

Fund Commentary

The third quarter of 2026 saw the Credo Dynamic Fund ("Dynamic" or "the Fund") return 1.0%¹, slightly outperforming the comparator and peer group (IA Mixed Investment 40-85% Shares Sector), which generated 0.7%. Whilst performance year to date is behind peers, Dynamic is well ahead over both three and five years and remains firmly in the top quartile since inception².

The big story of the quarter was oil. The price of Brent crude oil (Brent) began the period in the low seventies after a fragile June agreement re-opened the Strait of Hormuz to tankers. It didn't last. The ceasefire unravelled within weeks, and by mid-July the US had reinstated its blockade of Iranian exports. By September, Saudi pumping stations had been attacked, and the Houthis had widened the conflict well beyond Iran. Brent finished the quarter around 40% higher than the start, above \$100 per barrel. Refinery outages from Russia to the Middle East made matters worse, squeezing supply of petrol and diesel, which the wider economy runs on.

Expensive oil means sticky inflation, and sticky inflation means central banks can't cut rates. In fact, the Federal Reserve (Fed) went the other way. New Fed Chair, Kevin Warsh, used Jackson Hole to make clear that, with inflation sticky and the economy strong, policy was not tight enough. In September, the Fed duly raised rates by 0.25%.

Sticky inflation, spiralling deficits, and continual talk of the US Treasury meddling in markets are not friends of the bond market. The US 10-year Treasury yield climbed above 5.3%, its highest level since 2007. In the UK, 10-year gilt yields reached 5.5%, also a post-2007 high, while 30-year gilt yields came within a whisker of 6%, a level last seen in 1998. Japan had its own drama. The yen slumped to almost ¥164 to the US dollar, its weakest level since 1986, despite a Bank of Japan rate rise, prompting a rare joint intervention by Tokyo and Washington.

Outside oil, commodities were broadly strong. AI infrastructure kept demand for copper high, while talk of a "super El Niño", the weather pattern that plays havoc with rainfall across Asia, Africa and South America, raised the prospect of higher food prices. Gold was caught between battling opposing forces. War and inflation would normally help, but rising interest rates make a metal that pays no income more costly to hold. After a strong August it gave back most of its gains in September, finishing only modestly higher in US dollar terms and still well off its peak. Bitcoin, the other debasement trade, fared far better, rising more than 40% for its best third quarter since 2017.

The most striking feature of the quarter? The fact that the large equity indices frankly don't care. With S&P 500 earnings expected to grow almost a third this year, nothing else seems to matter. Beneath the surface, however, there was plenty of dispersion. Rate-sensitive sectors such as utilities and property fell sharply, and smaller companies had a rough time. Gains in energy, healthcare and technology were enough to drag the MSCI World Index to a 1.9% gain in sterling terms, and the S&P 500 even set fresh record highs along the way.

¹ Performance of the Credo Dynamic Fund Class A Retail Shares over the period 30/06/2026 to 30/09/2026. Source: FE Analytics.

² Inception: 03/07/2017

Turning to Dynamic, the quarter was surprisingly uneventful for such choppy waters. We usually report on positions that add or detract more than 0.5% to performance in the quarter, but no single holding reached that mark this quarter. All three asset classes made a positive contribution before fees: equities added 0.7%, alternatives added 0.5%, and fixed income contributed a small positive, at a time when the Bloomberg Sterling Corporate Bond Index fell by almost 2%.

The stock, Strategy Inc, was our largest contributor. Formerly known as MicroStrategy, this US company's main asset is physical bitcoin, and it is the largest corporate holder in the world. We believe some bitcoin exposure is appropriate in a highly diversified portfolio, but we recognise its speculative and volatile nature, so the allocation is kept small. Even so, a gain of over 75% in the shares added just under 0.5% to Dynamic. We took profits into the rally, more than halving the position.

On the negative side, Plus500 was the largest detractor from performance, costing 0.35%. This online trading platform has been a strong asset for Dynamic in recent years, but the shares drifted for much of the quarter. Interim results in August were solid, with revenue up 12% and new customers up 17%. It looks cheap to us and is a serial long-term compounder, so having trimmed into new highs earlier in the year, we added to the position.

The bond portion of the portfolio also deserves a mention. Our focus on shorter-dated bonds has been an important tactic in recent quarters because it keeps duration, essentially how sensitive a bond's price is to changes in interest rates, nice and low. In a quarter dominated by rising yields, that kept our fixed income sleeve in positive territory while the broader market fell. At quarter end, the portfolio yields an attractive 6.8% with a duration of 3.6 years.

