

J. STERN & CO.

World Stars Global Equity Fund Q3 2023

Quarterly Investment Commentary

9th October 2023

Dear Investors,

The Golden Path

September is an important month as investors look to expectations for the end of the year and the prospects for the year to come. At the beginning of the year we thought that we had taken the blows on inflation, interest rates and valuations, and that this would be the year in which we would see normalised interest rates for the first time since the global financial crisis. With US 10-year rates now at 4.3% we have reached that important milestone.

Austin Goolsby, the economist and president of the Chicago Federal Reserve Bank, has managed to coin a new term to describe what we think: Goldilocks is the typical expression for an economy in which growth and inflation are neither too hot nor too cold but just right. The golden ratio has been a measure of harmony since antiquity.

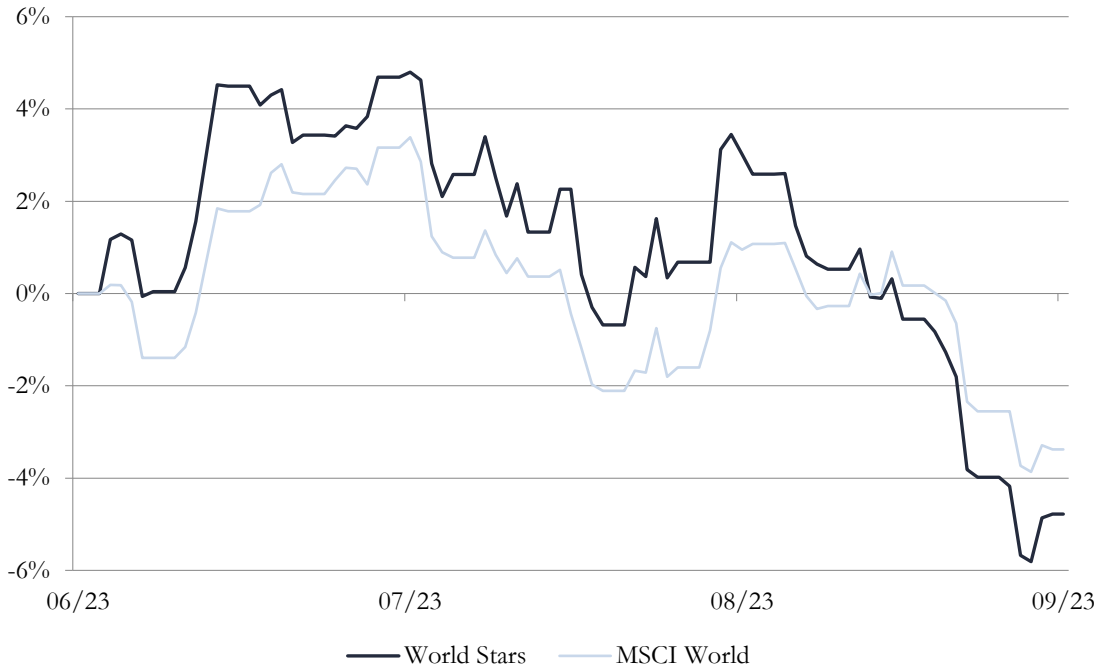
In an interview last week, Goolsby spoke about his view that the economy was on a golden path in which inflation would fall but recession would be avoided. He said that monetary policy was working and that the Fed was “nearing a point when it is not a matter of raising rates but how long to keep them high.” Goolsby referred to a study by economists at the Chicago Fed stating that “the policy tightening that the Fed has already done is sufficient to bring inflation back near the Fed’s target by middle of 2024 while avoiding a recession.”

Whether it is Goldilocks or the golden path, we think that the underlying economy and in particular the quality companies we invest in are well positioned and will weather the challenges from higher interest rates. Resilience is an important attribute of quality, and it is what we are expecting from our companies. They benefit from many important drivers of economic growth and investment, including the need to renew the public and private infrastructure in the United States, Europe and elsewhere; the need to invest in energy transition, water management and other improve public utilities; and the need to increase computing capacity for accelerated computing as artificial intelligence, the metaverse and the internet of things change the course of the digital economy.

Nvidia has been in the World Stars portfolio for over 18 months, and it has now become our largest position following its 215% rise year-to-date. The strength in the share price has been driven by rapidly growing demand for Nvidia’s high performance GPUs as data centres are changing to an accelerated compute infrastructure. In recent months we have been asked whether Nvidia’s valuation is too high, or market expectations are unrealistic and have gotten ahead of themselves. Our investment case on Nvidia focuses on its competitive position, its addressable market and its valuation. As Giles Tulloch outlined in our September investment insight, Nvidia continues to be exceedingly well positioned across all three. We believe that the company has the potential for significant upside in the coming years and have decided to keep it as a core position in our portfolio.

