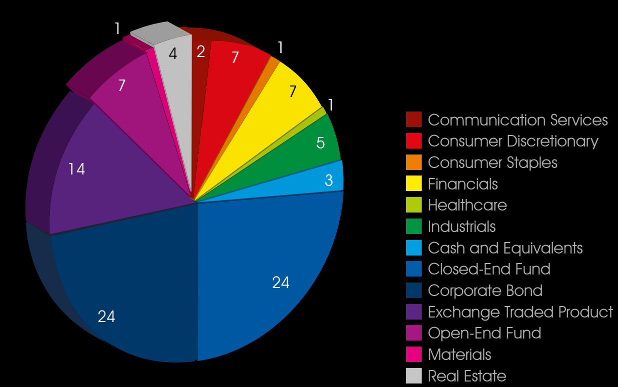
Top 10 Holdings (%)

Arch Capital Group Ltd	Financials	4.2
HCA Healthcare Inc	Health Care	4.2
Alibaba Group Holding Ltd	Consumer Discretionary	4.1
Prudential plc	Financials	4.0
Wells Fargo & Co	Financials	3.9
Cigna Corp	Health Care	3.8
Microsoft Corp	Information Technology	3.8
Frontdoor Inc	Consumer Discretionary	3.6
Verizon Communications Inc	Communication Services	3.5
United Technologies Corp	Industrials	3.5

DYNAMIC FUND

Utilises the long-term and successful investment strategy that has historically been employed within the traditional stockbroking arm of Credo, and aims to achieve a balance of income and capital growth over the longer term. The Fund has flexibility to invest across asset classes depending on prevailing market conditions.

Sector Allocation (%)



Currency Allocation (%)

GBP	89.0
USD	10.0
Other (AUD, EUR)	1.0

Past Performance (%)

1 Month	0.3
3 Months	-0.7
YTD	11.1
1 Year	5.3
Since Inception	12.2

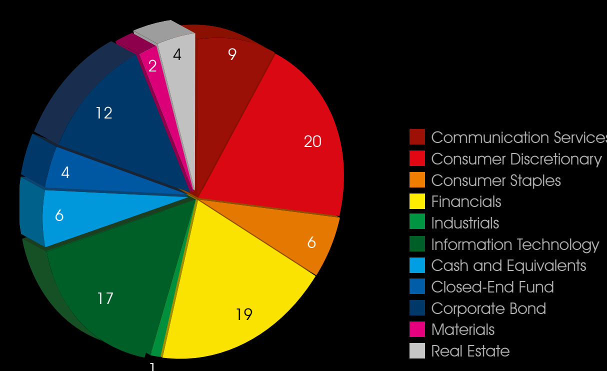
Top 10 Holdings (%)

SPDR MSCI World UCITS ETF	Exchange Traded Product	5.5
AQR Global Defensive	Open-End Fund	4.3
Hipgnosis Songs Fund Ltd	Closed-End Fund	3.7
Co-operative Group Ltd 11 12/18/25	Corporate Bond	3.2
Crystal Amber Fund Ltd	Closed-End Fund	2.5
iShares Core S&P 500 UCITS ETF	Exchange Traded Product	2.2
BB Healthcare Trust plc	Closed-End Fund	2.2
Gresham House Energy Storage Fund	Closed-End Fund	2.0
PPHE Hotel Group Ltd	Consumer Discretionary	1.8
Twentyfour Select Monthly Income	Closed-End Fund	1.7

GROWTH FUND

A reflection of the Fund Manager's (Roy Ettlinger) personal investment style and strategy which he has successfully adopted for clients in past years. The Fund aims to provide attractive risk-adjusted returns and also has the flexibility to invest across asset classes.

