

J. STERN & CO.

World Stars Global Equity Fund Q3 2022

Quarterly Investment Commentary

20th October 2022

Dear Investors,

Market volatility is an opportunity for long-term investors

It has been a challenging period in the markets. Investor sentiment in the first six weeks of the quarter was buoyed by robust results in the Q2 results season, in many sectors and especially in our stocks, and by measured comments from the Fed with a determination to achieve a soft landing. This optimistic mood was punctured in late August by hawkish statements from Fed Chair Jerome Powell and other leading policymakers, increasing concerns about a broader recession driven by sharper monetary tightening.

The macro-economic news flow has been mixed, but the signals from central banks have been increasingly tough. For example, in the US, headline CPI has fallen steadily from 9.1% in June to 8.2% in September, but the Fed has vowed to act “forcefully” (Jerome P at Jackson Hole in August) and has encouraged other central banks to keep lifting rates to take control of inflation. The yield on 10 year Treasury bonds rose from 3.0% to 3.8% in the quarter and is 4.1% today. Similarly in the UK, the yield on 10 year gilts rose from 2.2% to 4.1% in the quarter, and is 3.9% today.

Rising rates have pushed equity markets lower, partly because of fears over the impact on consumers and corporates, and partly due to the impact of sharp monetary tightening on the valuation of long-term cash flows. This has compressed valuations of technology stocks and companies with previously high valuations including even those with a strong track record, enduring competitive advantages and long-term growth prospects.

For investors with a time horizon of five years or more, we believe that the market sell-off presents a great opportunity to invest in high-quality companies at much reduced valuations. For example, the current trailing P/E of the MSCI World index is 15.5x, 27% below the 25 year average of 21.1x. Our own portfolio, which offers significantly higher revenue and earnings growth than the global equity market, is currently on a 19.8x P/E for CY2023, 34% below the 30x of September 2021.

Markets remain febrile and there is a tendency to focus on short-term negative news flow at times of significant uncertainty. But hidden in the mix there are some shafts of light. For example, the European gas price is currently €125 per megawatt hour, 63% below its August peak of €340; the recent production cut by OPEC has had limited impact on prices as oil consumption falls; and the 1.1m decline in job vacancies in the US in August is an indicator of slowing in the labor market, a key concern of the Fed. Consensus estimates for US CPI currently forecast a fall to ~3.5% in Q2 2023 and below 3% in Q3. If this forecast has any veracity, there should be an end to monetary tightening in H1 2023, which will shift markets into a new paradigm.

The Russia/ Ukraine conflict remains a wild card in this kind of scenario analysis. But even here the prospects of a resolution appear stronger than for many months.

We believe that there are many opportunities for long-term investors in the current market. Many high-quality companies in attractive industries, such as we hold in the World Stars, are trading robustly. The third quarter results season has now started and this will be an important driver of investor sentiment for the remainder of the year.

Performance

In a challenging quarter our World Stars Global Equity Fund declined by 8.4% in US\$, slightly more than the MSCI World. This was despite the fact that ~80% of our companies reported second quarter results which included positive information on trading that would justify unchanged or increased earnings estimates for their full year FY2022 on constant currencies. Against a difficult macroeconomic background and with sharply rising interest rates investors favored ‘value’ stocks over the high quality, long-term growth companies in our portfolio.



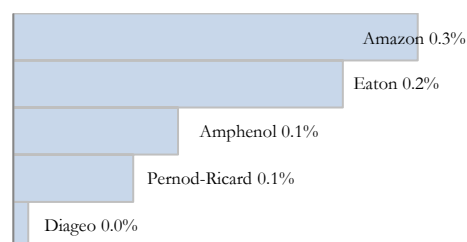
	Sep-22	3 Months	2022 YTD	1 Year	Cumulative			Annualised		
					3 Year	5 Year	Since Inception	3 Year	5 Year	Since Inception
Portfolio	-9.6	-8.4	-30.1	-25.5	+8.0	+29.8	+113.0	+2.6	+5.3	+7.9
MSCI World	-9.3	-6.1	-25.2	-19.3	+15.9	+32.7	+128.4	+5.0	+5.8	+8.6

Source: SS&C Technologies, Bloomberg, J Stern & Co. As at 30/09/22 in USD. 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.

Our performance above, quoted in US\$, includes the impact of the substantial rise in the US\$ index this year – up 8% in Q3 alone, and 17% in CY2022 to the end of Q3. In sterling terms our portfolio is -15.3% YTD to 30/9/22 and in Euros -18.8%.

Top Five Contributors

Industrials and Consumer stocks made up four of the top five contributors during the quarter, while *Amazon* was the top performer. Both our spirits companies and our focused ‘asset light’ industrial stocks are continuing to achieve above-average growth as they exploit long-term secular trends such as ‘premiumisation’ (in spirits), the ‘electrification of everything’ and the increased use of ‘high tech’ industrial solutions.



