Investment Comment

SAME PROCEDURE AS LAST YEAR? SAME PROCEDURE AS EVERY YEAR!

The classic sketch "Dinner for One" is a New Year's tradition in Germany and much of Northern Europe. Miss Sophie's 90th birthday party and her famous reply to her butler James is funnier if you have had a couple of glasses of champagne yourself. It is the most frequently repeated television program in Germany ever, yet it is still largely unknown in the United Kingdom and the United States.

Same procedure as last year strikes us as an apt perspective on this year. It has been the second year dominated by the Covid-19 virus and its variants, and it is not over yet. For many it has been a year of great challenge and hardship. The restrictions required to prevent healthcare systems from becoming overwhelmed have had a dramatic impact on schools, businesses and governments that will take years to overcome.

Last year it was the Delta variant, this year it is Omicron (formerly known as Nu). It continues to appear that Omicron follows the trajectory of viruses that mutate and become more contagious but less severe in impact. It remains to be seen, however, if hospitalizations and deaths over the next weeks and months will be moderate and therefore the restrictions being put in place as we write will be temporary, or if we face many more months of disruption as we did throughout this year. We have to hope that next year will see a more complete overcoming of the pandemic through vaccination, immunity and treatment.

Yet it has also been a second year of resilience against adversity, with global economic recovery, strong underlying demand for almost all imaginable goods and services, corporate profitability increasing employment and rising incomes.

We believe that the global economy is currently entering a period of strong economic recovery. Omicron increases the uncertainty, but it is likely that once disruptions from the pandemic subside, there will be a massive supply response to the acute shortages in labour, industrial production and the provision of other goods and services. We have spent the past decades inventing the means to address the challenges of the future but now we have to invest to increase capacity and put all of this technology and innovation to work.

Although we expect that the current spike of inflation will pass, we think that global economic growth, higher employment and better wages means that we will go back to seeing sustained inflation. However, we have to remember that rising inflation, tapering and increases in interest rates are only happening because of the good things that are happening in the global economy and in markets.

In order to win the fight against that inflation, investors should think about the two basic types of assets that can preserve and increase their value if there is inflation.

The first is assets that have scarcity. If there is inflation, assets with limited supply can increase in price, the more premium the better. These assets can include real estate, especially in prime locations, traditional stores of value like gold or diamonds, or less traditional ones like works by famous artists or wines from the best vineyards. Buyer beware, but for the

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more tech-focused the same idea could also include more innovative digital assets that have apparently limited supply like bitcoin or NFTs.

By far the most important and promising opportunities for investors, however, are productive assets, companies that are able to grow their sales and earnings over the long-term. Bonds will struggle with rising interest rates and equities are the most important liquid asset class that can generate value in an inflationary environment.

The companies to buy are firms that have sustainable competitive advantages in good and growing industries, the ability to grow and to innovate through investment in research & development and acquisitions, the pricing power to pass on price increases, and the scale and resources to absorb increases in costs of labour or raw materials.

Same procedure as every year: It is not a coincidence that these are key criteria for the quality of the companies we invest in. We believe that our approach of buying companies that have quality and value for the long-term is the simplest and easiest way to invest in the biggest and the best of these companies, to inflation-proof portfolios and to generate value over the long-term.

Our investment insight this month continues our focus on ESG issues and on climate change, the greatest challenge of our time. The United Nations Sustainable Development Goals of increased peace and prosperity for all cannot be reached without energy, yet rising energy demand is one of the key drivers of global warming. That is why energy transition is one of the most important levers to build a low carbon economy, reach net zero by 2050 and keep the global increase in temperatures to the critical 1.5ºC threshold.

As Katerina Kosmopoulou writes, global agreements and commitments are of great importance but actual impact is all about implementation. We believe that technology and innovation are a critical part of the answer and that the challenges come along with opportunities. Companies with the knowledge and resources to facilitate the transition to a net-zero world will be exceptionally well placed to help to achieve the outcomes we seek, whilst capturing the resultant financial returns that incentivise innovation and investment, and creating significant opportunities for long-term investors. You can read our investment insight by following the link here or by clicking on the attachment.

World Stars Global Equities

The World Stars Global Equities Fund closed November down 2.6%, bringing the year-to-date performance to 16.1% (both in US dollar terms). All major global equity indices declined during the month, driven by macro and Covid-19 developments. Investors grappled with the hawkish commentary from the Federal Reserve while fears over the new Omicron variant of Covid-19 weighed on sentiment.

Sika, the leading manufacturer of specialty chemical products, closed the month 16.4% higher after announcing the acquisition of MBCC, the former BASF construction chemicals business. We believe that the acquisition is a good strategic fit for Sika given the high level of product and distribution channel complementarity and that it reinforces the company's position as an enabler of sustainability solutions to the construction industry. With CHF 160-180 million in expected synergies and debt financed given Sika's conservative balance sheet, the deal will be highly accretive to Sika's earnings from year one.

