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Fund Commentary

The final quarter of 2024 saw the Credo Dynamic Fund (Dynamic) return 3.8% yielding an annual return of 12.5% for the year[1], versus the comparator and peer group (IA Mixed Investment 40-85% Shares Sector), which returned 1.2% and 9.0% over the same respective periods[2]. We are pleased to report another top quartile quarter and year and are delighted to report the Fund continues to rank in the top quartile of its peer group over 1, 3, 5 years and since its inception[3].

Looking back, 2024 turned out to be a year that caught many off-guard. At the start of the year, even the most esteemed Wall Street firms made market predictions that largely ranged from negative to, at best, modestly positive returns. However, the US consumer proved to be remarkably resilient, driving forward the world's largest economy and again, delivering respectable growth. The Federal Reserve Bank was poised to react to any sign of weakness and started cutting rates in 2024 with a vengeance more akin to a time of crisis than one of moderate economic growth. As a result, the S&P 500 Index delivered a stellar performance, and the major stock markets globally were strong. In Dynamic, this underscores the importance of maintaining a core allocation with long-term market exposure alongside our more flexible satellite holdings. Even when the market backdrop feels uncertain or worrisome, staying invested ensures we are not caught flat-footed by unexpected turns. Markets have an uncanny ability to defy expectations, often pulling positive surprises out of the hat.

The final quarter of 2024 was dominated by major political stories. Donald Trump, though considered a marginal favourite heading into the election, surprised everyone with a decisive landslide victory, taking real control of the US political establishment. True to British terminology, Trump is truly a "marmite" figure. From a purely market perspective, however, he is viewed as more business-friendly, supporting tax cuts, regulatory reprieves, and bringing hopes of a boom in corporate activity. However, the positive business backdrop, combined with the looming threat of tariffs, which Trump has famously called "the most beautiful word in the dictionary", led to a change in inflation expectations, which subsequently altered interest rate expectations, causing both UK and US 10-year government bond prices to fall. This resulted in yields rising by approximately 0.50% and 0.75%, respectively, with both ending the period at around 4.5%.

In the UK, the initial relief that the new government would be centrist, bring stability, and potentially foster closer ties to Europe, was short-lived. Optimism quickly gave way to pessimism as talk of hidden issues in the government's budgeting emerged, culminating in a budget that imposed higher taxes on both businesses and individuals. This sparked concerns that it might be just the first of many similar measures. The situation was further exacerbated by struggling European neighbours, with key countries facing notable political instability, interest rates putting significant pressure on consumers and the construction sector, and persistent issues with low productivity and inefficiency. This negative sentiment contributed to a weakening of sterling during the quarter, erasing much of the strength previously seen in the Fund's base currency earlier in the year.

Focussing on the holdings within Dynamic, the strong US performance and weak sterling were key drivers of returns over the period. Polar Capital Technology plc was the standout performer in the portfolio. A 16% return over the period translated into a gain of over 1% for Dynamic in the quarter. In fact, all three of our

[1] *Performance of the Credo Dynamic Fund Class A Retail Shares over the period 30/09/2024 to 31/12/2024.*
[2] *Source: FE Analytics.*
[3] *Inception: 03/07/2017.*

core international equity holdings were strong with the S&P 500 Equal Weighted Index ETF and GQG Global Equity Fund, also bolstering performance.

Cryptocurrency was the pinnacle of the Trump trade, fuelled by his self-proclaimed role as the "crypto Tsar" and his pledge to make the US the "crypto capital of the planet" through regulatory reform and a Bitcoin strategic reserve. A relatively small holding in Dynamic, but a notable performer, was the TOBAM Global Blockchain Equity Fund, delivering a standout 29% return during the quarter and a near 70% gain since purchase almost a year earlier. This UCITS fund provides exposure to cryptocurrency through a diversified portfolio of equities that are positively correlated to Bitcoin and blockchain technology. In addition to this holding, we initiated a position in the summer in UK-listed Plus500 Ltd, which was another strong performer. This retail-focused trading platform is well known to us. Anticipating heightened volatility and trading activity following the US election in both stocks and cryptocurrency (which accounts for roughly 10% of its sales). The stock closed the year at an all-time high and by the end of the period, Plus500 had become the largest individual equity holding, representing 2.5% of the Fund. We expect a trading update in January, providing detail about recent trading will be a further catalyst for the stock. The combined exposure with the TOBAM Global Blockchain Equity Fund delivered over 0.5% to investors in the quarter.

Whilst the lion's share of the Fund's returns came from equity markets, we were very pleased to see healthy gains in the bond portfolio. Instead of focusing on longer-dated government bonds, which, as outlined above, struggled this quarter, Dynamic's barbell strategy is less sensitive to rate movements. Much of the portfolio is invested in super short-dated, high-quality corporate and government issues that are so close to redemption such that they are not affected by medium-term rate expectation changes. Additionally, the longer-dated, higher-yielding plays offer a notably higher return than government bonds and benefited from tightening spreads (the excess return a corporate bond offers over its government counterpart), alongside a high-income stream.

Finally, it was rewarding to note that whilst there were some laggards over the quarter, there were no noteworthy detractors over the period, which we define as creating a negative return to the Fund of 0.5% or more.

Under the Bonnet

As at the close of 2024, the Fund's portfolio has gradually reverted to its more typical longer-term asset allocation after a significant overweight in fixed income. Equities represented just over half of the portfolio, with 29% in fixed income and 17% in alternatives.