J. STERN & CO.

Against a challenging market background for mainstream consumers Amazon's Q2 results were comfortably ahead of (lowish) market expectations. Total revenues rose 7%, or 10% on flat currency, lapping +24% in Q2 2021. The EBIT margin fell to 2.8% (7.3%) reflecting broad cost pressures and the doubling of capacity in e-commerce over the last two years. As revenues rise, the EBIT margin should progressively recover. Q2 advertising revenues rose 21%, ahead of many other digital stocks this year. AWS remained on a strong growth trajectory with 33% revenue growth lapping 37% in Q2 2021, and a 29% EBIT margin in the quarter. The guidance for Q3 revenue growth of 17-21% on constant currency underlines the momentum in the business.

Eaton's Q2 2022 results included organic revenue growth of 11%, record operating margins of 20.1% (+150bps) and EPS of \$1.87, 3% ahead of market expectations. The margin improvement was impressive given inflationary pressures and supply chain challenges. Growth was led by Electrical Americas and Electrical Global, with revenues up 16% and 12% respectively, and with orders up 29% and 27% on a rolling 12-month basis. Aerospace revenues grew 10%, driven by growth in commercial and particularly commercial after-market services. Higher defense spending should be a useful boost in the next few years. For the full year Eaton raised its revenue growth guidance to 11-13%, up from 9-11%.

Amphenol delivered excellent results for Q2 2022 including 18% revenue growth, 7% above expectations, and a 60bps rise in the operating margin to 20.7%. Revenue growth was broad-based with double-digit gains in Industrial, IT & Datacom, Automotive, Commercial Aerospace and Broadband verticals, illustrating the continued demand for its diverse portfolio of products. The order book was flat Q on Q, but up 11% year on year, with a book to bill ratio of 1.1x. The forward guidance on EPS for Q3 appears conservative, reflecting macro uncertainties, but the medium-term outlook appears well supported by secular growth trends in connectors and sensors.

Pernod Ricard's FY2022 results showed strong progress on all metrics. Organic revenue growth of 17% was ahead of consensus at +15.5%, the EBIT margin rose 80bps and the business achieved an average price increase of 5% to offset cost pressures. The year included a strong recovery in the on-trade and Global Travel Retail, supplementing a resilient off-trade, and market share gains by most brands. The company issued a confident statement on FY2023, pointing to broad-based growth, further recovery in duty-free and China, and higher EBIT margins. The company is benefiting from positive secular trends including premiumisation, a shift to westernised spirits in emerging markets and share gains from beer in many countries.

Diageo also reported significant growth momentum in its FY2022 results. Organic revenue growth of 21.4% was 4% ahead of consensus. It included a 10% rise in volumes and an 11% combined contribution from price and mix. Group revenues in the year were 28% above the level of FY2019, pre-Covid. Premiumisation was a feature of the results with 31% growth in revenues of super-premium brands. Channel mix was positive, with faster growth in the on-trade vs. take-home. The company announced a new target of £1.2bn efficiency savings and an 'agile' supply chain initiative which should deliver a further £100m p.a. in due course. Diageo is confident of achieving its medium-term financial targets of 5-7% organic top line growth and a 6-9% p.a. rise in EBIT.

Source: Bloomberg, SS&C Technologies, J. Stern & Co. As at 30/09/22.

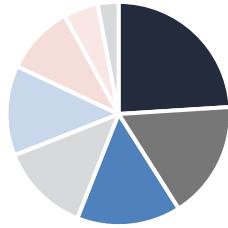
Portfolio Composition

We have purchased Walt Disney, the leading global media and entertainment company, having seen the share price halve since Q1 2021. Our investment case is based on a major turnaround in the theme park business, which has revenues of US\$28bn but is currently achieving an EBIT margin of 3% vs. our FY2025 estimate of 29%; and a shift from loss to profit in the streaming business as volumes and advertising both increase significantly. The purchase was funded by the sale of Visa and Embecta, a small spin-off from Becton Dickinson. We remain very optimistic over the long-term drivers in the payments industry, but still hold Mastercard in this space. We believe that Mastercard has stronger growth prospects than Visa. Our portfolio now has 28 stocks.

