Investment Commentaries

SAKURA IN LONDON

Sakura in London, the first cherry blossoms blooming across the city, herald the beginning of Spring, the time of optimism and growth. They remind us of the balance of permanence and change as we invest in shifting political and economic landscapes with a long-term perspective.

As seasons come and go, our focus is on the quality and the fundamentals of the companies we invest in. We wrote earlier this year about our positive outlook for the year and about the strength of the underlying economy in the US and elsewhere both from a corporate and consumer perspective. Corporate investment in the renewal of the public and private asset base to improve efficiency, increase capacity and address the challenges that we face has been strong. Reports we have heard from the World of Concrete – a convention in Las Vegas that needs no further description – have said that the expectations among participants at the beginning of February were high and that their primary concern was labour shortages. Consumer spending has been supported by strong labour markets and rising real incomes as wage growth has exceeded inflation and we have been seeing signs of recovery in the consumer products companies we hold.

However, it is also clear is that there is the beginning of an impact on the US economy from the political and economic uncertainty surrounding President Trump and the policies he is announcing and implementing. With the turn in consumer confidence and other predictive economic measures we are starting to see the uncertainty taking a toll on the economy and on markets.

President Trump's policies appear to be driven by clear principles including that uncertainty is good because it provides negotiation leverage and that tariffs are positive because they achieve economic realignment and benefits for the US economy. Scott Bessent, the US Treasury Secretary has said that tariffs are supposed to be a loaded gun that is on the table but that is meant to be rarely used. That does not appear to be the case so far: President Trump has created a lot of uncertainty to gain a lot of leverage in a lot of bilateral discussions. People with a great deal of experience in trade negotiations do not know how many of the announced tariffs are intended to be imposed for reshoring-type benefits to the US economy and how many are still intended as a source for negotiation leverage for other outcomes. The fact that there appear to be negotiations that are differentiated between countries and their leaders points to the latter. The month to come will show more about the intentions when the full set of tariffs, including the reciprocal tariffs which may be most closely associated with levelling terms of trade will be imposed.

The uncertainty appears quite clearly to be having an adverse impact on the economy. It also appears quite clearly according that many voters in the US voted to "stabilize the economy and make their cost of living more manageable" as Republican pollster Kristen Soltis Andersen put it in a recent article in the New York Times. With solid economic growth, strong employment, increasing incomes and lower inflation there has been a very positive picture. If and when economic growth slows and inflation returns as a result of the implementation of actual policies there is likely to be a point when President Trump decides that the benefits he expects from his policies are outweighed by their impact.

Our task as long-term investors is not to predict what politicians do but to focus on the fundamentals. This is what guides investment decisions and we believe that the underlying incentives of President Trump is to deliver a prosperous economy, with a solid job market, lower prices and a stock market that rewards those who put their confidence in it. This means that our interests are aligned.

We started this year with a positive outlook on our companies and on the economy, and with the view that the companies in our World Stars Global Equity strategy were either reasonably valued but with good prospects for the growth of their sales, earnings and cash flows, or were outright cheap and had upside both from their growth and their valuation.

Our focus on quality, growth and valuation, and the diversification of the companies we hold has helped our World Stars Global Equity strategy to be resilient this year, with global companies Nestlé and Roche among our top performers. We believe that in the same way that global companies are best placed to manage global geopolitical and macroeconomic challenges like the pandemic or the fluctuation of currencies. Their competitive positions, their ability to align costs, expenses and financing, the ability to hedge their exposures to commodities and other inputs, and the strength of the balance sheets enable them to absorb initial shocks and to come out stronger. This is what we have seen in the pandemic and with the subsequent surge in inflation and normalization of interest rates. We believe that the same will be true for tariffs, because the impact on most of our companies from a fundamental perspective should be limited. Many of them provide the goods and services they do from production, technology or people that are already aligned. Those that do have an impact because of their inputs, supply chains or because their branded finished goods are produced in certain countries and exported to others have the ability to absorb it and at the very least to strengthen their market positions compared others who do not.

The cherry blossoms will fade and fall, but the fact that economic and market fundamentals will prevail and that our quality companies have the resilience to absorb the impacts and to come out stronger, is what gives us the confidence to take a long-term perspective and to focus on the positive: the strong underlying fundamentals and dynamism of the US economy, the clear signs of initiative and investment in Europe, and the indications that the Chinese government is looking to stimulate growth in its economy. That is why we believe that the market volatility that comes with uncertainty and that may continue or accelerate in the short term will be another opportunity for long-term investors to buy great quality companies at great prices.

Our Investment Insight this month discusses the opportunity our credit team sees in Emerging Market Bonds and their ability to generate differentiated and attractive returns in this environment. You can read it by following the link or clicking on the attachment.

World Stars Global Equity

Our World Stars Global Equity strategy was down 1.7% in US dollar terms in February following broad-based profit-taking across markets as uncertainty around US trade and foreign policy weighed heavily on sentiment.

Despite February's negative performance, our strategy is up 2.4% year-to-date in US dollar terms due, in part, to the diversification of the portfolio's holdings across sectors and regions. Several of our holdings that had lagged in recent months rebounded solidly in the current environment.

