J. STERN & CO.

Investing in Quality for the Long-Term

Investment Commentary

A Year of Challenges and Resilience

As the year 2023 comes to a close, we look back at a year of great challenges but also of great resilience. Our hearts are with those who are affected by conflicts and our hopes are for peace.

The US economy in particular has weathered inflation and interest rates. Corporate and consumer demand has remained robust and investment is taking place to harness innovation and technology to address the challenges of the future.

We invest in companies that have great quality, that can compound their sales, earnings and cash flows over long periods of time, and that can deliver great value as they do. We think as owners of businesses that we can hold for five to ten years or longer on behalf of our investors. As owners we base our investment decisions on the fundamentals of the companies we invest in.

It is simple to have strong macro-economic views about objective data like inflation, interest rates and growth, and to apply them to models to predict what should happen. However, the real economy and real companies are not simple at all. They are much more complex, driven by challenges and opportunities, by investment and innovation, and are more diverse and more resilient than a top down view would allow. That is why we are not distracted by short-term newsflow or predictions, but focus on what is actually happening in the companies we look at.

The fundamentals of companies are what allow us to have conviction in our investments and to seek out the opportunities offered by globalization, digitalization and the renewal of the public and private asset base to face the challenges of the future. We look to invest in the companies that are doing the disrupting, not the ones that are getting disrupted.

Our fundamental conviction allowed us to maintain our portfolio throughout the year after the challenges of 2022, and to use lower prices to buy more of companies we liked. As we summarise below, our World Stars Global Equity strategy is highly successful this year. It was up 24.1% at the end of November in US dollar terms and is continuing to perform strongly this month. Our investment insight this month provides a review of this year's performance and our outlook for 2024 for the industries and companies we invest in. You can read it by following this [INSERT LINK] or clicking on the attachment.

Next year will be another year of great challenges, many of which are ongoing. It will also be a year of elections, in the United States and the United Kingdom, as well as in South Africa, Mexico and elsewhere, and we have to brace for the outcomes. We think that we have taken the blows of inflation, interest rates and valuations, and that next year will be a positive year for our companies and their share prices.

Our greatest belief and hope is in people, in their desire for peace and prosperity, in their innovation, ingenuity and spirit, and in their resilience.

With these thoughts we send you our Season's Greetings and our best wishes for a healthy, peaceful and prosperous New Year.

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World Stars Global Equities

November was a very strong month for our World Stars Global Equity strategy, posting an exceptional 9.4% return in US dollar terms and bringing year-to-date performance to 24.1% (both in US dollar terms), significantly outperforming global indices. You can find our latest factsheet here [INSERT LINK]

Performance was led by enterprise software leader *Salesforce* up 24%. The company posted a strong set of results, with revenues benefiting from increased confidence in enterprise spending, the ability to leverage a broader product suite on the back of recent acquisitions, and better profitability as the company reaps the benefits of its recent cost cutting efforts. In common with many of our other holdings in the broader digital space, the company is seeing strong tailwinds related to the adoption of its AI-related offerings. The most obvious beneficiary of this trend is of course *Nvidia*, the global leader in advanced semiconductors. The stock closed the month up 15% and is up 220% year-to-date, after posting another exceptional set of earnings, with revenues of USD 18.1 billion, up over 200% year on year, as hyperscale cloud customers continue to invest in their own AI capabilities and vertical specific applications. Nvidia guided for USD 20 billion in revenues for its upcoming financial quarter as well, suggesting 10% sequential growth, and alleviating concerns that it has reached a peak in AI-related spend.

Importantly, however, performance for the strategy during the month broadened beyond 2023's leaders as market started to look into next year, seeking attractive valuations with positive catalysts and fuelling our holdings across sectors. Mobile tower operator *American Tower* was up 17%. Its shares had taken an interest rate-related hit earlier in the year and it benefitted from its telecom customers continuing to invest in the rollout of 5G networks after a period of consolidating spend levels.

Walt Disney was also up 14% at the end of the month, as the company added almost seven million subscribers to its Disney+ streaming service, showed signs of an inflection in the streaming segment's profitability, and delivered revenues for its international parks up 55%, reflecting the insatiable consumer demand for travel and experiences. At the same time, our holdings in industrial companies also recovered strongly, benefiting from cheap multiples, all-time high backlogs and record profitability. Robust secular drivers underpinning demand irrespective of the macroeconomic backdrop include the reshoring of critical industries, the need to substitute scarce labour through automation, the transition to net zero, robust commercial travel activity and the resurgence of global defence spending.