We reduced the fixed income allocation each quarter, amounting to a 14% decrease over the year, reflecting the diminishing appeal of a significant satellite position. The excitement over the outsized risk-reward has notably waned, driven by both changing interest rate expectations and the reduced spreads relative to government bonds, as outlined above. This shift allowed us to steadily increase equities, resulting in a 7% increase over the year, 3% of which occurred in the final quarter, as we identified better opportunities amid reduced recession risks and attractive individual plays.

A key point of both differentiation and excitement in the portfolio remains the investment trust holdings, which make up 30% of the Fund. This includes 11% of the portfolio's alternatives allocation and 19% of the portfolio's equity allocation. These investment trusts trade at an average discount of 27% (alternatives) and

13% (equities) to their underlying asset values. We firmly believe 2025 will bring catalysts that benefit not only individual holdings but also their peers as the market assesses relative value. Following a strong gain in PRS Reit plc in the third quarter, this quarter has seen several holdings announce positive catalysts. These include Harmony Energy Income Trust, Residential Secure Income REIT, Blackstone Loan Financing Limited, and Atrato Onsite Energy plc, all of which generated profits for unit holders by either selling assets or announcing the winding down of portfolios during the period.

In the immediate aftermath of the Trump victory, it felt sensible to be fully invested and equity focussed, however, as stocks went to new highs, whilst government bond yields also climbed, we had some concerns that markets might have run too far too quick and as such took some profits over the holiday period.

Due to this profit-taking and the capital returns outlined in some of the investment trusts, Dynamic has somewhat unusually built up a liquidity reserve of 7% in cash and short-dated government bills. This reserve is poised to be deployed into either new or existing positions as opportunities arise, ensuring the portfolio remains well-optimized in an ever-changing world. However, with highly valued assets and a presidential inauguration in January, we believe it is prudent to observe how markets react to the new president rather than rush to deploy.

Looking Forward

Uncertainty remains elevated.

One can easily paint either a rose-tinted or bleak picture of the future. The Bulls argue that Trump's policies, his government efficiency regime, and tax cuts, supported by the strength of the American economy, will push markets to new highs. Optimists also look forward to a time when a solution is found in Ukraine, believing that this will come quicker with Trump 2.0. All this is set against the transformative backdrop of Artificial Intelligence (AI), which promises to boost workforce productivity, enhance corporate margins, and deliver benefits that will filter through for many years to come. The Bears, however, voice concerns about global debt levels hitting record highs and that inflation appears to be creeping up from recent lows, potentially halting the rate-cutting cycle at a precarious time. The US job market shows signs of stuttering, and geopolitical risks remain widespread and seemingly on the rise. All this unfolds in an environment where in certain aspects valuations can be viewed to be stretched and there are signs of excess speculation; by way of example, a cryptocurrency called "Fartcoin" now boasts a valuation well in excess of £1bn!

The most reliable indicator of future returns has consistently been valuation. Very few people would argue that equities are currently cheap hence our elevated cash holding, yet, simplistically speaking, one can divide stocks into two markets: high-growth companies, many of which are among the largest in the world and are driving the AI revolution, and the rest. High-growth companies are expensive but are steadily growing into their valuations. On the other hand, if we strip out, for example, the Magnificent Seven from the S&P 500 Index, the remaining 493 companies along with many global markets, appear either reasonably priced or undervalued, depending on the country, sector, or scenario. Judging the entire market in one sweep is, therefore, a challenging and sometimes unhelpful task.

Rather than attempting to predict the future, we place our confidence in the core and satellite approach of Dynamic. Half of the Fund's assets are held in long-term core positions, providing stability and ensuring participation in market rallies as they climb the proverbial wall of worry. The other half consists of a highly flexible satellite allocation, designed to act as a ballast amidst choppy waters or to act decisively when opportunities present as 2025 unfolds. If Trump 1.0 is anything to go by, frequent "tweeting" might cause notable volatility. Our diversified approach ensures we are not solely dependent on the broad market to deliver returns but instead seek to generate value across various asset classes.

Wishing all our investors a happy and healthy year ahead.

Rupert Silver – Lead Manager

Portfolio Top Holdings[4]

UK Equities	%
Plus500 Ltd	2.5
Marks & Spencer Group	2.3
Aberforth Smaller Companies Trust plc	2.0
BAE Systems plc	0.8
Aurora UK Alpha plc	0.8
Total UK Equities	**10.1**

International Equity Funds	%
Polar Capital Technology Trust plc	7.4
DBX S&P 500 Equal Weighted ETF	7.0
GQG Global Equity Fund UCITS	5.6
VanEck Morningstar Wide Moat ETF	2.2
Scottish Mortgage Investment Trust plc	2.2
Total International Equity Funds	**40.0**

Alternatives	%
Assura plc REIT	2.4
Downing Renewables Infrastructure Trust plc	2.1
The PRS REIT plc	1.9
Urban Logistics REIT plc	1.7
Literacy Capital plc	1.3
Total Alternatives	**15.9**

Fixed Income	%
Heathrow Finance plc 03/03/2025	2.1
Nationwide Building Society Perpetual	1.8
Admiral Group plc 8.5% 06/01/2034	1.8
Co-Operative Group 08/07/2026	1.7
Electricite de France (EDF) Perpetual	1.6
Total Fixed Income	**29.1**

Cash	%
GBP	5.0
Total Cash	**5.0**

[4] *Portfolio positions of the Credo Dynamic Fund as at 31/12/2024.*

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