Performance

After a strong first half of the year, Q3 and in particular September saw a significant pullback as fears over further interest rate rises and persistent inflation returned. The World Stars Global Equity fund was down -6.2% during the quarter, bringing year to date performance to +14.7%. Despite the underperformance for the quarter, the fund remains 320bps ahead of the MSCI World this year, a clear endorsement of our focus on quality during tough macroeconomic times. Our technology stocks were once again a source of strength, while results across the portfolio continued to show resilience across a variety of sectors and geographies.



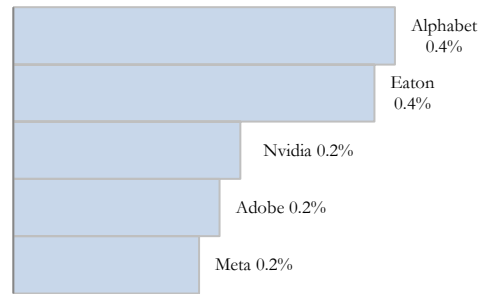
	Sep-23	3 Months	2023 YTD	1 Year	Cumulative			Annualised		
					3 Year	5 Year	Since Inception	3 Year	5 Year	Since Inception
Portfolio	-7.6	-6.2	+14.7	+23.8	+13.2	+34.3	+163.7	+4.2	+6.1	+9.2
<i>MSCI World</i>	-4.3	-3.4	+11.5	+22.5	+28.0	+45.5	+179.9	+8.6	+7.8	+9.8

Source: SS&C Technologies, Bloomberg, J Stern & Co. As at 30/09/23 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.

The performance above is shown in US\$. During the quarter, our portfolio was down -2.4% in sterling and -3.2% in euros, as both currencies weakened against the US\$ on an indexed basis.

Top Five Contributors

It was another good quarter for our technology names, as *Nvidia* continued to outperform its lofty expectations and positive online trends encouraged investors. Further development and integration of AI was another driver of this, with many of the top performers already benefitting from this groundbreaking technology. *Eaton* was the notable outlier, as it reaffirmed its position as a key industrial holding.



Alphabet was the biggest contributor during the third quarter, generating positive results across its Search business whilst successfully expanding the use of AI across its product suite. Q2 2023 results were very solid across the board, with revenues growing 7% to \$74.6bn and EPS coming in ahead of consensus at \$1.44. Search revenues grew 5%, illustrating the resilience of the business despite some macro concerns as advertisers continue to appreciate the superior ROIs of Google Search. Elsewhere, YouTube grew 4%, ahead of the consensus 1% anticipated, while operating margins remained strong at 29%. Alphabet continues to incorporate AI across its product suite, presenting multiple growth avenues ahead and more than justifying its attractive valuation at ~18x 2024 P/E.

Eaton delivered another strong quarter, capitalizing on some powerful secular trends in the Industrials sector. Q2 2023 results showed 13% organic growth YoY, combined with a 150bps improvement in operating margins to 21.6% which further emphasized the efficiency within the business. The key driver behind the results was the Electricals division, with Electrical Americas up 19% organically and Electrical Global up 6% as demand for data centers and IT began to reflect the tailwinds of AI development. Backlog now stands at \$9.1bn for the electrical business and \$3bn for the aerospace segment, and we continue to like the stock as a key holding within industrials.

Nvidia has seen astounding growth this year and is our largest holding in the portfolio. Q2 2024 results wowed investors once again, delivering revenues of \$13.5bn that were far greater than the \$11bn guided earlier in the year and represented 101% growth YoY. The overwhelming majority of this revenue was from the Data Centre business with revenues of \$10.3bn, representing a 171% increase YoY. *Nvidia* are increasing their supply chain capacity to meet this substantial demand and take advantage of the huge addressable market as businesses transition to accelerated computing and GenAI. Revenue guidance for the next quarter of \$16bn represents another significant upgrade, and we view *Nvidia* as a key growth prospect as it rapidly expands earnings.

Adobe has been one of the few companies who have been able to meaningfully capture the GenAI opportunity and incorporate it into their products very quickly. Their Firefly product has already generated over 2 billion images in testing and has been made commercially available, while other segments have also seen improvements and price increases. Results for Q3 2023 were a positive reflection of this, with revenues ahead of consensus at \$4.89bn while retaining their stable operating margins at 46.3%. Annual recurring revenue continued to beat expectations at \$464m and allows good visibility for earnings going forward. Overall, it was a solid set of results, and we continue to see significant growth ahead for *Adobe* as GenAI momentum continues to drive the business.

