Monthly commentary

ANNUS HORRIBILIS, ANNUS MIRABILIS

Looking back at 2020, we have been struck by how the pandemic has accelerated the change and disruption we have seen over the past decade.

As for any responsible investor, a global pandemic was always on our list of exogenous events with varying probabilities, like a major terrorist incident or a collapse of the internet and access to data and computing capacity. We observed and had concerns, but did not anticipate a pandemic of this scale and impact.

In this year of challenges and adversity, we have been greatly heartened by the resilience we have seen around us even as we acknowledge the significant burden the pandemic has placed on us,whether through the effects of the illness and loss on many of us and our families and friends, the economic challenges many have faced to continue to work and to provide, or the psychological strain that the lockdown and the uncertainty has caused for each and every one of us. We have been able to operate as a business throughout the pandemic and are grateful for the effort and commitment of our team across all areas of our business in setting up processes and resources that have been resilient and have allowed us to function and support one another as best we could.

The pandemic, the first true global crisis since the inception of our World Stars Global Equity portfolio in 2012, has validated our approach of investing in quality and value for the long-term. Our investment in companies with strong and sustainable competitive positions in good and growing industries, with managements having track records of value creation and balance sheets so strong as to weather any adversity, has meant that we have been invested all along in many of those companies that have contributed to our resilience this year.

Following on the strong performance in 2019, the portfolio has generated 18% in USD to the 15th of December this year, ahead of markets and our own goals for long-term return. Importantly, it was resilient as the market declined with the uncertainty and panic in March, and rebounded with the recovery, with the significant outperformance coming on the downside not the upside. We sought to stay focused on the long-term but were able to act from a position of strength to make changes to the portfolio and to buy a number of companies that we have wanted to invest in at lower prices during the first half of the year.

Progress and prosperity are driven by private innovation and enterprise and it is not surprising that companies that have been resilient and adaptable to change have been critical to our ability to weather the crisis as societies and as individuals.

By far the most important impact has come from the unprecedented cooperation and resources devoted to finding a vaccine. The prowess of smaller biotech firms like BioNTech and Moderna, of researchers like Oxford and other institutions, combined with the resources of the global pharmaceutical industry, have resulted in the first vaccines being available this month and the prospect of mass vaccinations of healthcare workers and vulnerable populations in the first half of next year. Healthcare and life sciences companies have been instrumental in developing testing, treatment, and therapies to identify the disease and improve outcomes for those affected.

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A major consequence of the pandemic has been the acceleration of the shift from offline to online that has allowed our economies to keep functioning and ourselves to continue to work, provide, consume and interact with others. The big digital platforms have proven that they are part of the solution, not the problem, and as they have increased in size and importance through the pandemic, we expect them to adapt and change through their own initiative and through the increased scrutiny and regulation we see in the legal actions being launched this year. We are only beginning to understand the extent and impact of the recently reported hacking of much of the US government and corporate IT infrastructure over the past nine months but it is striking that while government, legislators and regulators have been worried about alleged anti-competitive behaviour by the big US digital companies there appears to have been a major and prolonged breach of the most sensitive levels of US government IT systems that has been missed by the agencies charged with their security.

A further outcome we have seen from the pandemic is that companies that have embraced and implemented ESG considerations across all dimensions of environmental, social and governance issues have performed better operationally and financially through the pandemic. As we highlighted in our investment insight in January, we believe that companies and investors function under a social license to operate and that sustainability drives business performance and investment returns. Sustainability has always been a critical factor for our investments and we have integrated it formally into our investment process over the past 18 months, becoming signatories of the UN Principles of Sustainable Investing and the UK Stewardship Code as well as engaging in a more structured and accountable way with the companies we invest in and with other stakeholders to achieve positive impacts and outcomes.

For our last investment insight this year, our investment team has highlighted some of the lessons we have learned throughout the year, how they have impacted our thinking and our portfolios and what conclusions they hold for the future. You can read it by following the link here or clicking on the attachment.

Looking at the outlook for next year, we are positive about the global economy, markets and the prospects of our companies to do well and generate value.

