Fund Commentary

The second quarter of 2024 saw the Credo Dynamic Fund (Dynamic) return 3.5%[1] versus the comparator and peer group (the IA Mixed Investment 40-85% Shares sector), which returned 1.7%[2] over the same period. We were pleased with this short-term performance, as well as the longer-term track record where Dynamic ranks in the top quartile of its peer group over 1, 3, 5 years and since its inception.

Overall, markets experienced a tug-of-war, balancing the preference for a stable economic backdrop against the potential for deteriorating conditions that might prompt interest rate cuts. In equities, the S&P 500 index rose by 4.1%, and the MSCI World Equity Index increased by 3.2% during the period. These gains were primarily driven by the ongoing surge in technology-related mega-cap stocks, fueled largely by advancements in artificial intelligence. Meanwhile, the FTSE All-Share Index climbed by 4.0%, supported by private equity, strategic, and international acquirers capitalising on the undervalued market. In the sterling fixed-income markets, bond returns were approximately flat as the income earned was offset by rising rate expectations, with the anticipated decline in interest rates once again being postponed.

When evaluating the individual components of Dynamic, it is evident that the quarter's performance was a true collective effort, with gains across most positions and positive contributions from all asset classes. Notable contributions to the Fund's success over the quarter included an investment trust, Aberforth Smaller Companies Trust, which is a high-conviction investment capitalising on the value in UK smaller companies; mid-cap German-based equity, Tonies, which is the maker of the popular children's storytelling player captivating the American audience; and the large technology investment, Polar Capital Technology Trust plc (Polar), which continued its strong performance driven by its significant weightings to the "Magnificent 7" stocks, especially its largest holding, Nvidia.

The Fund's alternative positions were the real driving force and a key differentiator over the quarter. Despite making up only 13.4% of Dynamic, four of the top ten contributors came from this asset class. It is partly helped by the market's belief that rates have peaked, making the high yields available look more attractive. Although the reality is that coming into the period the sentiment had simply become too bearish, as illustrated by the wide discounts to asset values for this asset class. The sector had become unloved and, to a degree, stranded. Blackstone clearly shares this view, having won a competitive bidding process for Dynamic's holding in Hipgnosis Songs Fund. This move illustrates that the private market sometimes recognizes greater value in uncorrelated income assets compared to the listed markets, which have struggled to value these assets in a new higher interest rate environment. Most pleasingly, Gresham House Energy Storage Fund plc (Gresham) was a standout contributor adding over 0.7% to the Fund's performance. As a reminder, this position was the Fund's largest detractor last quarter following a dip in battery revenues that led to a dividend cut. However, as highlighted in the last quarterly report, we believed the market reaction was overly pessimistic. We were rewarded for holding firm and even adding to our position at the lows, as battery revenues rebounded. Gresham also secured a fixed rental agreement with Octopus, providing some certainty to income and demonstrating the strategic value of their assets. The discounts in other alternatives also notably closed, including private equity minnow Literacy Capital and Brevan Howard's longest running fund, BH Macro Ltd.

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[1] *Performance of the Credo Dynamic Fund Class A Retail Shares over the period 28/03/2024 to 28/06/2024*
[2] *Source: FE Analytics.*

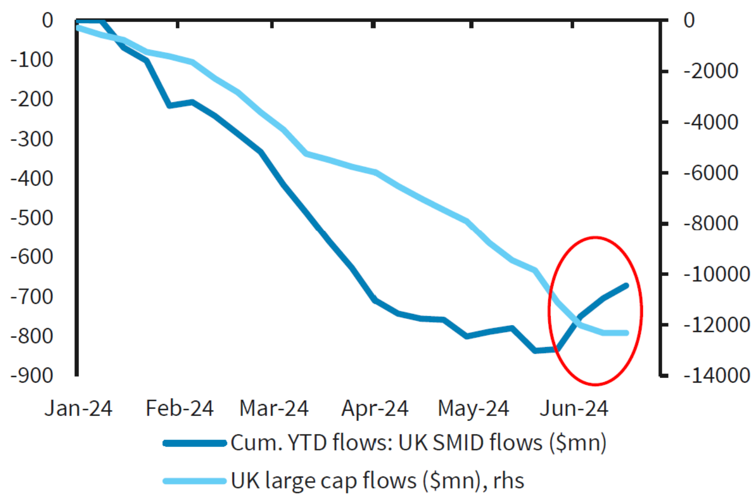
Only a handful of positions finished the quarter in the red, and they had negligible downturns. The worst performer was Entain plc (Entain), which cost investors around 0.3%. The main rationale for holding Entain is joint venture partner MGM returning for a subsequent bid for the company after its initial approach in 2021. The short-term catalyst was that Entain cleared its slate with the relevant authorities for unregulated business in Turkey at the end of last year. This initially increased the likelihood of a deal, however, as time dwindles on, the probability appears to diminish and the underlying business is battling against some challenges, hence we have reduced the size of the position.