Sector Allocation (%)



Currency Allocation (%)

GBP	55.0
USD	42.0
Other (HKD, EUR, ZAR)	3.0

Past Performance (%)

1 Month	0.2
3 Months	-3.6
YTD	16.2
1 Year	9.7
Since Inception	10.5

Top 10 Holdings (%)

Microsoft Corp	Information Technology	4.4
Costco Wholesale Corp	Consumer Staples	4.4
Intermediate Capital Group plc	Financials	3.9
Amazon.com Inc	Consumer Discretionary	3.6
Alphabet Inc	Communication Services	3.1
Berkshire Hathaway Inc	Financials	3.1
Alibaba Group Holding Ltd	Consumer Discretionary	3.1
PayPal Holdings Inc	Information Technology	2.8
Primary Health Properties plc	Real Estate	2.7
Visa Inc	Information Technology	2.6

Source: Société Générale Securities Services (Ireland) Limited. As at 31/10/2019. Inception date 03/07/2017. Performance is of the Class A Retail share classes. Credo Growth Fund is subject to a performance fee. Please refer to Prospectus and Supplements for further information.


Ainsley To - *Head of Multi-Asset*

Keeping up with the Zuckerbergs

"Wealth - any income that is at least one hundred dollars more a year than the income of one's wife's sister's husband".
H.L. Mencken

The Easterlin Paradox is the empirical finding in economics that at a point in time happiness varies directly with income, both among and within nations, but over time happiness does not trend upward as income continues to grow. Over the period 1946 to 2014, income (real GDP per capita) in the US tripled, whereas happiness (measured by subjective well-being - typically obtained by questionnaire) has remained flat. Though people are objectively wealthier in absolute terms, happiness instead seems to be driven by the value of one's wealth relative to one's peers. This result has been replicated across 43 countries using the same methodology - China has seen a five-fold increase in real GDP from 1990 to 2015, yet absolute happiness is no higher at the end of the sample.

Humans are social creatures - information about social status has been essential for our reproduction and survival. So it is no surprise that our obsession with in-group status which aided our ancestors in passing on their DNA on the African savanna has survived with us in the capital markets of today. There are few places in modern society where envy is as pertinent as in investors' daily obsession over relative performance.

HML – Hate My Life?

HML (High Minus Low) is what academics refer to as the value factor - though given the cacophony of financial media headlines on the decade long underperformance of this strategy, value investors could indeed be forgiven for mistaking the acronym to stand for Hate My Life. HML is named this way to describe the way it is constructed – take the returns of high book-to-market stocks (or low price-to-book, i.e. value) and deduct the returns of low book-to-market (high price-to-book, i.e. growth) stocks, averaged across large and small caps. HML has annualised -3% over the last 10 years and it has thus been taken for granted that this has been a terrible period for value investing.

Importantly, and as explained above, HML is constructed as the performance of cheap stocks relative to expensive stocks (e.g. long-short). But what about the experience for long-only value investors?