Diageo, the market leader in spirits, gained 4.6%. During its 2021 Capital Markets Day, Diageo raised its medium-term guidance underpinned by strong consumer demand, ongoing premiumisation and portfolio re-positioning towards faster growth categories.

Roche, one of the largest pharmaceutical companies in the world, was up 1.6%. The company announced an agreement to repurchase and cancel the 33% of its bearer shares held by Novartis at a no premium price for a total amount of CHF 19 billion. The repurchase was well-received because it disentangles Roche from its ownership ties to Novartis and will be earnings accretive.

Several of our companies in the technology sector had weaker performance during the month, with hawkish Fed statement weighing heavily on longer duration assets.

Video game company *Activision Blizzard* fell 25%. Although its quarterly earnings were in line with expectations, the announcement that both its Diablo 4 and Overwatch 2 game launches would be delayed due to the need for greater post-release game content disappointed the market and led the shares lower. Following on the issues earlier this year, negative governance-related headlines increased the pressure on CEO Bobby Kotick to step down following reports that he withheld information about alleged historic misconduct at the company. We have engaged with Activision Blizzard on these governance and D&I practices issues. The issues have been weighing heavily on the company and it has been seeking to address them by making changes to its management and taking actions to improve its working environment. The delay of the new games is disappointing but not unusual within the video game industry. We maintain a positive view on the fundamentals driving Activision Blizzard's core franchises with higher player engagement and in-game monetisation and will continue to engage with the company on the governance and D&I issues.

Multi-Asset Income

The Multi-Asset income strategy started the month reasonably well but then gave back most of October's performance under the double negative influences of market perception of a faster than expected unwinding of the US Federal Reserve's monetary support following Jay Powell's renomination as chairman and the discovery of the new Covid-19 variant. The strategy was down 2% from the previous month but was still up 7.9% since the start of the year, both in US dollar terms.

Equities were the most volatile asset class last month. Our equity portfolio was down 2.3% but was still up a strong 18% for the year. Our fixed income portfolio was not immune to the volatility but was relatively less affected down 1.5% but still up 5.1% for the year. The non-correlated funds were only moderately affected down 0.3% taking the performance year to date to a negative 1.2%.

With the earnings season finishing in the US, investors' attention turned to macro and public health issues. The credit portfolio suffered from an abrupt correction in oil prices triggering profit taking in issuers like *Kosmos Energy*, *Tullow*, *Pemex* and *YPF*, all strong performers this year. Our Turkish exposure, which we reduced a couple of month ago, carried on weighting negatively on our performance as the country's economic situation and its currency deteriorated further.

December has witnessed further volatility driven by profit taking by investors and adjustments to positioning ahead of year end. Increasing infection rates due to the new

Omicron variant, prospects of faster tapering and an earlier than expected rise in interest rates in the US, have blurred the visibility going into next year. However, we expect those to be relatively short-term issues which will not impact our portfolio positioning given our fundamental approach and long-term investment horizon.

The estimated gross cash yield for the strategy is approximately 3.6% before the rolled-over contribution from our trade finance funds, close to our target of a cash yield in excess of 4%.

Emerging Market Bonds

The emerging market corporate bond portfolio was down 1.7% in November as news of the Omicron variant led to a broad market sell-off, leaving year-to-date performance up 1.8%, both in US dollar terms. Infection rates in the US and Europe have historically been leading indicators for CEEMEA and Latin America and therefore the new Omicron variant weighed on risk sentiment.

All sectors contributed to the negative performance, with the energy sector (Tullow, Kosmos, Pemex, YPF) being the main detractor. Global oil prices corrected by $14 per barrel, or 17% since the highs in October as supply/demand expectations moderated. Crude prices dropped as Omicron put pressure on demand and mobility restrictions returned in some places, while supply dynamics were driven by a US Strategic Petroleum Reserve release in addition to an OPEC+ decision to go ahead with its planned 400 thousand barrels/day output increase for January.

In addition, we saw weakness in both Ukrainian and Turkish credits. The escalation of geopolitical tensions between Ukraine and Russia occurred once again with a build of Russian troops on the border, putting pressure on Ukrainian corporate bond prices (*MHP*, *Kernel*) despite the strength of their balance sheets. Meanwhile in Turkey, the Lira depreciated by almost 30% on further unorthodox monetary policy by the central bank. This had a knock-on effect on Turkish corporate bond prices with companies that are more domestically focused and exposed to inflationary pressure having less support (*Ulker* and *Turkcell*).

Importantly, the latest quarterly earnings reports have shown that the fundamentals of our portfolio companies have improved overall and that they are well placed to weather the global volatility and technical factors. We will be keeping a close eye on market weakness and may use it as an opportunity to buy.

December 2021