This year has seen the likely resolution of two of the most important political uncertainties for the US and Europe, the US elections and Brexit. In the US, the election outcome has been moderate and well-received by markets, with a recently confirmed pragmatic and moderate president-elect appointing experienced and accomplished people to positions to his administration, and a Senate that will have a Republican or perhaps less likely Democratic majority of not more than one or two votes depending on the outcome of the Georgia run-offs at the beginning of the new year. The US has prospered under moderate and divided government and is likely to do so now, not least because it has never paid to bet against the US economy or to fight the Fed.

In Europe, the protracted Brexit process is coming to its conclusion. While the outcome must be uncertain until the very end, it does seem that the most obvious outcome will prevail. Market access for the UK will require alignment in whatever form in order not to have an unfair advantage. The indications are that this will be the outcome although the theatrics will continue until the final moment.

Given the challenges, next year should usher in a welcome period of more constructive policies and greater predictability. It is clear that governments and central banks will do whatever it takes to support their economies through this period of challenge and distress. The current low, and in many cases negative, interest rate environment is likely to prevail for a prolonged period of time and will force investors to adjust their expectations of risk and reward from their investments.

The US and Europe are still in the middle of the second wave of Covid-19 and are facing renewed lockdowns, with the expected negative impact on economic growth, unemployment and further increases in national debt. Mass vaccination beyond healthcare workers and the most vulnerable populations will present major logistical challenges for a variety of reasons and will hopefully be rolled out in the second half of next year.

These challenges are daunting, but we should focus on the positive: The fact that the virus responds to vaccines at all, means that we will overcome the pandemic and that there is opportunity even in this time of adversity.

The prospects for next year are good: Those companies that have benefited from the changes that have occurred should continue to do well, like the big digital platforms, other providers of online services and entertainment, and companies providing everyday consumer goods. Those that have been impacted should rebound, like companies in consumer discretionary, luxury or payments affected by the decline in employment and travel, healthcare and life sciences companies held back by the closure of hospitals to non-Covid-19 patients and the postponement of elective surgeries, or industrial companies hurt by the economic slowdown.

This past month has seen some rotation from beneficiaries of the crisis into companies that offer a greater real perceived exposure to the recovery. Our focus is not on short-term fluctuations but on the long-term, fundamental drivers of performance, and that is why we expect healthcare, consumer and industrial stocks to join digital stocks in leading equities upwards now that investors can look ahead into next year with greater certainty.

After all, John Dryden's wrote his poem "Annus Mirabilis" to commemorate the year of the Great Fire of London in 1666, the first use of the phrase in the English language. London was rebuilt and has withstood many challenges to become the global capital it is today. His celebration of resilience and hope over adversity and despair is one we should heed as we look back on this year and forward to the next.

World Stars Global Equities

Our World Stars Global Equities strategy continued its positive trajectory closing in November up +9.0% in US dollar terms as markets reacted to the positive vaccine news and the greater visibility about the pathway back to normalisation, bringing performance for the year to +17.4%.

Performance was led by our holdings in industrials, with several stocks delivering double digit gains during the month as investors started to anticipate a normalisation in verticals that have been hard hit by the pandemic, including commercial aerospace, automotive, energy and parts of commercial infrastructure. As we have stated over the duration of the crisis these companies have been successful in weathering the storm, given their managements' ability to swiftly adjust their cost bases, rapidly pivot towards emerging revenue opportunities and use the strength of their balance sheets to take advantage of strategic opportunities. As we look ahead into 2021, they stand to benefit from their even stronger strategic positioning coming out of the crisis, whilst tapping into pent-up demand and increased infrastructure spending fuelled by national stimulus and investment programs.

Also strong during the month were our holdings in consumer companies whose businesses have been affected during 2020 by the closure of brick-and-mortar retail outlets, as well as on-trade restaurants or pubs. Spirits companies *Pernod-Ricard* and *Diageo* both signalled robust ongoing trends for at-home consumption, as consumers continue to spend on premium drinks, whilst the potential for a return to normality for leisure and entertainment venues set these names up for further performance in the quarters ahead. Similarly, luxury goods producer LVMH has benefited from the re-emergence of the critical Chinese consumer, with spending levels on luxury goods in the country now back to pre-crisis levels. At the same time, the company successfully renegotiated the price of acquiring iconic jewellery brand Tiffany, reaching an agreement to lower the acquisition price by $425 million to $15.8 billion, reflecting CEO Bernard Arnault's sharp focus on value creation.