Figure 1

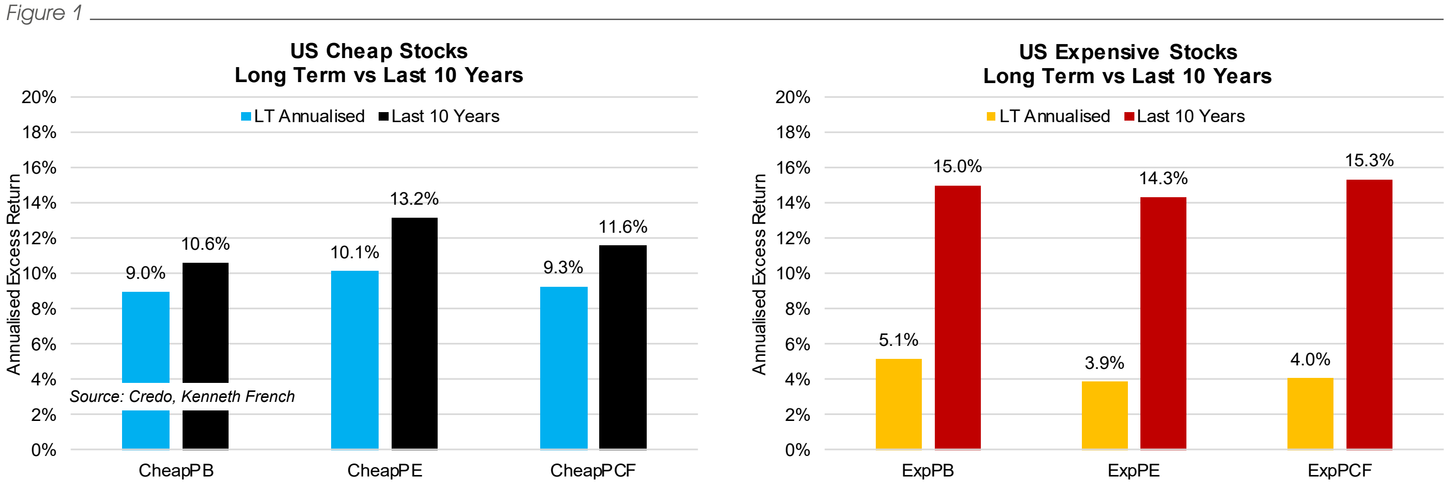


Figure 1 shows the excess returns (above the risk-free rate) of the cheap portion of the US market on the left-hand chart and their expensive counterparts on the right-hand chart, using three different valuation measures (Price-to-Book, Price-to-Earnings, Price-to-Cashflow).

Comparing the long-term performance (since 1951) for cheap and expensive stocks, to the last 10 years for each, the actual cause for discontent becomes clear. Cheap has outperformed expensive quite substantially over the last ~70 years (the raison d'etre for value investors). However, even though excess returns (above the risk-free rate) have also been very good for cheap stocks over the last decade (higher in fact, than they have been historically), expensive stocks have experienced stellar returns over this period, far beyond what they achieved over their own long-term history, and also above value stocks over 10 years.

Now ask yourself which situation you would prefer? Option 1: your salary is $50,000 and your friends earn $40,000, slightly less than you do. Option 2: your salary is much higher at $100,000, but your friends earn a slightly higher still $110,000. Given the frenzy over the death of value investing, it seems that most investors are the types of people who prefer Option 1, consistent with the Easterlin Paradox.

FOMO is not an investment strategy

Whilst I wouldn't describe myself as a fanatical value investor (buying cheap is only one of many strategies we believe in), I'm inclined to believe that the recent stellar returns of expensive stocks are an exception and not the rule - trees don't grow to the sky.

Figure 2 compares the historic valuation levels of US cheap stocks and expensive stocks (we've only shown price-to-earnings for brevity but the other metrics tell a similar story).

The aggregate PE of the basket of expensive stocks is always higher than that of cheap stocks (by definition) but this measure is currently near an all-time high relative to its own history (near the heights of the tech bubble in 2000).

Notice in red that returns for expensive stocks have been boosted from a sharp increase in valuations over the last 10 years, whereas the valuations of cheap stocks are broadly where they were a decade ago. The strong performance of US Tech giants have even led them to warrant their own acronyms – the most recent being FANMAG (Facebook, Apple, Netflix, Microsoft, Amazon, Google). In 2019, FANMAG has a combined market cap of $4.3 trillion, which makes them the third largest country in the world on their own (a larger market cap even than the entire Chinese stock market). Forecasting the same experience to repeat itself (which would take valuations of expensive stocks into the stratosphere and make FANMAG larger than all other stocks combined), is probably not the most prudent assumption to bake into your portfolio going forward (as highlighted previously: the composition of the world's largest companies change all the time).

