

Investment Insight

World Stars Global Equity: Stock selection and diversification drive returns

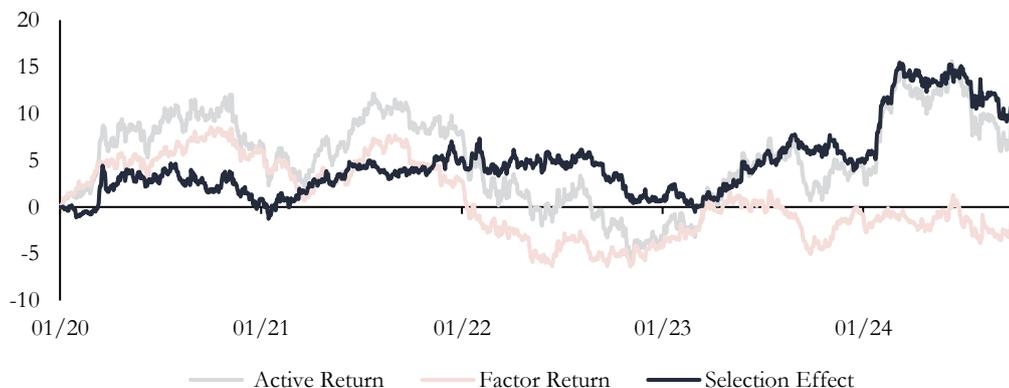
Quality is the cornerstone of our World Stars Global Equity strategy, guiding every investment decision we make. In recent years we have experienced an environment of significant volatility, marked by the Covid-19 pandemic, the subsequent acute supply chain constraints globally, the war in Ukraine, inflationary pressures, rapidly rising interest rates, a cost-of-living crisis and conflict in the Middle East. Throughout this period, it has been our commitment to quality that has set us apart and allowed us to generate strong long-term returns: 12% per year over the past ten years and in the top 10% of comparable funds globally, according to the IA Global.

At the core of our approach is the conviction that stock selection, rather than reliance on sector trends, or other factors, is the key to generating attractive long-term returns. Our portfolio is purposefully diverse, spanning sectors such as digital transformation, industrials, healthcare, consumer discretionary among others.

Our digital and technology holdings have capitalised on digital transformation and the rise of AI, while our industrials, a critical part of the portfolio's success, have benefited from infrastructure investments and reshoring trends. Our stock selection process has ensured that we are not overly reliant on any single sector or theme. Instead, the diversity of our investments-combined with the focus on quality has allowed us to navigate the ups and downs of global equity markets with resilience.

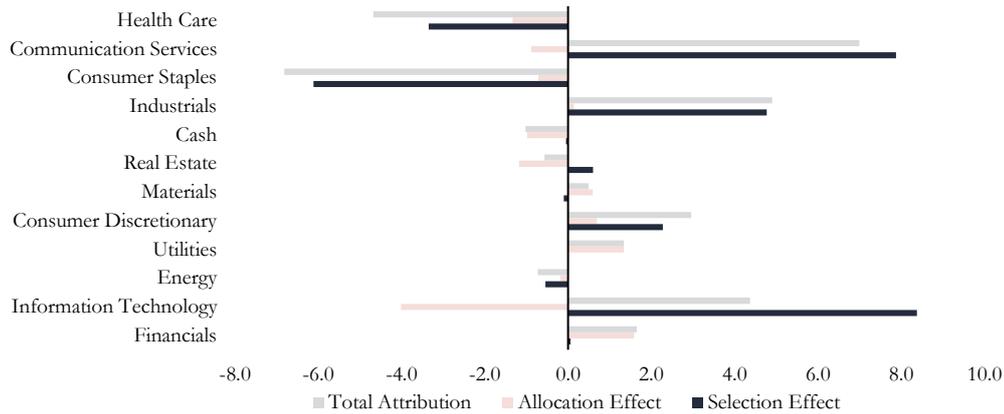
We are proud that our World Stars strategy has delivered strong returns throughout this period. We are even more proud that our portfolio and risk analysis shows that these returns have been the result of stock selection, reflecting a fundamental 'bottom-up' investment approach that is also broad-based, reflecting diversification across themes and sectors. The chart below shows the total active return of the strategy since the start of 2020 and the effect of stock selection and factor returns on the overall performance of the strategy. What you can see is that it is all due to stock selection.

Factor Attribution Since 2020 (%)



Source: SIX, WIZE, Bloomberg *

Attribution Effects Since 2020 (%)



Source: SIX, WIZE, Bloomberg*

Looking in detail at the performance composition since 2020, the stock selection effect was positive for four out of the five years, reflecting the strength of our bottom-up approach and the diversification of our strategy. Most notably we have had strong consistent contributions from the information technology, communication services, industrials and consumer discretionary sectors throughout the period.