Under the Bonnet

At quarter end, Dynamic's asset allocation was positioned with 52.7% in equities and 13.4% in listed alternatives. Over the period, both asset classes have been slightly nudged higher at the expense of the fixed income portion, which has marginally reduced to 34.0%, due to profit taking and some bond maturities.

Activity during the quarter was more muted than typical. We have continued to part ways with lower conviction small sized holdings, increasing exposure to high conviction ideas, which we believe over time will continue to deliver alpha to investors. The main beneficiary was exposure to UK investment trusts focussing on small and mid-cap companies, where we see value in abundance, corporate activity remains strong, and we note the tide of negative outflows from investors has finally turned positive. Hopefully a precursor of more to come.

FIGURE 47. UK small caps saw demand pick up recently but large-cap flows still negative



Source: EPFR, Barclays Research

We also revisited the defence sector by adding BAE Systems plc and Rheinmetall to the portfolio, both of which dipped in the lead-up to the Ukraine Peace Summit in June 2024. These additions provide us with broad exposure to the UK, mainland Europe, and the USA. With the rationale that growth in the sector will be present for quite some time ahead, whilst enhancing the diversification of the portfolio, against geopolitical instability, which remains elevated and unsettling.

Looking Forward

Uncertainty remains elevated.

From a political viewpoint, there are many unknowns. Military escalation and tensions are concerning from both human and financial perspectives. Many of the world's largest democracies are heading to the polls within the next few months, adding uncertainty about future world leaders and their policies.

The economy appears to be on relatively stable footing, with signs of cooling but no imminent recession, although we continue to closely monitor employment data, which, whilst strong in absolute numbers, shows a cooling in the job market. With inflation seemingly conquered (for the time being, at least), interest rate cuts that could stimulate a slowing economy appear to be getting closer, with the European Central Bank leading the way as one of the first to start the cutting cycle.

The UK appears to be a relatively bright spot for the first time in a long while. The upcoming election is expected to result in a substantial victory for Labour, ushering in a new, relatively centrist government capable of governing with stability and calm. The UK economy has experienced a pickup after a period of weakness, and we believe the Bank of England will soon reduce rates post the election.

Reflecting on the portfolio, it's hard to curb our enthusiasm too much especially in the knowledge we are protected by diversification, some defensive holdings, and short-dated bonds (both government and corporate), which provide a buffer against potential market volatility.

Dynamic's bond portfolio currently yields 7.5%. A touch lower than in recent months yet significantly higher than it has been for the vast majority of Dynamic's life, providing a steady flow of income and acting as a great base for investors. These bonds will only appear more attractive if the UK does cut rates, which also should provide a tailwind to many of the alternative income holdings as alluded to earlier.

Turning to stocks, we remain optimistic on the UK, particularly in the investment trust sector, attracted to the double discount, as funds trade at a notable discount to the already undervalued underlying companies. Looking more globally, markets are dominated by mega-cap technology plays, and we see continued positivity from stocks being driven by the artificial intelligence revolution. While we have questioned valuations and certainly wouldn't argue that we see deep value there, we recognize the high-quality earnings and strong growth potential of these stocks. Thus, we believe valuations remain acceptable and are not currently comparable to the bubble witnessed at the turn of the millennium. Additionally, the benefits of artificial intelligence have yet to fully translate into broader company efficiencies and increased margins, giving us long-term confidence in both the broader market and global technology holdings.

All in all, we believe Dynamic is well diversified and we retain a cautious optimism.

Rupert Silver – Lead Manager

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Portfolio Top Holdings[3]

UK Equities	%
Aberforth Smaller Companies Trust plc	2.5
Artemis Alpha Trst plc	1.7
Marks & Spencer Group	1.7
BAE Systems plc	1.6
FRP Advisory Group Limited	1.4
Total UK Equities	**12.3**

Alternatives	%
Assura plc REIT	2.4
Twentyfour Income Fund Ltd	1.7
Literacy Capital plc	1.3
Taylor Martime Investments Limited	1.1
Gresham House Energy Storage Fund plc	1.0
Total Alternatives	**13.4**

International Equity Funds	%
Polar Capital Technology Tst	6.7
DBX S&P 500 Equal Weighted	6.4
GQG Global Equity Fund UCITS	5.8
Vaneck Global Mining UCITS ETF	2.2
Geiger Counter Ltd	2.1
Total International Equity Funds	**38.9**

Fixed Income	%
Investec plc 06/03/2033	2.7
Admiral Group plc 8.5% 06/01/2034	2.0
Nationwide Bldg Society Perpetual	2.0
Co-Operative Group 08/07/2026	1.8
Barclays plc Perpetual	1.8
Total Fixed Income	**34.0**

Overseas Equity	%
Rheinmetall AG	1.0
Tonies SE	0.5
Total Overseas Equity	**1.5**

Cash	%
GBP	0.0
Total Cash	**0.0**

[3] *Portfolio positions of the Credo Dynamic Fund as at 28/06/2024*

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