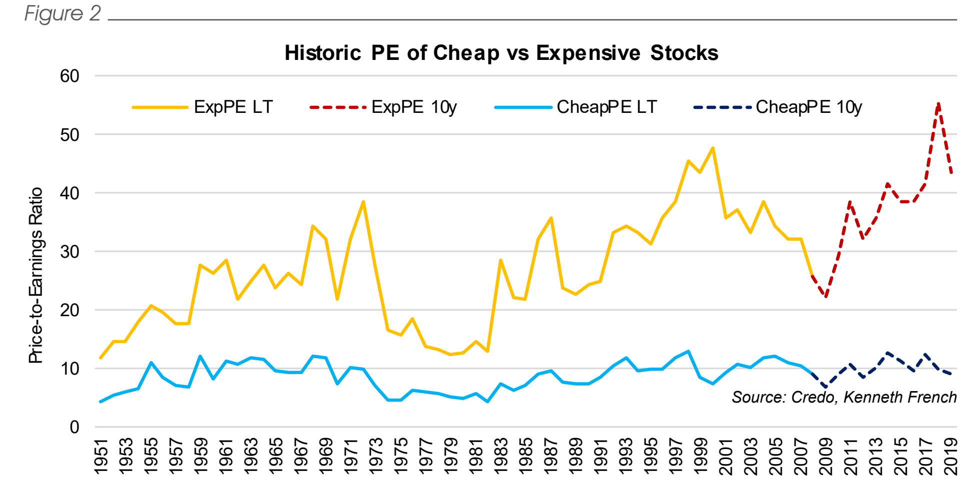
Conclusion

"We suffer more often in imagination than in reality". Seneca

It would be an unhealthy daily habit for me to compare my personal net worth and social status to an extreme outlier like Mark Zuckerberg (worth $60bn+). It is equally unhealthy for value investors to wallow daily in the ups & downs of FANMAG and other glamour stocks, whose returns over the last 10 years have been extremely unusual.

Human nature might dictate that you care more about what is in other people's portfolios than what is in your own, but as Benjamin Graham put it best: ***"Our ultimate goal as investors is to buy an investment at a low price and then sell it at a higher price…The one thing that always keeps us from accomplishing that mission, is ourselves."*** ■

Figure 2



Alison Norbury - *Equity Analyst*

Venturing east

A global fund allows us the opportunity to pick a portfolio of stocks from the largest possible universe of listed companies. Having said that, we don't have, or need to have, an opinion on every single business in the world: the Credo Global Equity Fund is a concentrated bottom-up portfolio and we only want to be involved in the industries and companies where we think that we can take winning positions.

Whilst we are not obliged to hold a designated emerging market exposure within the fund, we do have some exposure to China, as well as Asia more widely, through positions in companies such as Alibaba, Prudential, AIA and Las Vegas Sands. Broadly speaking, there are two main themes to all of these investments: **we are attracted to the growing middle-class consumers' increasing purchasing power and we want to own companies that are either national champions or have a significant moat.**

To elaborate on some of these examples: Prudential and AIA are both life insurance companies with strong brands and long histories in the Asian region. In fact the AIA Group has a presence in no less than 18 markets, spanning across South East Asia, where it has been operating since its founding in Shanghai a hundred years ago.

Prudential on the other hand is the largest UK life insurer, but it is also active in no less than 12 different markets in Asia today. The group's original Asian business – launched as far back as 1923 – has been nationalised, but it relaunched in India and China in 2000. Prudential was also negatively impacted by the uncertainty thrown up by Brexit and this provided us with a buying opportunity since the UK actually represented less than 20% of Prudential's embedded value (a measure of the present value of the profit from the insurance contracts that have been sold). In our view, the jewel in the crown has however always been its Asian business.

The expanding middle class in China and across Asia is fuelling demand for health, protection and savings products. As consumers become wealthier, not only do they have more to protect in the present, they can afford to insure against loss in the future. Risk products require skilled underwriting which means there is less competition than with simple savings products. In Asia, most policies are bundled combinations of savings and protection (whole-life policies). Unlike investment products, where profits rely on market performance, the profit from protection products is therefore more stable. The money coming in (premiums) and going out (benefits) are matched and offset each against other's underlying investment risk. The stability of profit comes from the skill of accurately forecasting risks such as mortality and disability. This expertise is a significant moat, making it very difficult for new entrants to compete.

Increasing wealth also opens up opportunities for spending on leisure activities. As a result, Asians travel more than ever before and there is also a significant culture of gambling, particularly within China itself. Las Vegas Sands is a casino and resorts company with exposure to Macau, which is one of two main destinations for Chinese customers. The company controls nearly 40% of the hotel supply in this region on the south coast of China (approximately 13,000 rooms). Their incredibly strong brand and know-how convinced us of the sustainability of their profit generation. Founder Sheldon Adelson saw the potential of Macau when the former Portuguese Colony was handed over as a Special Administrative Region (where gambling is legal) in 1999 and Las Vegas Sands opened the Sands Macao in 2004.

Whilst some opportunities have come from western companies expanding eastwards, others have come from the home-grown "National Champions". Alibaba falls into the latter category, benefiting from exposure to an increasingly wealthy Chinese consumer but also from a strong "Network Effect" (as we discussed in the September Spotlight). In the west, Alibaba's seemingly indomitable position may become a source of concern for governments. However, in China, the government has shown a willingness to work with these companies in order to monitor their citizens and ensure control over key industries. As such, we believe that Alibaba's dominant positions, not only in e-commerce but also in cloud computing and mobile payments, are ultimately sustainable.

