

## *Investment Commentary*

### **The challenges are real – so is the opportunity**

The world is an unsettling place for investors. It requires rational assessment of the challenges we face and disciplined optimism about what lies on the other side.

Geopolitical tensions have intensified rather than eased. The conflict in the Middle East has escalated sharply, with military action involving Iran now reshaping regional dynamics in ways that were difficult to anticipate even a few months ago. Oil prices have spiked in response, feeding renewed inflation anxiety and renewed pressure on consumers who were only beginning to recover from the squeeze of the past two years. The war in Ukraine grinds on. The trade conflict between the United States and much of the rest of the world – driven by an administration that has made deliberate disruption its governing principle – continues to weigh on business confidence, supply chains, consumer spending and investment decisions globally.

The macroeconomic picture reflects this. We began 2026 with cautious optimism: labour markets have remained resilient, real wage growth has been broadly positive, inflation has moderated from its peaks and monetary policy has been shifting towards support. These positive fundamentals have been challenged by ongoing political volatility, which has made it harder for businesses and consumers to plan with confidence.

As investors, we remain focused on the long term and on fundamentals. Companies that operate in the real economy, producing real things and real services for real people, generating real cash and reinvesting it in innovation, growth and capacity continue to prosper through adversity. Quality companies with strong competitive positions, exceptional management and strong balance sheets can act where others must react, invest where others must retrench, and acquire where others are forced to sell. Adversity, for the businesses we own, is not merely a risk to be managed. It is an opportunity to be seized.

There is a further dimension to the current moment that we should not overlook. The valuations of quality companies are, by historical measures, at their most attractive in over a decade. The MSCI World Quality index has underperformed the MSCI World by more than 11% since the second quarter of 2024 – the largest dislocation in over twenty years – driven by rotation into precisely the sectors we have always avoided: balance-sheet-driven financials, capital-intensive energy and resources, and policy-dependent utilities. Those rotations have a long history of reversing, sharply and suddenly. The evidence of the most recent comparable dislocation – in 1999, 2003, 2009 and 2020 – is that what follows is a powerful recovery in quality. We believe we are at that inflection point now. The case for owning the world's best businesses at their prices today has rarely been stronger.

We remain long-term investors and, as has been said, optimists because we see little point in being anything else.

### *World Stars Global Equity*

Our World Stars Global Equity Strategy was down -1.4% in US dollar terms in February, slightly behind global indices, and is now up 0.9% year-to-date. You can find our latest factsheet [here](#).

Performance was led by *Nestlé*, the world's largest food and beverage manufacturer, which was up 14.4%. The company reported an acceleration in organic growth to 4% as investments in high-impact innovation and marketing are starting to show results. Nestlé is now focused on optimizing its portfolio around the 'powerhouse global businesses' of coffee, pet care and nutrition. Meanwhile, it is divesting non-core assets, including value-oriented parts of its vitamins business and its stake in the ice-cream joint venture.

More broadly, some of the strongest performers during the month were holdings from the industrial and healthcare sectors as attractive valuations drew in investors. For example, industrial technology leader *Honeywell* was up 8% on the back of product launches and the upcoming spin-off of its aerospace business, which served as a catalyst.

On the weaker side were some of our digital transformation holdings, amid continued concerns about the pace of AI capex by some hyperscalers and the risk of disruption to existing business models. We addressed these concerns in our recent Investment Insight [The AI Paradox: Opportunity as Bear Stories Collide](#), which highlighted how investors are torn between concerns about over-investment and fears that it will render entire industries obsolete. Both bear stories cannot be true simultaneously. Our approach is to assess the potential and risks of AI on a case-by-case basis. For our hyperscaler holdings, AI investments are financed primarily by existing cash flows that are already translating into visible short-term monetisation opportunities. As regards the risk of disruption to our software investments in the CRM (customer relationship management) and ERP (enterprise resource planning) spaces, we believe that the short-term market reaction overlooks the deep competitive moats of these businesses and their inextricable integration into customers' critical sales and operations functions.

A notable event in February was *Diageo's* new CEO Sir Dave Lewis outlining the main parameters of his strategic plan for the company. Lewis is well-known for the turnaround of Tesco over 2014-20 and for his determined management actions at Unilever over 2007-14. Whilst the interim results highlighted still-challenging market conditions, he pointed to several focus areas for significant change and new initiatives. These include a rebalancing of marketing and sales resources towards mainstream brands whilst remaining a leader in the premium and super-premium segments, new cost cutting initiatives and a rewiring of the operating model. He also highlighted opportunities to tap into emerging consumer trends through more creative innovation and the importance of balancing pricing, given a more cost-conscious consumer, funded in part by a reduction in the dividend to provide more financial flexibility. Whilst the plan will take some time to reap results, we think that the stock's valuation – at a 30% discount to its historical levels – is compelling.

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*Investing in Quality for the Long-Term*

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