If we look at the top contributors by year, you can see the breadth of performance sources as holdings have been able to pivot and tap into opportunities that have arisen from this period of unprecedented volatility. In 2020, digital transformation holdings benefited from the surge in e-commerce and online advertising, the shift to contactless payments and at-home entertainment while crucially our life sciences holdings emerged as key solutions providers for testing, therapies and vaccines amidst the pandemic. We saw a continuation of these trends in 2021, complemented by an increased focus on the transition to net zero and infrastructure spending, especially within the US and Europe fuelling our industrial holdings. It was a more difficult year in 2022, given the sharp rotation away from

Top 5 Contributors to Selection Effect (%)			
2024	Excess return	2.5	
	Allocation effect	-0.4	
	Selection effect	3.0	
	Nvidia	Information Technology	4.7
	Eaton	Industrials	1.1
	Meta	Communication Services	0.8
	RTX	Industrials	0.5
Amazon	Consumer Discretionary	0.5	
2023	Excess return	7.7	
	Allocation effect	-0.5	
	Selection effect	8.1	
	Nvidia	Information Technology	3.8
	Eaton	Industrials	1.7
	Meta	Communication Services	1.6
	Amazon	Consumer Discretionary	1.0
L'Oréal	Consumer Staples	0.9	
2022	Excess return	-6.7	
	Allocation effect	-1.0	
	Selection effect	-5.7	
	LVMH	Consumer Discretionary	1.0
	Activision Blizzard	Communication Services	0.8
	Honeywell	Industrials	0.5
	RTX	Industrials	0.5
Amphenol	Industrials	0.5	
2021	Excess return	-0.2	
	Allocation effect	-2.3	
	Selection effect	2.1	
	Alphabet	Communication Services	2.4
	Sika	Materials	1.2
	Eaton	Industrials	1.1
	Thermo Fisher	Health Care	0.8
LVMH	Consumer Discretionary	0.7	
2020	Excess return	6.8	
	Allocation effect	1.7	
	Selection effect	5.1	
	Amazon	Consumer Discretionary	1.4
	Activision Blizzard	Communication Services	1.2
	Thermo Fisher	Health Care	1.2
	Mastercard	Financials	0.9
Eaton	Industrials	0.8	

Source: SIX, WIZE, Bloomberg*

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The Value of Long-Term Investing

growth stocks. We subsequently saw a strong performance by our industrial and consumer holdings, the former fuelled by a spike in defence spending globally amidst the crisis in Ukraine and with the reshoring of manufacturing emerging as a key geopolitical theme.

Having kept our conviction on digital transformation holdings during 2022 and having introduced (and then added to) the position in advanced semiconductor leader Nvidia, 2023 saw a rebound in these holdings as more streamlined cost structures fuelled earnings and as AI reached a tipping point in mass commercialisation. This trend has continued to gather pace in 2024. It was complemented by the strong performance of our industrial holdings as it has become increasingly evident that we are amidst a multi-year surge in spending in the global capital asset base following decades of underinvestment.

The two areas that have experienced more challenging conditions for the strategy, healthcare and consumer staples, are starting to inflect. In healthcare, elective hospital procedure activity has normalised and the roll-off of Covid-19 windfall revenues is almost complete. This is reflected in the inflection of our holdings' performance in recent months. In consumer staples, despite resilient spending in areas such as travel, luxury and cosmetics, categories like spirits have struggled amidst normalisation of inventory post-pandemic across the distribution chain and concerns about global consumer demand. Such short-term headwinds provide exactly the opportunity we are looking for to add to positions. This is what we have done in recent months, with the expectation that both earnings and valuations will eventually revert to long-term averages.

The analysis provides evidence for the strong stock selection and the rich sources of performance evident in our strategy amidst a period of significant uncertainty and volatility. Above all, it underlines the benefit of our unwavering focus on quality.

As we look forward to the end of this year and beyond, we are optimistic about the outlook for our portfolio. The companies we invest in have strong and sustainable competitive positions, in good and growing industries, with management's strong track records of value creation and balance sheets that can weather any adversity. This is why they can use periods of volatility to benefit from their agility, take advantage of opportunities, grow their businesses organically and through acquisitions, increase their market shares, expand their addressable markets and emerge stronger, with deeper competitive moats for the next five and ten years.

Our portfolio management is based on the same principles. By concentrating on high-quality companies, undertaking our own qualitative and quantitative analysis and being disciplined about valuations, we have been able to benefit from market volatility to buy companies at attractive valuations and to generate strong and resilient returns across different market conditions while avoiding over-reliance on factors like style or sector trends.

It is this commitment to quality, stock selection, diversification and valuation that defines our approach and positions our portfolio to generate long-term returns for our investors.

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*The attributions compare the World Stars Global Equity strategy, against the iShares MSCI World ETF listed in Dublin, based on total return, with no fees included. Currency USD. Past performance (whether real or simulated) is not a reliable indicator of future performance.

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