

J. STERN & CO.

World Stars Global Equity Fund Q1 2022

Quarterly Investment Commentary

22nd April 2022

Dear Investors,

Volatile times, opportunities for long-term equity returns

March has been something of a curate's egg for investors with an increasing list of worries to focus on – whether it be Ukraine and its potential escalation, inflation, China's covid-related lockdowns, fears over errors by policymakers, and the risks of recession whether caused by energy costs, broader inflation or over-enthusiastic monetary tightening.

The correction in the US bond market has been one of the sharpest in many decades, from a yield of 1.7% on the US 10 years Treasury on 1st March to 2.8% today. This has reflected a shift in investor focus from immediate safe havens post-invasion to a broader position based on above-trend global GDP growth of 3.6% (IMF), high but (slowly) falling inflation and sharply rising interest rates.

Meanwhile, it is clear that many companies and industries are benefiting from a cyclical recovery in demand post-Covid and that for those with a global footprint, a manageable exposure to direct energy costs and (critically) with pricing power, the outlook for their profits and cash flows is still robust. This position across many global companies, with a particular boost for energy and mining stocks, and a recognition that equities are the largest and best asset class through which to gain insulation from inflation, combined to drive the MSCI World index up by 3% in USD in March and by over 10% from its low point in February.

Our own equity investments are focused on companies with minimal exposure to Russia and Ukraine (estimated at ~2% of revenues overall), and powerful competitive positions in attractive growth industries. Public statements from our companies have naturally turned more cautious, a message that is being promulgated in the current Q1 results season, but we still expect good progress in revenues and earnings in 2022.

In April our World Stars Global Equity Fund passed its three years anniversary as a UCITS fund and the strategy will have a ten year track record this October. These important milestones reflect a continuation of the Stern family's focus on investing in leading global stocks for over 60 years.

It is hard not to worry about the greatest current uncertainties, which we would class as a substantial escalation in Ukraine, significant errors by policymakers or a major close-down of the Chinese economy. But for investors with a long-time horizon and an eye for high-quality investments listed on leading stock exchanges we believe this is a time to take advantage of volatility and the opportunities it presents.

In April we refreshed our analysis of long-term equity returns in the S&P 500 in USD since 1928 and over more recent adverse events such as the global financial crisis in 2008 and the dotcom collapse in 2000. In almost every case, even if investors purchased just before a sharp fall, but were able to hold on for the ensuing ten years, their CAGR return would rise to ~10% or more. For example, an investment in January 2008 would have made a total return of 8.5% compound by December 2017, rising to 11% CAGR in Dec. 2021, including dividends but before fees, in USD.

Performance

After a 20% rise in CY2021, Q1 was a challenging period for our World Stars Global Equity fund and for the wider markets. Increased concerns over inflation and geopolitical tensions were compounded by Russia’s invasion of Ukraine on 24th February. A significant decline in January and February was followed by a marked recovery in March as investors recognized that some industries and economies would be lightly impacted by the conflict and its wider implications.



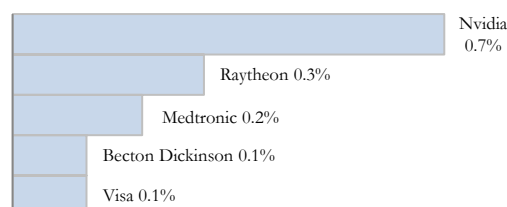
	Cumulative						Annualised			
	Mar-22	Q1 2022	2022 YTD	1 Year	3 Year	5 Year	Since Inception	3 Year	5 Year	Since Inception
Portfolio	+2.2	-8.2	-8.2	+8.2	+50.0	+88.3	+179.8	+14.5	+13.5	+11.4
MSCI World	+2.8	-5.1	-5.1	+10.6	+54.2	+84.1	+189.7	+15.5	+13.0	+11.8

Source: SS&C Technologies, Bloomberg, J Stern & Co. As at 31/03/22. 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 01/10/12.

