*Investment commentary*

## SUSTAINABILITY³ ®

It has been a tumultuous year for the global economy and the markets, but also a year in which our approach of investing in quality companies that have strong and sustainable competitive positions in good and growing markets, with strong managements and solid balance sheets has been validated by the returns they have been able to generate.

The past year has reinforced our conviction that sustainability, quality and value are closely linked and that we should think about our investment approach in terms of triple sustainability, or even better Sustainability³ – a company that achieves a high level of ESG sustainability should strengthen the sustainability of its competitive position and improve its prospects for generating sustainable value over time. It is a concept that is integral to our investment approach and that we should perhaps seek to register as a trademark…

Our investment insight this month discusses how we put into practice the ESG process we have integrated into our investment approach and provides information on some of the outcomes. You can read it by following the link here or by clicking on the attachment.

The Oxford University Business Economics Programme is producing a series of lectures on the Economics of Post-Crisis Recoveries that we are proud to sponsor. We had an opportunity to discuss lessons from the pandemic with members of the Economics faculty and it was interesting to note the extreme dichotomy of impact Covid-19 has had on people, companies and economies.

Those who have been able to work because they are part of the "Zoom-economy" have been able to maintain their incomes and increase their savings, while those who have been directly impacted by the closure of businesses have had to rely on government income support. Big companies like the ones we invest in have come through the crisis with their businesses intact while smaller businesses have struggled. The sales and earnings reported by many of our companies have been astonishing in their resilience, and even where they have been impacted by issues like the slowdown in consumer spending or the closure of hospitals to elective procedures, their competitive positions have been strengthened by the troubles of their smaller competitors.

We said as part of the conversation that our outlook continues to be positive as the vaccines are rolled out in the US and in Europe and countries can begin to take back measures to contain the virus. The dichotomy we described means first of all that we expect a significant rebound of the service economy as people go out and consume the goods and services they have been unable to for so long. The immediate employment effect will set off a virtuous cycle as people gain income and visibility.

It also means however that we will have to be sure to put in place measures to benefit those who have been impacted to enable them to find employment where their companies have shut down, to receive training where their jobs have been permanently displaced by the disruption that has accelerated because of the pandemic, and to provide education for the children and students who have not been able to learn remotely because their schools and universities have been unable to provide the necessary education or their circumstances have made it impossible for them learn. Some of those effects have taken place but others are yet to come as businesses may become unsustainable without government support or rent and interest holidays.

We are optimistic by nature and by conviction so we prefer to see the opportunities to create business and employment by business embracing the shift from off line to online, by workers benefiting from the efficiency of online access and remote working, and the need to increase capacity in the many areas exposed by the pandemic, including important areas that cross the private and public sectors like health care infrastructure and care homes, social services, education, and as capital investment accelerates in communications and renewable infrastructure.

As we look forward to such opportunities however, we have to be cognizant that these are great challenges, because the dichotomy of impact risks exacerbating the real and perceived inequality of income, wealth and opportunity that has driven so much of our political and social dischord. Sustainability also includes sustainability of governance and politics, and the UN Sustainable Development Goals apply as much to the US and to Europe as they do to other countries. Sustainability[3] is key and it is important that we seize the opportunity to achieve better outcomes for all.

*World Stars Global Equities*

Our World Stars Global Equity strategy remained resilient as it entered the new year, finishing January down -2.0% in US dollars, broadly in line with global markets.

Performance during the month was led by our holdings in the life sciences space as the acceleration in Covid-19 cases globally and the emergence of novel mutations fuelled a surge in testing demand. Our holdings such as *Abbott Laboratories*, *ThermoFisher Scientific* and *Becton Dickinson* all benefited from this dynamic.

ThermoFisher pre-announced an astonishing 50% organic growth in revenues for the last quarter of 2020, driven by testing. The company continued to leverage the resultant cash flow to further strengthen its franchise, with the EUR 725m acquisition of Henogen, a leading viral vector and gene therapy solutions manufacturer in Europe. Abbott Laboratories also delivered robust numbers, with 28% organic revenue growth for the same quarter, again fuelled by surging Covid-19 testing demand, but also by strong demand for the company's recently launched diabetes monitoring device, Libre. Becton Dickinson pre-announced 24% organic growth, on the back of testing-related revenues, but also resilience in its outpatient care-related products and some restocking activity by hospitals. All three companies predicted strong demand trends for 2021 as well, on the back not only of ongoing testing requirements but also a return to growth in their base businesses.

Within the digital platform space, *Alphabet* had a good month, driven by its exposure to robust trends in digital advertising. In early February the company reported 23% revenue growth and strong trends across its search, video and cloud platforms.

On the weaker side during the month were payment network providers, *Mastercard* and *Visa,* as the resurgence of Covid-19 cases led to concerns regarding the timing of the recovery in travel and the related, highly profitable, cross-border transactions business. At the same time commentary from several US banks suggested muted expectations for consumer spending in the US absent of any meaningful domestic stimulus program. These concerns were alleviated as both companies reported better than expected earnings towards the end of the month, supported by the structural shift to card payments and the growth of online retailing. Both companies are also pursuing adjacent business opportunities including fraud protection solutions as well as B2B payments, further reinforcing their growth potential. At the same time, the Democratic sweep of the US Senate has allowed the newly elected Biden administration to push forward with an aggressive stimulus program, providing a favourable tailwind in consumer spending.

