

J. STERN & CO.

World Stars Global Equity Fund Q3 2020

Quarterly Investment Commentary

20th October 2020

Dear Investors,

This year has been an odyssey. We all feel like we have laboured long and hard and have met with many trials. The Covid-19 pandemic and the US elections have been like Scylla and Charybdis, threatening to wreck the global economy and markets. Brexit looms but struggles to make waves among the greater turmoil. Our boat is still in the middle of the storm, the second wave of the pandemic is upon us and the elections are imminent. But the odyssey is coming to an end and we can see the way ahead.

We are at a critical point of the Covid-19 pandemic and its impact. It is clearly a confounded disease which disproportionately impacts more vulnerable populations, but it also has potentially long-term effects on a larger number of people; so those who have not had it should avoid it if they can.

We think that like with other public health crises, particularly HIV, for which there still is no vaccine, the answer is in a combination of diagnostics, therapeutics, and vaccines. We have made great progress on all fronts and it is notable how many of the companies we invest in, in healthcare and life sciences but also in other industries, are directly involved in the fight against the disease.

Most important for the global economy and for markets is a vaccine. We believe that we should be months away from having the first mRNA vaccines from Pfizer/BioNTech and Moderna, and should be in a position to achieve a return to normality in the second half of next year. The current second wave should already benefit from better diagnostics and therapies which should further reduce the incidence, severity and mortality of the disease. By the second half of next year the initial vaccines should be joined by other more traditional ones which may engender greater public confidence and therefore have broader acceptance.

For now, we have to suffer through the second wave. The difficult decisions to go back into lockdown in many countries will cause great concern. However, governments and central banks have made it clear that they will provide the support necessary to keep our economies going through any necessary fiscal and monetary actions. We have said that it is inconceivable to us that governments in the US, China, the UK or the rest of Europe would risk public unrest given the political and economic uncertainty and we think that will be as true before the US elections and Brexit as afterwards.

Which brings us from Scylla to Charybdis. This time next month the US elections will be over. We all follow the polls, but the polarisation and acrimony of the political discourse mean that it is impossible to predict how people will vote compared to what they say before, or how the pandemic and increase in postal voting will impact the outcome and the timing of the election. We hope that all sides will be responsible, that the US electoral system will be up to the challenge, that there is a decisive outcome and that it will be accepted by the winners and the losers. The US economy and markets have done well under both Republican and Democratic Administrations and we see no reason to be worried about either outcome.

Through these trials and tribulations our investments have stood the test. All of them have the balance sheets they need to weather the storm and to take advantage of opportunities as many of them do; and all of them are at valuations that are attractive for long-term investors like ourselves.

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That is why we continue to be confident in our approach and constructive about our companies and their prospects for value generation as we get through the current turmoil.

Performance

Our World Stars Global Equity fund made good ground during the quarter, up 8.4% in USD, and remains 7.2% ahead of the MSCI World Index year to date. This was despite a pullback in global equity markets in September, as concerns over a second wave of the pandemic, the upcoming US election, and a correction in some large technology stocks which had performed very well earlier in the year.



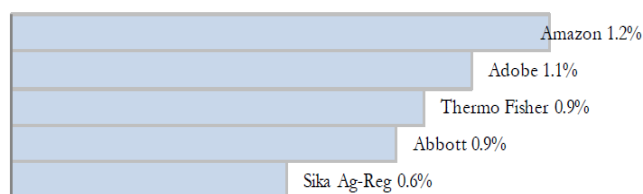
	Sep-20	YTD	3Q20	1Yr.	3 Years		5 Years		Since Inception	
					Cumulative	Annualised	Cumulative	Annualised	Cumulative	Annualised
Fund (USD)	-3.6	+9.3	+8.4	+18.2	+41.9	+12.4	+105.8	+15.5	+133.0	+11.1
MSCI World	-3.4	+2.1	+8.0	+11.0	+27.1	+8.3	+69.0	+11.1	+118.6	+10.3

Source: SS&C Technologies, Bloomberg, J Stern & Co. As at 30/09/2020. Performance is that of the World Stars Global Equity Fund, A1 USD Share class, launched on 08 April 2019. Prior to launch date performance was that of the World Stars strategy, based on total return (with dividends reinvested) and net of 1% fees per annum, deducted quarterly in arrears. Past performance is not a reliable indicator of future results; the value of any investment can fall as well as rise; and returns may increase or decrease as a result of currency fluctuations. Inception of the strategy 1/10/12.

However, company results for the second quarter and half year emphasize how our portfolio has benefitted from being diversified across industries, geographies, and companies. Many of our stocks have continued to trade well despite the changing dynamics of a post-Covid environment, while none have had to raise equity capital due to financial stress.

