*Commentary*

**Optimism, Resilience and Opportunity**

“There is no such thing as a rich pessimist” — Max Warburg

Every once in a while we come across a saying that strike us as noteworthy. We are used to them from the likes of Warren Buffett or Charlie Munger but we all think of them from time to time.

That is why we were pleased to see one our own picked up in a *World Street Journal* column by James Mackintosh, the senior markets columnist, a critical writer about markets, valuations and the ability of to generate returns. In a piece entitled *Here’s an Argument That Stocks Should Be Even Higher* he quoted us with one of our favourites, which you have heard us say many times: “Every day that goes by is another missed opportunity to buy Nestlé.”

Our saying is borne out by Nestlé’s returns of 14% p.a. in CHF since 1982 and our optimism that its prospects for future value generation are as strong as its past. You can read the column by following the link here.

This optimism is founded in our long-term investment approach, which helps to put the current challenges in perspective. It was in a conversation about those challenges that we heard our friend Max Warburg’s saying we quote above with his permission. It struck a chord with us because it is a way of saying what we think about investing.

Our world, not just our economies or our financial markets, is driven by the private initiative of people, whether they set up companies, develop new technologies, research new drugs, build schools or create art. Each of those acts is an expression of optimism, and while not every effort, is a success as a whole these initiatives create progress and prosperity. Pessimism doesn’t pay, something Warren and Charlie know better than anyone.

The onset of Covid-19 around the globe has changed the way we live significantly and could have long-term repercussions for how our economies function going forward. Exactly what the post-Covid-19 landscape looks like is not yet clear, especially with the possibility of a second wave of infections around the world and the uncertainty of getting a vaccine.

Nonetheless, there are some things we know. Covid-19 has accelerated many of the changes and disruptions we have seen over the past ten years. Investors have to think about how to adapt their portfolios. Many successful companies pre-Covid-19 simply do not have the same prospects now. They will need to change how they operate, or they could become obsolete. But other companies are prospering, none more so than technology companies that have already enabled

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millions of people to effectively work from home. They are part of the solution, not the problem, and technology will be more crucial than ever as economies begin to re-open.

"Stay at home" companies like *Amazon* and *Activision* enable us to go about our lives without leaving the house have already done well but they will do better yet. Healthcare and life sciences companies like *Thermo Fisher* and *Becton Dickinson* are contributing to the testing and therapy of Covid-19 and are working on treatments and vaccines while they are also coiled for performance once elective surgeries resume. Consumer companies like *Nestlé* are providing basic needs for people (and their pets—Nestlé's biggest pantry loading was in pet food, in which it is a global leader behind Mars, five times the size of its next competitor) while others like *LVMH* are producing luxuries that people want as soon as they can get them (luxury demand in China has rebounded to pre-crisis levels in most categories). Payments companies like *Mastercard* or *Visa*, which we have recently added to our stocks companies have reported significant rebounds in overall activity, with electronic “card not present” payments surging 40% while physical “card present” payments dropped sharply.

We are all facing a difficult and uncertain six months personally as we and our families go back to work or to school. The degree to which we can resume our activities will depend on the progression of the pandemic and the resources we have to contain and mitigate it. Many states in the US have chosen not to impose physical distancing so the pandemic is ongoing. Germany, however, is now in the second month of re-opening and while there have been instances of resurgence as just recently, there is no evidence of a second wave from the loosening of the restrictions. Likewise it is early days given the stringent quarantine put in place but the Southern hemisphere does not appear to have a significant rebound in disease either.

Our insight this month, written by Jean-Yves Chereau and Devin Cameron, is about the *Risk, Resilience and Income Opportunities* we see in credit markets, in particular high yield and emerging markets. You can read it by following the link here or by clicking on the attachment.

Our investments in companies that fulfil our criteria of quality and value have done well. We are optimistic because we are confident that they have the prospects of delivering significant value in the long-term, despite the rebound from the lows in March and despite the challenges we face, but also because we see little point in being anything else.

### *World Stars Global Equities*

Our World Stars Global Equity strategy continued to show strength with the portfolio closing May up 4.7% in US dollar terms, bringing performance year to

date to effectively flat at -0.8%., a significant outperformance versus MSCI World at -8.0%, as well as against all other global indices.

Performance continued to be broad-based across our holdings, with the market increasingly differentiating between those companies that are emerging as beneficiaries from the current Covid-19 crisis and those that are likely to come out structurally weaker. As more granular information emerges both from a top-down macroeconomic basis as well as bottom-up from the companies themselves, we can increasingly build a more nuanced picture of the likely effects of the virus. This will help to inform our financial expectations and reinforce our conviction in the strength of our companies.