The macro-economic picture was dominated by inflation which rose to 7-8% in the US, UK and Europe by March. A sharp rise in the price of oil, gas, metals and foodstuffs has been driven by the RU/UA conflict and the introduction of tight sanction policies by many western economies. With these developments, adding to the supply chain pressures caused by Covid-19 and the ongoing cyclical economic recovery, inflation is likely to remain at this level throughout 2022 and decline steadily in 2023-24. This situation will require a finely judged response by policymakers, especially with interest rates, to ensure that the global economic recovery is not destabilised.

Top Five Contributors

Our recent purchase *Nvidia* was the top contributor. It is a global leader in semiconductors led by its GPU accelerator chips. *Raytheon* was boosted by an expectation of higher defence spending. *Becton Dickinson* and *Medtronic* are benefiting from a significant recovery in elective surgery and medical procedures as Omicron fades.



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Nvidia's Q4 results showed continued strong progress with revenues of \$7.62bn +53% and a rise in the gross margin to 67% (65.5%). Performance was driven by strong growth within the two largest divisions of Gaming and Data Centers, +37% and +72% respectively, which account for 88% of group revenues. The 'professional visualization' (ProVis) business is enjoying strong demand fueled by the build-out of hybrid work environments and growth in AI & 3D design. In the small Automotive division, Nvidia has signed a new partnership with Jaguar Land Rover in self-driving technology. During the quarter Nvidia held an Investor Day at which it increased its long-term forecast for its total addressable market to \$1tn. This compares to the company's FY2022 revenues of \$27bn and underlines the scale of the future growth opportunities across gaming, AI, edge and cloud computing, and autonomous vehicles.

Raytheon's Q4 EPS of \$1.08 were 6% ahead of market expectations driven by 4% organic revenue growth and a 190bps rise in the EBIT margin to 8.5%. Both Collins and Pratt & Whitney are benefiting from a substantial recovery in commercial aftermarket revenues, with growth of 47% and 28% respectively. Additional cost synergies in 2021 from the merger with United Technologies were \$760m, taking the total to \$1bn, and with the integration process running two years ahead of schedule. Raytheon should be a significant beneficiary of higher defense spending which is expected to follow the RU/UA conflict. Defense accounts for about 20% group revenues spread across Intelligence & Space and Missiles & Defense.

Medtronic's Q3 results (to end January) were mixed with the business still being impacted by omicron and depressed procedural volumes in hospitals. Revenue growth was 2% organic, flat in developed markets and with a 7% increase in emerging markets. Despite the difficult market conditions, 60% of Medtronic's businesses held or gained market share in the Q. During Q4 (to April) we believe that Medtronic will have experienced a strong recovery in procedural volumes. The company has also been very active in NPD with over 200 new products launched in the last 12 months on a global basis. The business should be well able to deliver on its medium-term target of 5%+ annual revenue growth.

Becton Dickinson's (BD) Q1 results included 8.3% revenue growth and higher margins in the base business and an increase in full year guidance in revenues and EPS. All three divisions of Medical, Lifesciences and Interventional delivered Q1 revenues ahead of expectations. The company's growth is being driven by a mix of focused execution, a strong commitment to innovation and tuck-in M&A activity. Covid-related revenues fell to \$185m (\$866m) in the Q, but over 2020-22 these have been a valuable source of cash flow to fund capex and small acquisitions. In early April BD has executed a spin-out of the diabetes business, Embecta, with one new share in Embecta for every five shares held in BD. Ex-diabetes the 'new' BD will have faster underlying growth.

Visa's revenues grew 25% in Q1 on constant currency including a 40% increase in higher-margin cross-border transactions. The EBIT margin rose to 70% (67.9%). Visa's cross-border transaction volumes (excl. intra-Europe) are now at 72% of 2019 levels and the company expect these to rise to 90% by the end of FY2022, 10% points ahead of previous estimates. Visa's exposure to RU and UA at 5% of its global revenues is equal the highest of our stocks (with another payments company), but this does not weaken the long-term investment case.

