GROWTH FUND

Macroeconomic Commentary[1]

As with much of the preceding year, the final quarter of 2019 was characterised by all things Brexit and the US-China trade dispute. With progress being made with regards to both, developed market equities made strong gains over the quarter; the S&P 500, FTSE 100 and Euro STOXX were all up 9.1%, 2.7% and 5.2%, respectively. The Conservative Party won a comfortable majority in the December General Election, paving the way for Boris Johnson to push through his Brexit Withdrawal Agreement. The Conservative Majority provided a welcomed boost to UK equity markets, with banks, housebuilders and utilities having the most to gain. The pound also rallied as a result, up 7.9% against the US dollar and up 4.8% against the Euro. A "phase one" trade deal between the US and China and the fact that the US did not follow through on its promise to impose tariffs on EU auto exports, provided a further catalyst to global trade and equity markets. In the fixed income market, the yield on developed market government bonds increased, with the yield on US, UK and German 10-year bonds all decreasing by 25, 33 and 39 basis points respectively, as the political uncertainty which had surrounded 2019 appeared to be reducing.

Fund Commentary

For the final quarter of the year, the Fund returned 4.7% versus the benchmark, the IA Flexible Investment Sector, which returned 2.7% over the same period[2]. This saw the Fund end the year with a total return of 20.7%, whereas the benchmark returned 15.7% over the same period. Whilst the Fund is benchmark agnostic, it is pleasing to outperform for comparative purposes.

The Fund's core equity positions have now been established and the Manager will continue to selectively add to them over time and as cash flows come into the Fund. During the quarter under review, we have continued to reduce the number of equity holdings, which were held in the Fund as at the end of the period under review.

The Fund has been established as an investment vehicle for long-term holdings and hence trading activity has reduced as the initial cash has been invested. At the end of the period, the Fund's asset allocation consisted of approximately 87% in equities, 11% in fixed income, and the balance of approximately 2% in cash.

The Fund remains diversified globally, approximately 54% of the assets are sterling denominated, with a further 43% being US dollar denominated. Approximately 3% is allocated to euro denominated assets. As noted in previous commentaries, the Fund does not hedge the currency exposure. The Manager believes that, over the long-term, well managed companies will themselves hedge the currency where they believe it to be appropriate, and we further believe that the equities selected will have price appreciation in excess of any long-term currency fluctuation.

At the end of the period under review, the five largest equity positions held comprised of Alibaba, Alphabet, Costco, Intermediate Capital Group plc and Microsoft. All these positions contributed positively to performance during the year.

(1) Source: Bloomberg.

(2) Performance of the Credo Growth Fund A Retail GBP Share Class. Source: Bloomberg, FE Analytics. Inception: 3 July 2017.

Another position in the top 10 holdings of the Fund included Primary Health Properties. This is a British based listed real estate investment trust, which specialises in the rental of flexible and modern primary healthcare facilities within both the UK and Ireland.

Looking Forward

At the end of the quarter the Fund held approximately 50 direct equity positions and is thus sufficiently diversified geographically, as well as across sectors. Whilst the number of positions has reduced over time, it remains the intention of the Manager to continue to gradually reduce these to closer to 40 positions whilst increasing the Fund's exposure to several companies already held.

In the UK, the result of the General Election has brought some clarity for paving the way forward as Boris Johnson works to push through his Brexit Withdrawal Agreement. The political and macroeconomic outlook remains highly uncertain, however, particularly in the immediate short term, given the recent events in the Middle East, as well as the continued uncertainty in respect of President Trump's ongoing tariff war with China, although a "phase one" trade deal between the US and China provided a positive catalyst to global trade and equity markets.

Despite the uncertainty, the Manager remains cautiously optimistic for the year ahead, but believes it is unlikely that 2020 will be as good a year for investors as what 2019 was. That said, the Fund is well positioned, and adequately diversified, to withstand any headwinds which may arise.

Roy Ettlinger, Portfolio Manager