Looking across sectors, we saw continued strong performance in our holdings in the digital space. Gaming software provider, *Activision Blizzard*, delivered record revenues, as video gaming remains effectively one of the few forms of accessible entertainment. The company's flagship game, *Call of Duty*, posted record numbers across platforms, including mobile, underlining the strength of the franchise. With a solid pipeline of games lined up for the rest of year, we believe the company is well placed for the year ahead. Similarly, *Facebook* continued to show strength with the company emerging as a beneficiary of the accelerated shift of advertising to digital in the current environment. The introduction of Facebook Shops, which enables businesses to set up a seamless shopping experience across the company's Facebook and Instagram platforms, underlined the company's innovative approach in developing new business models and its potential to tap into the e-commerce space. Facebook and the other digital platforms are under pressure to adapt their principles and practices to the changing political and social environment. The most recent advertising boycotts are likely to accelerate these processes but not change the underlying dynamic of the businesses, the engagement of billions of users and the benefits from advertising to them in targeted ways.

More broadly network payments provider, *Mastercard*, saw strong trends, with consumer spending gravitating online and the structural shift to a cashless society accelerating as retailers increasingly switch to card only payments, even at stores.

Our recently acquired holding in the sensor and connector industry, *Amphenol*, also showed strength as the market anticipates that the company will benefit from increased investment needs in communications infrastructure, as well as accelerated spending in key verticals like medical.

Within health care, our new holding in *Alcon*, the eye care consumer and surgical products provider, surged ahead with the company reporting strong revenues aided by numerous new product introductions and market share gains.

On the weaker side was *Becton Dickinson*, the medical devices and life sciences player, as the company raised capital to strengthen its financial position. Although

the company enjoys a strong cash flow profile that allows it to meet its debt obligations, management wanted to further increase the company's flexibility with a view to taking advantage of acquisition opportunities as they arise in the current environment. We saw this as a pre-emptive strategic move and used the opportunity to add to our position in the name. We believe the company is a strongly positioned player in the industry with a strong M&A track record, whilst the current Covid-19 crisis also affords it revenue opportunities that are underappreciated by the market.

### *Multi-Asset Income*

The month of May saw a further recovery for our multi-asset income portfolio. The latter was up 4.3% in US dollar terms for the month, now only down 3.3% since the start of the year and showing a 5.8% annualised net return since inception, back in line with our long-term investment objective. All asset classes participated but equities were the main driver, with another strong performance of up 6.1% on the month and now up 3% for the year. The fixed income portfolio which suffered to the same extend as equities in February and March, was up 5.6% but is still down -16.4% year-to-date.

The sharpness of the recovery has been as spectacular as the leg down and cannot only be explained by the prospects of the global economy bouncing back in a v-shape or the relative proximity of a Covid-19 vaccine available to everybody. Liquidity is at play again and in huge amounts provided by central bankers and governments. It is less clear how much has been effectively used so far and how the transition out of the "furlough world" will be managed. We expect volatility to increase and be driven by a mix of health related and macro news flow until corporates provide sufficient visibility on the outlook for earnings and cash flows.

Last month was rich in earnings releases and provided strong support for some of our selected issuers. As bond prices still had not fully recovered, we were able to further deploy capital. *MTN*, *IHS* and *HTA*, all telecom or tower operators in emerging markets had solid results highlighting that in this difficult environment mobile telephony benefits from increased data usage. We took positions in all three names.

Despite the recent recovery our fixed income portfolio still had a current yield of 8% and a yield to maturity in excess of 12% for a duration of less than three years. With some of the new high-quality additions to our portfolio, we feel more than ever we have "locked in" future returns for the mid-term.

We remain firmly focused on generating a solid income and despite our expectations of increasing volatility over the next few months we strongly believe that the volatility will remain relatively low.

### *Emerging Market bonds*

As Covid-19 cases have begun to drop in many parts of the world, countries have started plans to reopen their economies, bringing a sigh of relief across the markets. Virtually all asset classes rebounded sharply in May, as investors digested the idea that the worst may be over and central banks continued to pump liquidity into the markets. Emerging Market debt was no exception and has benefitted from the flow of capital back into risk assets. Our emerging market debt strategy returned 5.2% in May which takes the year to date returns to -10.7%

Returns were broad-based across the strategy. However, similar to last month the main contributors were from our energy names *DNO*, *YPF* and *PEMEX* which returned 31%, 29%, and 10% respectively. This was driven by the substantial rebound in oil prices which were up 88% in the month (granted from historical lows). On the supply side, OPEC+ has recently extended its production cut agreement until the end of July which should add some stability to prices. However, until we have more visibility on how the demand side is going to evolve as lock downs are lifted, we continue to expect some volatility in energy related names.

The EM corporate primary market continued to recover with robust activity in May, totalling $40.8 billion. This is the second highest tally for May ever and another positive sign for the asset class as it allows companies to access additional financing, whether that be to refinance existing debt or to bolster their liquidity in order to manage through the crisis. Issuance is still skewed towards investment grade companies, which represent about 70% of the total Nevertheless, we have started to see some of higher quality, more liquid high yield names, such as *CEMEX*, come to the market. This is promising and we expect a larger proportion of high yield issuers to come to the market over the next couple of months.

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