Finally, payment network providers *Mastercard* and *Visa* also rebounded strongly. The names had suffered in prior months given the depressed pace of cross-border transactions and the effect of Covid-19 on global travel, which weighed on one of the higher yielding areas of their revenue portfolio. Both firms remain strong beneficiaries of the transition to a cashless society and the shift to online retailing, both of which have accelerated as trends during the current pandemic. Investors used the stock price weakness to quickly add to positions as we had suggested last month.

On the weaker side during the month were some of our names that have shown resilience during the Covid-19 crisis. Both food producer *Nestlé* and flavours & fragrances leader *Givaudan* have benefited not only from consumers stocking up goods for at home consumption but also from share gains given their ability to guarantee availability of supply at the height of the crisis. These names were therefore natural sources of cash as investors looked to add to more recovery-levered names. Despite any short-term rotation however, we do believe that the strategic gains realised during the crisis will provide tailwinds for the winners long after the pandemic has abated, and that these businesses remain inherently solid compounders with multiple growth drivers ahead.

Multi-Asset Income

October's volatile and negative markets were followed with a strong performance in November. Most indicators were in the green as investors moved back into risk assets despite more lockdowns due to a strong global resurgence of the Covid-19 virus and the resulting uncertain economic outlook. Positive news from better-than-expected results from vaccine trials helped market players to look through the near-term headwinds. In this context the income portfolio added +5.4% in US dollar terms (up +7.2% since the start of the year).

Most asset classes had a positive month. Our equity portfolio ended the month up +9.3% (+21.6% year to date). Similarly, our fixed income portfolio carried on its recovery with a positive contribution of +5.3% (the credit portfolio is now down -5.5% for the year). The non-correlated funds had a mildly positive contribution of +0.9% in November, taking the performance year to date to a positive +0.3%.

Although the markets' strength was experienced across the board, there was an effective rotation into securities that had been more affected by Covid-19. This was most noticeable for energy names, with the oil price benefitting from the prospects of the return to some sort of economic normality in 2021.

Tullow and *YPF*, respectively up +22.4% and +21.8%, were clear examples in our credit portfolio. However, the breadth of the recovery extended across sectors with strong gains by *Grupo Posadas*, *Balta* and *Douglas AG*.

AA Bond, the road recovery group, received a takeover offer from a consortium of private equity groups. The bonds which had already recovered from their weaknesses earlier in the year found further strength as the offer was recommend by the board. We took this opportunity to exit the position.

Last month we predicted an increase in risk taking post a balanced outcome for the US elections and expected tailwind news flow on the vaccine front. Although we are still constructive mid-term, the recent surge in Covid-19 cases present a short-term challenge even if the light at the end of the tunnel is visible.

Our fundamental style, long-term investment horizon and barbell positioning has worked well so far this year. They are well suited for this type of environment. Our credit portfolio still yields +7.2% following the recent recovery, with a duration of two years.

At this stage we are looking forward to 2021, knowing that our holdings have the potential to deliver further gains for our clients.

Emerging Markets Bonds

November was a strong month for our Emerging Market Bonds strategy, which returned +3.0% over the period, bringing year-to-date returns to -2.8%. Performance was supported by a significant uptick in inflows into emerging market debt funds, with over $13 billion flowing into the asset class as risk appetite improved with the news of another vaccine.

All our holdings contributed to the positive performance, but our oil exposed names, *YPF* and *PEMEX*, posted particularly impressive returns of 22.7% and 11.7% respectively. Both firms performed well as the outlook for the energy sector improved, given expectations of an uptick in the demand for oil as economies open up and mobility increases going into next year.

In Turkey we saw the lira decline to its lowest levels ever against the US dollar. In an attempt to tame double digit inflation and a full-blown currency crisis, President Erdogan replaced the central bank governor, who swiftly adopted a more orthodox monetary policy and raised the benchmark repo rate by 475 basis points to stabilise the economy. The move was welcomed by investors and resulted in Turkish assets rallying, including our Turkish credits which were up between +5% and +8%.

After the strong month, valuations are now much tighter for emerging market high yield bonds. However, yields are still attractive at +6% versus US high yield which is offering +4.3%. Additionally, we believe that strong technicals, including positive fund flow and low net issuance in many EM countries will allow for additional spread-compression and attractive returns in 2021.

November 2020