Top Five Contributors

Our top five stocks were spread across three broad sectors in our portfolio – digital transformation, healthcare & life sciences, and industrials & infrastructure. Most of these stocks benefitted from the pandemic and the structural changes that it has brought.



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Sika performed well in difficult markets. Sales of CHF 3,615m (-10.5%) for the first half of 2020 were ahead of street expectation of CHF 3,559m (-13.4%), while cost mitigation measures protected margins. EBIT of CHF 410m exceeded market consensus of CHF 398m. These results highlighted the economic challenges presented by Covid-19, whilst also reflecting *Sika's* own resilience and effective management. The company is expecting more favorable conditions in the second half of the year as market conditions improve, and we continue to view *Sika* as a market leader in the coming years.

ThermoFisher also had a good quarter as it began to benefit from Covid-19 testing. The company reported solid results with EPS of \$3.98 far above the \$2.98 expected by the street. Organic revenue growth of 11% was above expectations and operating margins were unchanged including the benefit of tight cost management. Life Sciences was the standout division with 55% organic growth, led by bio production and biosciences as well as kits and sample preparation solutions used in Covid-19 testing. Overall, the Covid-19 pandemic has provided \$1.3bn in revenue tailwinds for the company as *ThermoFisher* has emerged as a key provider against Covid-19. This boost has offset the impact of the pandemic on the core business, and we expect the company to continue to benefit from its continued involvement in Covid-19 testing and vaccine development.

Abbott Laboratories' Q2 results were ahead of expectations. Revenues of \$7.3bn were driven by diagnostics, including high demand for the company's Covid-19 tests, as well as strong growth in Diabetes Care and Nutrition. *FreeStyle Libre*, the company's leading continuous glucose monitoring (CGM) product, saw nearly 40% organic growth YoY. This new CGM system was recently approved by the FDA in June. We continue to like *Abbott* and believe it is well positioned to benefit from Covid-related testing and the eventual recovery in elective surgeries.

Amazon's powerful competitive position in e-commerce was underlined by its Q2 results. It reported Q2 revenue growth of 40%, with total revenues of \$89bn significantly ahead of forecasts at \$81bn. Margins rose substantially and operating income of almost \$6bn far exceeded the \$1bn market consensus. We expect the benefits from Q2 to extend into the rest of the year as Covid habits form and e-commerce continues to expand. Whilst the recent congressional hearings into the dominance of online platforms raise concerns about action against *Amazon*, we believe that the wider societal benefits of the company's business model will be a powerful defence. These include low retail selling prices and an enhanced route to market for many SMEs.

Adobe has continued to experience strong growth in demand for its products. The latest results saw revenues grow by 14% to \$3.23bn, well ahead of expectations. Growth was broad-based across the business, with Digital Media and Digital Experience growing by 19% and 14% respectively. EPS of \$2.57 also exceeded market consensus of \$2.40, as the company began to benefit from an increasing need for digital transformation. The pandemic has acted as a catalyst for digital change as businesses have sought to adapt to work from home and the need for greater connectivity. *Adobe* are key enablers of this transition with its leading industry software, and look set to benefit from this structural change over the coming years.

Source: Bloomberg, SS&C Technologies, J. Stern & Co. As at 30/09/20.

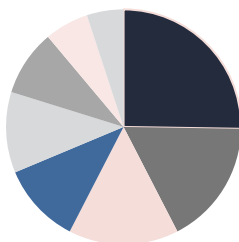
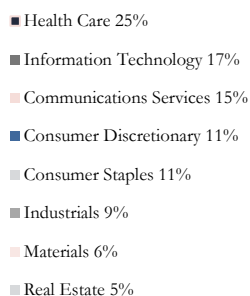
Portfolio Composition

The composition of the fund saw some small changes during the quarter, without materially influencing the overall balance of the portfolio. During the quarter we sold our holding in *Carrier*, an American manufacturer of heating, ventilation, and air conditioning systems which we had effectively inherited as a result of the UTC/ Raytheon merger.

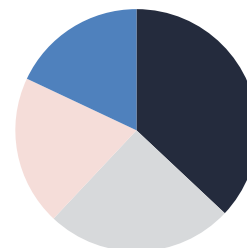
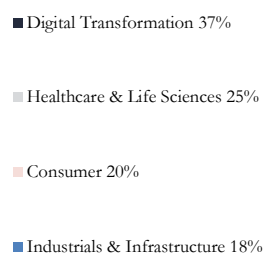
We initiated new positions in *Sika*, a speciality chemical business with differentiated products across construction and autos; and in *Amphenol*, a market leader in electrical and electronic connectivity. We also increased our exposure to the global payments industry by adding *Visa*, as we believe that the multiple growth drivers and high margins of this industry will deliver strong returns to the equity for a sustained period.