Meta has also made significant investments into AI and is beginning to see the positive effects. Q2 results saw revenues grow 11% to \$32bn, at the top end of its guidance and significantly higher than consensus estimates. Monthly active users grew 6% YoY to 3.88bn, while daily active users were up 7%. Furthering this, *Meta* emphasised the impact of AI, as time spent on platforms increased by 7% with improved algorithms and increased traction from advertising channels. Ad impressions were up 34% YoY, with new advertising formats such as Reels resonating particularly well with users. Given this acceleration in revenue growth and leadership position in AI, the outlook for *Meta* remains positive and supports our long-term investment thesis.

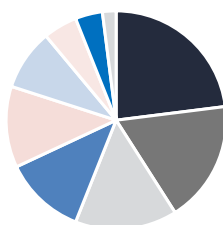
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Portfolio Composition

There were no purchases or sales during the quarter, with sector and geographic allocations remaining largely the same. The portfolio remains well diversified across a variety of sectors, with Digital Transformation accounting for 38% of the portfolio following strong performance throughout the year.

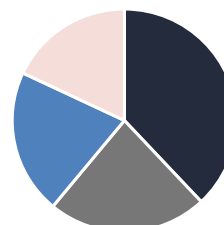
GICS Sector Allocation

- Information Technology 23%
- Health Care 18%
- Industrials 15%
- Consumer Staples 12%
- Communication Services 12%
- Consumer Discretionary 9%
- Materials 5%
- Financials 4%
- Real Estate 2%



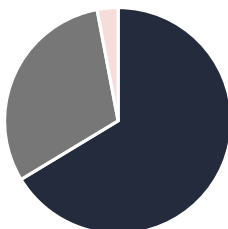
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- Digital Transformation 38%
- Consumer 23%
- Industrials & Infrastructure 21%
- Healthcare & Life Sciences 18%



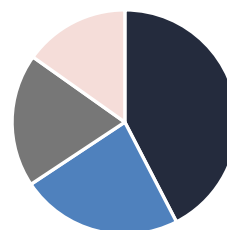
Geographic Exposure by Listing

- USA 67%
- Europe ex-UK 31%
- UK 3%



Geographic Exposure of Sales

- USA 42%
- Asia 23%
- Europe 19%
- Rest of World 15%



Source: Bloomberg/SS&C Technologies. As at 30/09/23

Update on ESG

ESG is fully integrated into our research process, and we consistently strive to improve our ESG capabilities. 2022 saw many positive developments as we received our first UNPRI Assessment Report and were approved as a signatory to the 2020 Stewardship Code, and we have ambitions to further enhance our ESG processes during 2023 and beyond.

To view a detailed summary of our voting and engagement during 2022 please click the following link: [Stewardship - J Stern & Co. \(jsternco.com\)](https://www.jsternco.com/stewardship)

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Outlook

Q3 was a volatile period for equity markets, as stronger than expected economic data in the US and further monetary tightening raised fears of persistent inflation and 'higher for longer' interest rates. Despite these concerns, Q2 results showcased the robust nature of our stocks, with only 5 lowering their EPS estimates for next financial year, supporting our belief that the portfolio remains well positioned to perform throughout the business cycle.

Throughout the turbulence of the last two years, we have been resolute in our approach of investing in quality companies for the long-term, and the results speak for itself. Since inception the strategy has delivered +9.2% on an annualised basis, and we remain firm in our conviction that it will continue to deliver in the years to come.

Yours faithfully,



Christopher Rossbach



Katerina Kosmopoulou, CFA

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	+4.4	+8.1	-4.3	-24.6	-17.7	-6.8
2023	+8.3	-3.4	+6.8	+2.4	+0.7	+6.2	+3.2	-1.7	-7.6	-	-	-	+14.7	+11.5	+3.2

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Fund Information

Portfolio Manager	Christopher Rossbach	Share Class	A	B	L	A5/A6
Deputy Portfolio Manager	Katerina Kosmopoulou, CFA	Eligibility	All	Retail	Institutional	Charity
Launch Date	8 th April 2019	Minimum Investment*	1m	5k	25m	1m
Management Company	Waystone Management Company (Lux) SA	Management Fee	0.90%	1.20%	0.75%	0.65%
Administrator & Depository	CACEIS Investor Services Bank SA	OCF	1.20%	1.50%	1.05%	0.95%
Auditor	Deloitte Audit S.à.r.l.	Acc./ Dist.	Accumulation and Distribution Classes available to all			
Reference Currency	US Dollar	Currencies*	USD &, unhedged or hedged, EUR, CHF, & GBP			USD & GBP
Dealing Day	Every business day in Luxembourg & London	Alternative fee structure*	Reduced annual management fee with additional performance fee available			
NAV	Available by close of business day after Dealing Day	Subscriptions & Redemptions	Every business day until 3pm Luxembourg time, one business day before the Dealing Day			

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