Going back to 1970, the world was clearly divided into rich developed countries and poor developing countries, but in the last 50 years, emerging economies have become powerhouses of wealth creation in their own right.

A global portfolio thus has a much wider pool of opportunities to look at today. It is, however, important to be aware of the limits of one's knowledge and experience: we do not have an extensive understanding of the specific nuances of the Chinese consumer and so when investing in the region, we have tended to identify broader themes and trends from which we believe we can benefit over the long run. The companies above have all benefited from the release of pent-up demand as consumers have become richer over time.

We apply the same discipline to identifying attractive opportunities here as in the rest of the portfolio, looking for quality companies which we can buy at prices below their fair value. Therefore, one final aspect that these companies have in common is their ability to create wealth.

Growth is only worth pursuing if one can do it profitably and sustainably.

The financial statements tell us whether the trends we have identified above are translating into profitable growth. Understanding a company's "moat" gives us an indication of whether it is sustainable. As bottom-up fundamental based investors, we don't pick the portfolio based on having a view on the east versus the west: wealth and opportunities can be created in both. ■

Jack Carbutt - *Relationship Manager*

Diversified equity portfolios

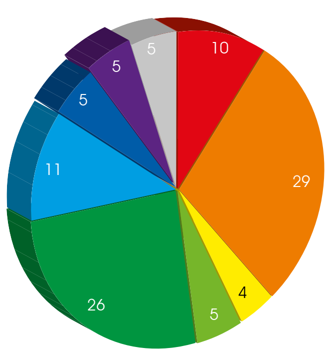
The Best Ideas and Dividend Growth portfolios are diversified global equity portfolios, which we believe to be well positioned to outperform the wider equity market over the longer term. The portfolios have biases towards developed-market, large-capitalisation stocks.

BEST IDEAS PORTFOLIO

Performance (%)

Return	
YTD	16.7
1 Month	-2.0
3 Months	-4.1
1 Year	12.1
Annualised Return	
3 Years	11.0
5 Years	12.7
Since Inception	12.1

Sector Allocation (%)



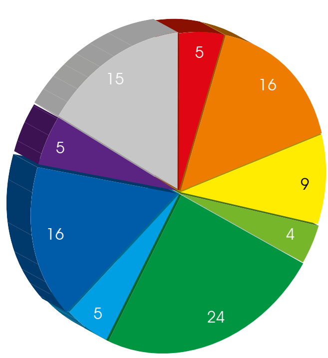
- Communication Services
- Consumer Discretionary
- Consumer Staples
- Energy
- Financials
- Healthcare
- Industrials
- Information Technology
- Cash

DIVIDEND GROWTH PORTFOLIO

Performance (%)

Return	
YTD	18.2
1 Month	-1.1
3 Months	-0.2
1 Year	13.1
Annualised Return	
3 Years	9.2
5 Years	13.3
Since Inception	13.8

Sector Allocation (%)



- Communication Services
- Consumer Discretionary
- Consumer Staples
- Energy
- Financials
- Healthcare
- Industrials
- Information Technology
- Cash

Value orientated investment philosophy

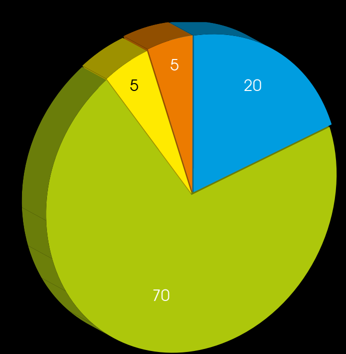
The Credo Multi-Asset Portfolios (MAP) follow an evidence based approach to investing, providing investors with diversified exposure to global assets through a selection of funds and ETFs. Funds are selected using Credo's in-house selection process and offered as four solutions targeting various levels of equity exposure. Portfolios are available in both GBP and USD.