More broadly, concerns around the pace of the pandemic weighed on numerous names in the portfolio. Their businesses are underpinned by robust structural trends, differentiated product offerings, and exceptional financial flexibility. These strengths mean that they have not only been able to withstand the ongoing volatility, but they have actually been able to use it as a lever to reinforce their competitive moats, and we continue to build positions accordingly as opportunities arise.

*Multi-Asset Income*

Following a strong end to last year, our Multi-Asset Income strategy contracted -0.9% in US dollar terms for the month of January. Equities were the main driver, returning -1.8% on the month. However, the fixed income portfolio was resilient, up +0.2% carrying on with its recovery from last year and unaffected by increased equity market volatility. The announcement by *Hypgnosis* (a music royalty fund) of share issue slightly impacted the performance of the non-correlated funds (-0.2%).

The known-known drivers (extra economic stimulus package, post holidays increasing Covid-19 infection rate, global vaccine deployment, upwards adjustment in interest rates, to name a few) were brushed aside by the unforeseen deleveraging by some equity market participants resulting from the Gamestop-Robinhood episode. This increased volatility in the equity markets did not translate into significant stress in the credit market but highlighted the benefits of a diversified asset allocation. In any case the equity retracement proved to be short lived as a new positive impetus was driven by strong earnings reported by many leading companies in our strategy.

January was quite uneventful for our credit portfolio, with the exception of YPF discussed in the Emerging Market Bonds update below. The performance was balanced with some of the energy names giving back some of the strong performance of late 2020 due to a weaker oil price. *Douglas Group,* the German distributor of beauty products, showed further gains ahead of results expected to show further strong e-commerce growth.

Looking forward, risk assets will find support in global central banks' liquidity management and the new large-scale fiscal stimulus being implemented across the board. The latter should bring economies out of the current doldrums, whilst the Covid-19 issue comes under control, boosting earnings growth for the next couple of years. In this very constructive environment, we believe that interest rates are likely to remain relatively low for a long while. However, market participants are watching inflation data very carefully, in order to assess at which point the 'pandemic monetary support' will have to be withdrawn. Some adjustment should be expected during the course of this year, which is likely to result in increased volatility.

Earning releases for both equities and bond issuers have confirmed our central investment thesis focused on quality and value. Our fixed income portfolio has a current yield of 7.4% and a very short duration of 2.2 years, providing stability, even in a rising interest rates environment and the potential for further yield improvement if the duration was to be lengthen.

Our key investment objective remains firmly focused on generating a solid cash yield with low volatility, and we feel that as we start this new year our fundamental and disciplined investment process will again prevail.

*Emerging Market Bonds*

Our Emerging Market Bonds strategy was very slightly down in January, returning -0.2% for the month. Fund flow into emerging market corporate bonds has had a particularly strong start to the year, up 12% year-over-year. This has been supportive of the record corporate debt issuance experienced in January, as companies look to take advantage of cheap financing before interest rates gradually increase as the global economy recovers and inflation expectations rise.

MTN, Africa's largest telco operator, was the top performer this month with a return of 1.5% after the group reported that it expects to book much higher earnings for 2020 when it reports full year results next month. The boost in profitability has been the result of the sale of stakes in two of its tower portfolios over the last year, which will contribute to the deleveraging.

*Pemex*, the state-controlled Mexican oil and gas company, was the biggest detractor to performance this month, returning -3.1%. We believe this was driven by profit-taking after a strong rise linked to the oil price in Q4 2020. Oil prices have continued their recovery with Brent prices up another 8% in US dollars over the month.

*YPF*, the state-controlled Argentinean oil and gas company, announced an exchange offer for all of its US dollar bonds in January. The proposal aimed to extend the debt maturity profile and provide short term cash relief via an interest holiday in order to direct cashflow towards capex. Bonds sold off to varying degrees on the announcement as there is consensus that the financial position of the company is better than that implied by the exchange offering. Investors subsequently joined together to push back so as to seek better economic terms, with several revisions following and bond prices partially recovering. Negotiations continued into February with a deadline fast approaching given an upcoming debt maturity in March. We took advantage of the situation, shifting exposure into bonds with a lower cash price to protect downside and offering the greatest opportunity for capital appreciation going forward.

Finally, we opened a new position in January by adding the issuer *First Quantum Minerals* to the portfolio. The company is a top ten global copper producer with low-cost operations in Africa and Latin America. At current copper prices we expect the group to generate significant cash over the medium term, leading to rapid deleveraging of their balance sheet. The 2025 bonds we bought have a current yield of 7.2% which we view as particularly attractive considering the quality of the business. With the new addition, the portfolio current yield and yield to maturity now stand at 6.7% and 5.7% respectively.

*February 2021*