Performance was led by global food and beverage manufacturer, *Nestlé*, which was up 12%, as the company's shares rebounded on better-than-expected quarterly earnings. The company posted organic growth that exceeded market estimates and importantly, reiterated its 2025 and beyond guidance. This reassured investors that its efforts to re-accelerate top-line growth after a period of more muted delivery are starting to pay off. We were encouraged by this progress too and believe that *Nestlé's* positioning in some of the most attractive categories within the industry, including pet care, coffee and health and wellness, will drive performance over the long term.

Mobile tower operator *American Tower*, which was up 11%, also benefited from a solid earnings report, driven by both its US and international operations. The company is streamlining its portfolio, driving operational efficiencies, selling non-strategic assets and increasing capital returns to shareholders.

Financial platform *Intercontinental Exchange,* a holding we introduced in December 2024, was up 8%, on strength in the core exchanges business, complimented by increased adoption and new client wins for its mortgage technology solutions business.

Finally, our holdings within the broader healthcare industry continued to post strong returns, with sales returning to more normalised growth rates after a period of post-pandemic normalisation.

Lens and glasses manufacturer *Essilor Luxottica* rose 8% as its core business continues to show strong momentum and adjacent opportunities support its growth over the longer term. This includes the development of smart glasses in partnership with *Meta* and the entrance into the hearing aid category.

On the weaker side in February *Alphabet* owner of Google and YouTube, closed down 16% as the company guided towards higher-than-expected capex investments. The market remains concerned about the level of AI compute requirements post the introduction of the DeepSeek language model. However, as we outlined in our Investment Insight on the outlook for AI last month, we believe that these concerns fail to capture both the acceleration potential in the pace of AI adoption and the actual in-use compute requirements of the technology.

We saw a similar selloff in some of our other holdings within the AI-related value chain. After a strong performance in 2024, we had anticipated that some profit-taking would be inevitable, reducing our positions last December. With all transformational technology adoption cycles, there will always be periods of elevated expectations followed by periods of reflection. Ultimately, it is the breadth of real-life use cases and applications of AI (for both businesses and consumers), and its potential to drive efficiencies, address scarce resources and re-imagine the way we interface with the digital world, that underlines our positive view of AI.

Multi-Asset Income

Our Multi-Asset Income strategy increased by 1.1% for the month in US dollar terms (now up 2.2% year to date) with equities contributing negatively by 0.3%, whilst fixed income showed a positive contribution of 0.9% and alternative funds up by 0.5%.

The strategy's positive performance came amid deteriorating sentiment and increased volatility as markets reassessed the possible impact of the aggressive stance of the new US administration on both tariffs and the Department of Government Efficiency (DOGE).

Eli Lilly (+13.7%), the drug company, benefited from strong results and also prospects of lower drug prices which could support the market penetration. Meanwhile, lower Treasury yields on US economic growth concerns supported our fixed income portfolio, with strong performance from several of our holdings. Our strategy's funds exposure found support from investors looking for undervalued opportunities.

While we are monitoring economic indicators, in our view it is too soon to turn overly cautious on the US economy. However, there is a chill flying across the market with investors either taking profit or increasing downside protection. This reaction is compounded by the U-turn by the incoming German chancellor to loosen fiscal rules and increase spending on defence and infrastructure, which may provide Europe with a more positive economic outlook medium term. Overall, this could mean higher-than-expected inflation and interest rates remaining higher for longer.

Our more defensive positioning since the turn of the year is bearing fruits and we feel comfortable that our higher allocation to fixed income will help us master potential more volatile times.

Emerging Market Debt

Our Emerging Market Debt strategy was up 1.6% for the month and 2.4% year-to-date, both in US dollar terms. Broader risk sentiment weakened on President Trump's more forceful push on tariffs and the potential implications for economic activity. This resulted in a sharp decline in US Treasury yields which drove positive returns for emerging market credit.

The earnings season highlighted the strength of our corporates from a broad range of countries and sectors. *Goldfields* (South Africa; materials) benefited from strong gold prices and improved production profile with the opening of a new mine in Latin America.

Turkcell (Turkey; communication) had its highest net subscriber additions in the past 15 years, whilst net leverage declined to a low of 0.1x. *UPL* (India; materials) saw top-line growth driven by a recovery in the global crop protection market with strong demand from all regions. The company also undertook asset sales and an equity raise which improved liquidity.

During the month, *Helios Towers* (Tanzania; industrial) had its credit rating upgraded to BB- by S&P. This was driven by an improvement in country risk and expectations of the company's adherence to its financial policy of deleveraging. S&P also upgraded *Unigel* (Brazil; materials) on completion of its capital restructuring.

Focus remains on economic growth, President Trump and trade policy developments. The risk of credit spread widening on tariff uncertainty is offset by overall attractive carry and all-in yields. The direct impact of tariffs on the strategy is limited. Our strategy holds no China companies and the Mexican companies we do invest in are mainly domestically orientated or have assets in the US, which mitigates export tariff risks.

Today, our Emerging Market Bond strategy offers an 8.5% per annum yield to maturity (in US dollar terms) with a relatively short duration of 2.5 years. This comprises a 7.5% 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 98 cents on the dollar.

March 2025