Investment Commentary

Engagement Matters

The strong performance of our World Stars Global Equity strategy has vindicated our view that the US and European economies would continue to be resilient and that the ongoing strength of public and private investment as well as consumer spending would continue to drive growth. At the same time we thought that inflation would persist and interest rates would remain at higher levels after the overshoot of last year.

As we note below, market expectations have been adjusting to the US Fed's guidance of 'higher for longer' on interest rates. This time last year we cautioned that the strength of the US economy could mean that interest rates would not be cut as much as markets expected and that this could lead to volatility. This was the reason for the market sell off in the third and fourth quarter last year and was an opportunity for us to buy high quality companies at lower prices. History rhymes but does not usually repeat. However, our view is similar: Markets may have to face the reality that growth and inflation mean that current interest rates are appropriate for the US and global economy and that any volatility around adjustment of market expectations will be an opportunity this year as it was last.

We invest in companies that have high quality and that can compound over long periods of time. Engagement with these companies is of great importance to us and we have had several opportunities to do so in different ways during the first quarter of this year.

This month we spoke at the annual meeting of Sika to express our support for the election of the new chair Thierry Vanlancker and our thanks for the outgoing chair Peter Hälg after 12 successful years. We supported Sika's board and management in their battle against the a hostile takeover by Saint Gobain and are extremely pleased to have helped Sika stay an independent and successful company. It is a leader in material technology for construction and other industries and one of the key solution providers for the more sustainable less carbon intensive renewal of public and private assets.

This time of year is also when we prepare to vote in the shareholder meetings of the companies that we have invested in. In his annual letter, JP Morgan's CEO Jamie Dimon this year commented on the way JP Morgan Asset Management is looking to improve its approach to proxy voting by relying less on the inputs of the proxy advisors and placing more emphasis on decisions taken by their own portfolio managers and investment analysts. This has always been our approach. We review the proxy statements and any shareholder votes with the investment analyst taking the lead supported by our ESG analyst, and then discuss the proxy statement and our voting recommendations with the investment team before deciding how to vote.

This integrated approach to proactive voting allows us to be active and engaged shareholders and to have consistent voting across our investments. We are careful to distinguish between shareholder initiatives that are in the interests of investors and of achieving sustainable outcomes for the companies, and others that are put forward by interest groups looking to advocate different political and social agendas that we think are unnecessary or disruptive to the companies. For example, as we outlined below, in the most recent proxy battle between Disney's board and Nelson Peltz we decided after extensive deliberation to support the board because we think that it has taken decisive steps to address the issues arising from the failed

4 Carlton Gardens
London SW1Y 5AA
United Kingdom
Tel: +44 20 3478 1800

1 Rockefeller Plaza
New York, 10020
United States of America
Tel: +1 212 219 0200

Gartenstrasse 10
8002 Zurich
Switzerland
Tel: +41 44 552 80 70

2, Sir Augustus, Bartolo
Street
Ta' Xbiex XBX1091
Malta
Tel: +356 2034 5006

J. Stern & Co.
www.jsternco.com
info@jsternco.com

transition of the CEO, that Bob Iger has taken important steps to put Disney's performance and strategy back on track and that the company and shareholders would best be served by the board's and management's focus on the performance of the business and the succession of the CEO and not by the potential disruption caused by a dissenting board member. Part of our approach to engagement is to communicate about this publicly, which we believe is part of our responsibility as investors, and we were pleased that our comments were picked up by the *Financial Times* in its coverage as an example.

Our investment insight this month is another example of our commitment to public engagement. Katerina Kosmopoulou is deputy portfolio manager of our World Stars Global Equity strategy, head of ESG, senior investment analyst and vice chair of the CFA Society of the UK. She was interviewed by Portfolio Adviser, a leading industry publication, for its International Women's Day issue and spoke about the global luxury industry and its leader LVMH, a core position for us over the past five years. You can read the insight by following this link or by clicking on the attachment.

As market performance continues to broaden, we continue to be confident in the prospects for value creation of the companies we have invested in. The strong performance of our technology companies has left behind many outstanding companies that are trading at compelling valuation levels. Our ability to select the right quality companies not just in technology but in consumer, healthcare and industrials is one of the key reasons for the ongoing strength and resilience of our performance.

This year the global economy faces significant challenges from the geopolitical situation, including ongoing conflicts and elections, and from the ongoing effects of the rising interest rates on consumers and corporates. However, we believe that both US and European fiscal and monetary policy and valuation levels will continue to be supportive and will look to take advantage of any volatility.

World Stars Global Equities

Our World Stars Global Equities performed strongly with a 2.2% return in March, bringing year-to-date performance to 13.4% (both in US dollar terms) and continuing to outperform global indices. You can find our latest factsheet here.

Advanced semiconductor leader *Nvidia,* continued to lead performance and was up 14% during the month (83% year to date), as the market continued to digest the mass commercialisation potential of AI. At its annual GPU Technology Conference (GTC), the company unveiled its next-generation Blackwell chip platform. This paves the way for breakthroughs in data processing, engineering simulation, computer-aided drug design, quantum computing and generative AI. Importantly, it does so at a 25x cost and energy consumption advantage relative to its predecessor, which is a key consideration for customers.