Under the Bonnet

Asset allocation remained broadly stable over the quarter and the top ten holdings were largely unchanged. Equities closed the period at 51.4% of the Fund and fixed income at 25.0%, leaving 22.3% in alternative assets and a small amount of cash.

We finally exited Spire Healthcare after the board backed a 250p cash offer from a Toscafund-led consortium, bringing an end to this rocky but ultimately profitable journey. Long-standing readers will remember the thesis always rested on a property portfolio worth more than the market was giving it credit for, and patience was rewarded in the end.

With rising rates leaving real estate investment trusts (REITs) thoroughly beaten up, we added Helical plc and Tritax Big Box REIT plc alongside our existing holdings in Derwent London plc and Unite Group plc. Buying property while rates move against you feels uncomfortable, but the best investments are often made in uncomfortable times. All four trade at sizeable discounts to their net asset values and pay a healthy dividend while we wait for rates to peak.

In fixed income, our corporate bonds remain short-dated, as the extra return over government bonds is still skinny. However, for the first time in the Fund's history, we added a medium-dated government bond. Yields have risen sharply but are still comfortably within the range that was normal before the post-financial crisis

era of artificially low rates. We aren't banging the drum, but a small position offers diversification and meaningful upside should the backdrop change. Again, it feels contrarian, which is rarely a bad sign.

On the theme of diversification, our move into Australian dollar assets earlier in the year has worked well when translated back into sterling. More recently, we added Norwegian krone, a higher-yielding currency with a wonderfully stable backdrop and none of the debt worries facing the US dollar, euro or pound. We also think the yen's slide looks to be a compelling entry point now that Japan and the US have shown they will step in together. The yen pays almost nothing, but it tends to shine when markets wobble. That's largely down to the "carry trade": in good times investors borrow cheaply in yen to buy higher-yielding assets elsewhere, and in bad times they rush to unwind, buying back yen and squeezing it higher. Each move is small, but together they broaden the portfolio's reach.

Looking Forward

There is plenty for markets to digest over the coming months. In the UK, all eyes turn first to the Budget at the end of October, with gilt yields at multi-decade highs eating into the Chancellor's room for manoeuvre. Globally, the path of interest rates remains crucial, with a Federal Reserve that has made clear inflation is its overriding focus and further hikes are firmly on the table. The US mid-term elections in November add another potential source of volatility. On top of these scheduled events, the tensions in the Middle East and their knock-on effects on oil, inflation and interest rates may prove the most important factor of all in the short term. President Trump insists the Iran war will be resolved once the mid-terms are out of the way. We hope he is right, but having heard it before, we won't hold our breath.

Longer term, the future will largely be shaped by the success of AI. There are countless moving parts, from the race to build data centres and the battle between open and closed models, to the birth of personal agents and ever-evolving chip and power requirements. We could debate it all day and still have only a coin flip's chance of being right.

Rather than trying to predict each outcome, we focus on building a portfolio that can perform across a wide range of environments. A short-duration bond book with an attractive yield, a broad spread of real assets and currencies, and equities we believe in for the long term, give us a good deal of comfort.

Benjamin Newton – Co-Fund Manager

Portfolio Top Holdings³

UK Equities	%	Alternatives	%
Plus500 Ltd	1.4	Twelve Capital Catastrophe Bond Fund	3.5
FRP Advisory Group Limited	1.2	Yellow Cake plc	1.8
Merchants Trust plc	0.6	Saba Capital Investment Trusts	1.7
Elixirr International plc	0.6	WisdomTree Physical Gold GBP Hedged	1.6
Halma plc	0.4	Sequoia Economic Infrastructure Income Fund Limited	1.6
Total UK Equities	4.9	Total Alternatives	22.3
International Equity Funds	%	Fixed Income	%
SPDR MSCI All Country World	6.2	BP Capital Markets plc Perpetual	2.3
Polar Capital Technology Trust plc	4.7	Investec plc 06/03/2033	2.1
iShares S&P 500 Equal Weight	3.0	Barclays plc 14/11/2032	1.9
Pershing Square Holdings Ltd	2.8	Co-operative Group Ltd 15/12/2031	1.9
Xtrackers plc MSCI World ex USA	2.5	Heathrow Finance plc 01/03/2031	1.8
Total International Equity Funds	42.0	Total Fixed Income	25.0
Overseas Equities	%	Cash	%
Uber Technologies Inc	1.1	GBP	1.2
Flutter Entertainment plc	0.7	Total Cash	1.2
Kongsberg Gruppen ASA	0.6		
Alphabet Inc	0.5		
Strategy Incorporation	0.5		
Total Overseas Equities	4.5		

³ Portfolio positions of the Credo Dynamic Fund as at 30/09/2026.

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