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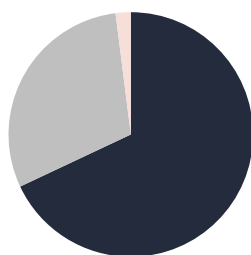
GICS Sector Allocation



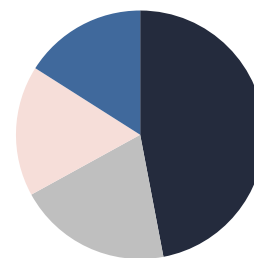
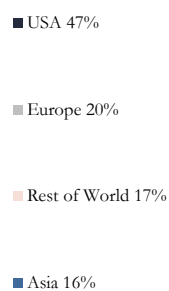
J. Stern & Co. Allocation



Geographic Exposure by Listing



Geographic Mix of Sales



Source: Bloomberg/SS&C Technologies. As at 30/09/20

Outlook

The quarter has illustrated the inherent strength of our World Stars strategy. Our thesis of investing in large and mega-cap companies with leading positions in attractive industries and a strong balance sheet has produced robust results for many of our stocks despite tough circumstances.

Despite potentially turbulent times ahead, we remain confident in the portfolio moving forward, as our companies continue to perform well and vaccine development progresses. We believe the fund is well-positioned to benefit as a global cyclical recovery takes hold following the end of the pandemic.

Yours faithfully,

Christopher Rossbach

Katerina Kosmopoulou, CFA

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Monthly Performance, % Total Return, USD

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD	MSCI World	Excess return
2012	-	-	-	-	-	-	-	-	-	-1.8	+4.2	+0.4	+2.8	+2.0	+0.8
2013	+3.3	+5.4	+0.8	+1.4	-1.1	-2.8	+3.3	-2.9	+6.2	+4.2	+1.7	+1.9	+23.1	+27.3	-4.2
2014	-5.7	+6.5	-0.5	+1.8	+1.9	+1.9	-4.6	+2.6	-3.1	-0.8	+2.2	-2.8	-1.3	+5.5	-6.8
2015	-0.4	+5.3	-2.8	+2.8	+1.6	-4.2	+2.7	-7.8	-4.3	+10.0	+0.9	-1.3	+1.4	-0.3	+1.7
2016	-5.7	+0.4	+7.1	+1.2	+0.7	+1.8	+2.5	-0.4	+2.4	-3.7	-2.1	+1.5	+5.0	+8.1	-3.1
2017	+4.7	+3.1	+3.5	+3.4	+4.4	-1.6	+2.5	+0.4	+1.1	+4.4	+0.3	+1.8	+31.8	+23.0	+8.8
2018	+8.1	-3.3	-0.9	+0.3	+2.7	+0.5	+3.0	+0.4	+1.1	-9.3	-0.4	-6.5	-5.2	-8.2	+3.0
2019	+5.8	+1.9	+4.2	+3.2	-4.5	+6.1	+1.1	+0.4	-0.4	+2.5	+2.3	+3.1	+28.5	+28.4	+0.1
2020	+0.4	-6.9	-8.5	+10.8	+4.4	+1.9	+6.5	+5.6	-3.6	-	-	-	+9.3	+2.1	+7.2

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Fund Information

Investment Manager	J. Stern & Co. LLP
Portfolio Manager	Christopher Rossbach
Deputy Portfolio Manager	Katrina Kosmopoulou, CFA
Launch Date	08 April 2019
Vehicle	Alpha UCITS SICAV, Luxembourg
Management Company	Waystone Management Company (Lux) SA
Administrator & Depository	RBC Investor Services
Auditor	Deloitte Audit S.à.r.l.
Reference Currency	USD
NAV	Calculated daily on the following business day
Dealing	Every business day at 3pm

Share Class	A	B	L	A5/A6
Minimum Investment	1,000,000	5,000	25,000,000	1,000,000
Management Fee	0.90%	1.20%	0.75%	0.65%
Target OCF*	1.10%	1.40%	0.95%	0.89%
Eligibility	All	Retail	Institutional	Charity
Currencies	USD &, unhedged or hedged, EUR, CHF, & GBP			USD & GBP
Accumulation / Distribution	Accumulation & Distribution available to all			
Alternative fee structure	Reduced annual fee with performance fee available on request			
Dealing Cut-off	3pm in Luxembourg on the business day before the dealing day			

*Subject to discussions with J. Stern & Co., accumulation and distribution share classes can be made available in all currencies displayed above. The base currency of the Fund is USD. Minimum investment is stated in currency of share class. Target OCF is the Investment Manager's target for the OCF for the USD share class.

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