Also up strongly was the media and entertainment company *Walt Disney*. Its shares were up 10% for the month (35% year to date), as it builds momentum following solid quarterly results and as the market gains confidence in the company's restructuring efforts. We supported Disney's board in its proxy battle against Nelson Peltz because we believe that CEO Bob Iger's strategic vision is the right one and it is already showing results. The board has taken decisive steps to address the issues brought on by the failed CEO transition to Bob Chapek

although we will continue to push for governance and accountability as it prepares for Iger's succession in 2026.

As we highlighted in last month's commentary, performance within our portfolio continued to broaden beyond the digital transformation stocks. Within the speciality materials, flavours and fragrances global leader *Givaudan*, was up 10%, as the industry is returned to normalised growth volumes. Post-Covid inventory drawdown by some of its larger consumer goods customers is now coming to an end.

Our industrial holdings continued to post strong returns, with aerospace engines and systems leader *RTX*, up 9%. Progress on its GTF accelerated maintenance programme remains on track with business trends in defence and commercial aerospace remaining supportive. At the same time *Eaton*, the global leader in power management solutions (also up 9%), reached new highs following strong momentum in its data centre business and high project activity concerning the transition to net zero and reshoring.

On the weaker side, creative software designer *Adobe* fell 10%, as market expectations softened on the potential of AI monetisation in the short term. We had anticipated a potential pullback after the stock's strong rise in 2023 and sold part of our position in December. We may decide to increase our exposure again on any sustained weakness should the opportunity arise. The momentum of Adobe's core business in terms of bookings remains strong, whilst the take-up of its AI solutions is solid, which we believe positions the company well for monetisation opportunities in the long term.

Multi-Asset Income

The Multi Asset Income strategy had a strong close to the first quarter of 2024, up 1.6% in March in US dollar terms (up 5.9% since the start of the year). You can find our latest factsheet here.

Equities were up 1.3% in the month and are up 14.4% year to date. Our fixed income portfolio was the strongest performer for the month, up 1.5% (now up 4.7% year to date). Our alternative funds also showed a positive return of 0.8% in March (still down 0.9% for the year).

In a month mainly driven by macro factors and central banks' comments, during March markets aligned their expectations for interest rate cuts with the US Fed on three potential cuts in US rates during H2 2024. Although in April this view has changed again with core inflation on both US CPI and US PCE metrics both proving stickier than expected with the March data, combined with strong indicators from the labour market and consumer spending. In consequence the 10 year US Treasury yield has risen from 4.2% at the end of March to 4.6% currently.

Schlumberger, the offshore drilling company (up 13.4%) was one of the strong performers for the month helped by rising oil prices. However, at the other end, global animal healthcare company, *Zoetis* (down 14.7%) suffered from profit taking despite a positive outlook.

Our fixed-income portfolio benefited from solid results and idiosyncratic stories (see emerging market debt comment). All our funds were positive last month. *Hipgnosis* (up 10.4%) was the strongest contributor with the new Board opening the door for a change of fund manager and confirmation that the valuation of its portfolio was in line with earlier estimates.

With recession worries easing, investors' attention is now likely to focus on whether higher economic growth translates into higher earnings as interest rates fall. Despite potential volatility surrounding this year's US elections, we believe our portfolio is in a strong position to deliver on investors' return expectations.

Emerging Market Bonds

Our Emerging Market Bonds strategy was up 1.5% for the month and up 3.9% year-to-date, both in US dollar terms. Risk sentiment remained constructive on robust underlying economic data and the Fed signalling interest rate cuts, which supported credit spread compression. You can find our latest factsheet here.

There was positive underlying corporate news too. *Total Play* (Mexico, Communications) addressed near-term refinancing risk by announcing an exchange offer for their remaining unsecured 2025 bonds. The exchange is on a par-for-par basis for new 2028 secured bonds, paying a 10.5% coupon.

Tullow Oil (Ghana, Energy) reported solid results and gave FY24 guidance for a sharp decrease in capital expenditure, which will improve the free cash flow profile. Management also committed to further deleveraging, which was received positively by the market.

IHS (Nigeria, Industrial) highlighted positive developments in contract renewals with key customers and balance sheet optimisation in its latest results. It also announced a strategic review for the business, including efforts to diversify geographically and debt reduction. Macro pressures appeared to be easing in Nigeria too.

The main detractor to our strategy in March was *Wom* (Chile; Communications) as it revealed its debt refinancing had been delayed amid ongoing negotiations with banks. This subsequently led to the company's credit rating being downgraded.

Looking ahead, standalone corporate credit fundamentals look stable. The macro narrative around economic growth/inflation and interest rate cuts in the US will continue to drive credit spreads. A soft economic landing looks increasingly likely. This would be supportive of the asset class and an opportune time to lock in attractive yields.

Our Emerging Market Bond strategy offers a 10.5% per annum yield to maturity (in US dollar terms) with a relatively short duration of 2.9 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 94 cents on the dollar.

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