MULTI-ASSET PORTFOLIO 20/80

Performance (%)

Return	
YTD	8.3
1 Month	-1.3
3 Months	-0.8
1 Year	7.4
Annualised Return	
3 Years	4.8
Since Inception	6.1

Strategic Asset Allocation (%)



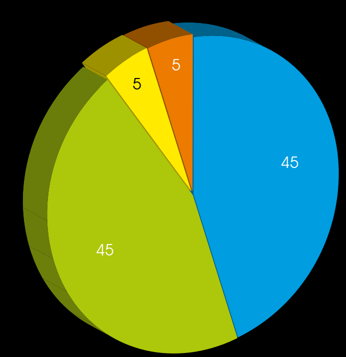
- Equity
- Fixed Income
- Commodities
- Alternatives

MULTI-ASSET PORTFOLIO 45/55

Performance (%)

Return	
YTD	10.7
1 Month	-1.9
3 Months	-2.0
1 Year	7.7
Annualised Return	
3 Years	5.9
Since Inception	7.5

Strategic Asset Allocation (%)



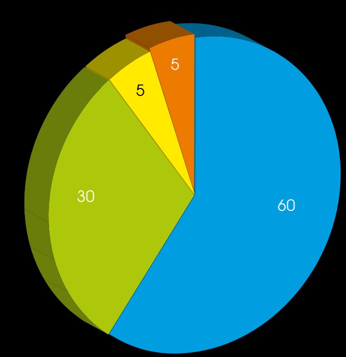
- Equity
- Fixed Income
- Commodities
- Alternatives

MULTI-ASSET PORTFOLIO 60/40

Performance (%)

Return	
YTD	12.1
1 Month	-2.2
3 Months	-2.7
1 Year	7.9
Annualised Return	
3 Years	6.6
Since Inception	8.3

Strategic Asset Allocation (%)



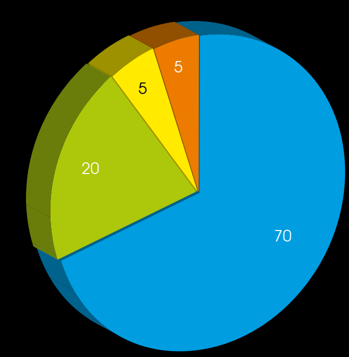
- Equity
- Fixed Income
- Commodities
- Alternatives

MULTI-ASSET PORTFOLIO 70/30

Performance (%)

Return	
YTD	13.1
1 Month	-2.4
3 Months	-3.1
1 Year	8.0
Annualised Return	
3 Years	7.0
Since Inception	8.7

Strategic Asset Allocation (%)



- Equity
- Fixed Income
- Commodities
- Alternatives

Performance figures are based on a notional portfolio, denominated in pound sterling, designed to track the holdings of the Credo Best Ideas, Dividend Growth and Multi-Asset portfolios. Portfolios incorporate all additions and removals. Portfolios may not be fully invested at a point in time and therefore can hold a portion of assets in cash. Performance is calculated before any fees (which can vary depending on the level of service) but includes net dividends, reinvested. Following additions or removals, each holding is rebalanced to the model weighting. Source: Bloomberg pricing as of 31/10/2019 close. All portfolio performance is calculated using Bloomberg PORT, rounded to 1 decimal place. Inception dates: Best Ideas Portfolio 14/11/2011, Dividend Growth Portfolio 28/12/2012 and Multi-Asset Portfolios 02/07/2014.

Credo on the road...

Damian Yeomans and Charles van der Merwe

September and October has been a busy time for several Credo staff who have attended 21 SimplyBiz Investment Forums across the UK. The events started in Wetherby, West Yorkshire and finished in Leicester seven weeks later. Over 1,000 financial intermediaries attended the events and discussions focused on Credo's Dynamic and Global Equity funds and the Credo Wealth Platform.

Presentation during SimplyBiz Forum

...and on the course

Alan Noik, Dr. Doug Baard, Roy Ettlinger and Bruce Kirsch

Keneilwe Moloko, Sello Moloko, Johann Werth and Robbie Meyer

Credo Wealth recently hosted a number of clients and associates at Millvale Golf Retreat which is situated a couple of hours' drive to the north west of Johannesburg. Millvale is a private estate, but the golf course is still recognised as one of the top courses in South Africa. It was a tremendous privilege to spend some time in the attractive bushveld surroundings once again (this was the fourth consecutive year of the event).

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