Source: Bloomberg, SS&C Technologies, J. Stern & Co. As at 31/03/22.

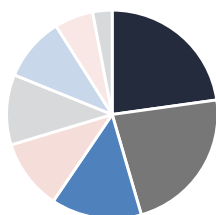
Portfolio Composition

During the quarter, we bought one new stock and sold another, leaving the number of holdings unchanged at 28. We sold our position in *Activision Blizzard* following a \$69bn cash offer by Microsoft which reflected Activision's strategic value in a consolidating video games industry with significant long-term growth levers. We bought *Nvidia* in February which has maintained digital transformation as our largest broad sector at a 32% weighting. Other than these changes, the portfolio remained largely unchanged across sector and geographic allocations as we retained faith in our leading quality companies through a period of significant market volatility.

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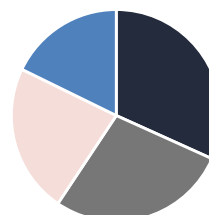
GICS Sector Allocation

- Health Care 23%
- Information Technology 23%
- Consumer Staples 14%
- Communication Services 11%
- Industrials 11%
- Consumer Discretionary 10%
- Materials 6%
- Real Estate 3%



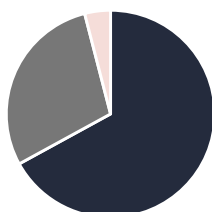
J. Stern & Co. Allocation

- Digital Transformation 32%
- Consumer 28%
- Healthcare & Life Sciences 23%
- Industrials & Infrastructure 18%



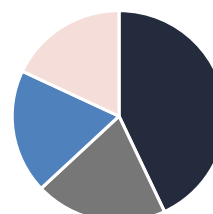
Geographic Exposure by Listing

- USA 67%
- Europe ex-UK 29%
- UK 4%



Geographic Exposure of Sales

- USA 43%
- Europe 20%
- Asia 19%
- Rest of World 18%



Source: Bloomberg/SS&C Technologies. As at 31/03/22

Update on ESG

In March our firm was listed as a signatory to the FRC's 2020 Stewardship Code, which is centred on 12 core principles and places significantly higher requirements on signatories than the previous 2012 version. There is an emphasis on a firm's ability to evidence stewardship activities and their outcomes whilst putting ESG research and principles at the heart of the investment process.

J. Stern & Co is also a signatory to the UN PRI; a Member of the SASB Alliance; and strategically aligned to the UN's 17 Sustainable Development Goals and its ten Global Compact principles. Our World Stars fund is classified as an 'Article 8 Fund' under the EU's SFDR framework. The carbon intensity of the World Stars fund is 79% below the MSCI World Index.

Outlook

Although inflation in many leading western economies is running at 8% and likely to remain at close to this level during 2022, and although there are significant uncertainties around the necessary finesse of central banks in the pace of monetary tightening, we are encouraged by expectations of global GDP growth of 3.6% p.a. in 2022 and 2023 and by the trading results of our companies. At the time of writing our stocks are starting to release their Q1 results and the picture has been almost universally robust, with most companies' revenue growth above expectations. They have been actively raising prices with only limited resistance from customers.

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	-2.5	+8.4	+3.4	+19.4	+16.5	+2.9
2021	-2.0	+0.9	+2.7	+7.0	+1.4	+2.3	+3.2	+2.0	-5.3	+4.8	-2.1	+3.9	+19.7	+22.3	-2.6
2022	-6.6	-3.8	+2.2	-	-	-	-	-	-	-	-	-	-8.2	-5.1	-3.2

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Fund Information

Investment Manager	J. Stern & Co. LLP
Portfolio Manager	Christopher Rossbach
Deputy Portfolio Manager	Katerina 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.

Important Information

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