J. STERN & CO.

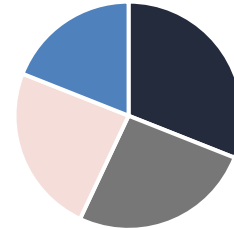
GICS Sector Allocation

- Health Care 24%
- Information Technology 17%
- Consumer Staples 15%
- Industrials 13%
- Consumer Discretionary 13%
- Communication Services 10%
- Materials 5%
- Real Estate 3%



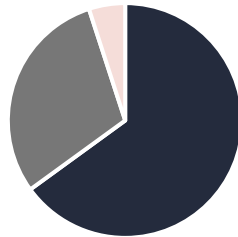
J. Stern & Co. Allocation

- Digital Transformation 31%
- Consumer 26%
- Healthcare & Life Sciences 24%
- Industrials & Infrastructure 19%



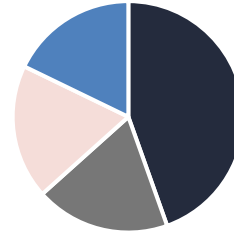
Geographic Exposure by Listing

- USA 65%
- Europe ex-UK 30%
- UK 5%



Geographic Exposure of Sales

- USA 45%
- Europe 19%
- Rest of World 19%
- Asia 18%

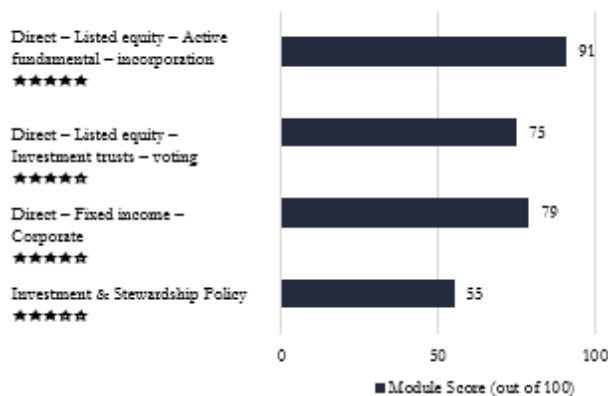


Source: Bloomberg/SS&C Technologies. As at 30/09/22

Update on ESG

In August 2022 we received our first Assessment Report from the UN PRI, which followed our submission in the previous year. We were ranked in four categories and pleased with the overall result given the size of our firm. Our lower ranking in Investment & Stewardship reflects our lack of activity or involvement in areas such as ‘disclosure of political donations’ or ‘engagement with public bodies’. We are active stewards of our investments and vote on all resolutions for our World Stars holdings.

PRI Indicator Scores



J. STERN & CO.

Outlook

We are currently involved in the early stages of the Q3 results season, which will provide an important update on current trading and the pressures from inflation, slower growth and the strong US\$. We believe that the majority of our companies are trading robustly, especially in healthcare, industrials and higher-level consumer.

The macro-economic picture remains mixed and generally uncertain, with little real change expected before the New Year. Although we do expect a shift in the market paradigm during H1 2023, as inflation peaks and markets look over the top of the interest rate curve, we are more closely focused on our companies and their ability to deliver growth in revenues and cash flow despite the macro and market background.

Yours faithfully,



Christopher Rossbach



Katerina Kosmopoulou, CFA

J. STERN & CO.

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	-8.6	-2.0	-7.3	+8.7	-6.8	-9.6	-	-	-	-30.1	-25.2	-4.9

Source: SS&C Technologies, Bloomberg, J Stern & Co. As at 30/09/22. 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.

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
Eligibility	All	Retail	Institutional	Charity
Minimum Investment*	1m	5k	25m	1m
Management Fee	0.90%	1.20%	0.75%	0.65%
OCF	1.20%	1.50%	1.05%	0.95%
Acc./ Dist.	Accumulation and Distribution Classes available to all			
Currencies*	USD &, unhedged or hedged, EUR, CHF, & GBP			USD & GBP
Alternative fee structure*	Reduced annual management fee with additional performance fee available			
Subscriptions & Redemptions	Every business day until 3pm Luxembourg time, one 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

J. Stern & Co. provides this commentary to current investors of the World Stars Global Equity Fund ("Fund") only. The information provided should not be relied upon as a recommendation to purchase any security, shares in the Fund or other financial instrument, nor should it be considered as a form of investment advice or solicitation to conduct investment business.

Data is sourced from SS&C, J. Stern & Co. and Bloomberg and no warranty of accuracy is given. The views expressed on the date of publication are those of J. Stern & Co. and/or the actual author(s) and are subject to change without notice.

J. Stern & Co. includes J. Stern & Co. LLP, Star Fund Managers LLP and/or J. Stern & Co. (Switzerland) AG. J. Stern & Co. LLP and Star Fund Managers LLP are both authorised and regulated by the Financial Conduct Authority, and where relevant, J. Stern & Co. LLP has approved it for distribution. J. Stern & Co. (Switzerland) AG is a member of Polyreg and adheres to the PolyAsset Code of Conduct.

More information on J. Stern & Co. can be found at www.jsternco.com/legal, including our privacy notice, other regulatory disclosures and registered office information.

© J. Stern & Co.