One of the few areas of weaker performance during the month was our spirits companies. *Diageo* was down -11% as the company reported weak results in its Latin American division because of wholesalers and retailers seeking to destock high inventory levels and a slowdown in local consumer spending in premium spirits. Despite this, trends in other markets were resilient and the long-term drivers of premiumisation remain intact.

In summary, we believe the broadening of the performance drivers during the month is an important waystone for the path for our World Stars Global Equity strategy as we look into 2024. We expect the market to broaden beyond the 'Magnificent Seven' and focus on the favourable backdrop for global equities, with the global economy remaining resilient and interest rates at or near peaks. Our companies have leading market positions, strong balance sheets and attractive valuations and we believe they are well placed for another year of solid returns.

Multi-Asset Income

Growing expectations for central banks easing in the first half of 2024 supported a very strong rally for treasuries and across all risk assets. Our Multi-Asset Income Strategy was up 4.6% in for the month and is now up 10.9% year-to-date (both in US dollar terms). You can find our latest factsheet here [INSERT LINK]

Equities were particularly strong, up 10.5% last month (up 24.6% year-to-date) benefitting from the tail-end of a solid earnings season. The fixed income portfolio also showed a strong performance with a positive return of 2.2% in November (now up 7.7% for the year). The alternative funds portfolio was also up, 2.4% for the month (but still down 3.2% for the year).

Following weak performance the previous month, *Siemens Healthineers* bounced back strongly (+17.8%) on good guidance by the management. *Zoetis*, another weaker name in October, recovered well (+12.4%). However, the strength was across the board, with a few exceptions like *Schlumberger* (-6.5%) on expected softer economic developments and demand for oil next year.

Lower US Treasury yields and tighter credit spreads helped the fixed income asset class. Our higher quality bonds (as in high credit rating), whose exposure we increased over the past few months, had a very strong showing (*Grupo Bimbo* +10%, *DP World* +8.6%).

The same macro factors and lower expected interest rates next year helped our alternative funds through a bounce back of our investments trusts holdings (*HICL* +21.3%, *Greencoat* +12.6%, *Sequoia* +10.4%) as investors saw clear value opportunities.

As we turn to next year, we expect economic growth to normalize following the post Covid excesses. Markets are increasingly embracing our base case scenario for a soft landing of the US economy with interest rates coming down to a more normal level as inflation subsides. The main uncertainties still remain the path to normalization. Volatility, which remained surprisingly low this past year, could edge higher with possible volatile inflation data and a politically charged calendar next year.

The portfolio is positioned to harvest the attractive income available and manage a possible renewed bout of volatility.

Emerging Market Bonds

Our Emerging Market Bond strategy was up 2.3% in US dollar terms for the month. Global risk sentiment improved as inflation moderated. US Treasury yields declined as the probability the Fed is nearing terminal rates increased. Emerging market credit spreads also tightened. You can find our latest factsheet here [INSERT LINK]

In addition to the macro developments, there was positive underlying corporate news from several of our holdings. *Tullow Oil* (Ghana, energy) raised a USD 400 million five-year debt facility with Glencore and subsequently launched a tender to buy back their bonds maturing in 2025. This eliminates near term refinancing risk and provides third-party validation of their business model. *Seplat* (Nigeria, energy) had constructive talks with the government over the proposed acquisition of ExxonMobil's oil assets in Nigeria. The transaction would double Seplat's production and 2P reserves.

Meanwhile *YPF* (Argentina, energy) reacted positively to the country's presidential elections. The oil & gas sector is expected to be core to the new president's reform agenda to stabilise the economy.

Finally, we added two new companies to the strategy. *WE Soda* is the world's largest producer of natural soda ash, which is a resilient market with structural growth drivers supporting the sustainable energy transition. *Bharti Airtel* is a leading telecom provider with a presence in India and 16 other countries across Asia and Africa. It benefits from increasing mobile penetrations rates and increasing digitalisation across geographies.

The market is focussed on economic growth with probabilities skewed towards a soft landing. Corporate credit fundamentals are resilient with leverage still below pre-pandemic levels. Default rates are set to decline given comfortable debt maturities next year and improving capital availability. This environment, combined with a likely peaking in US interest rates is a supportive environment to generate returns primarily from income.

Today, our Emerging Market Bond strategy offers an 11.5% per annum yield to maturity (in US dollar terms) with a relatively short duration of 3.5 years. This comprises a 7.6% per annum income yield which provides a degree of visibility on future returns as well as capital appreciation potential given the average bond price is 88 cents on the dollar.

December 2023