Opportunities and Risks

The year has started off with strong performance for our World Stars Global Equity strategy. As stock market valuations have increased, our selection of globally leading quality companies and our discipline on valuation have allowed us to benefit from the strong performance of companies in a wide range of sectors, including consumer, industrial and healthcare companies that are among the cheapest stocks we hold and offer great prospects for value generation.

President Trump's second term has started with a large number of executive orders announcing or enacting policy changes that will have a significant impact on US politics, economics and society. The full impact will depend on when and how the changes are implemented over time. For now we note that the tariff announcements, among the most widely anticipated measures that are also among the ones most immediately within the power of the executive, appear to have been used for negotiating leverage with Canada and Mexico to achieve policy aims, as had been our expectations, and have had limited impact on the US economy so far.

The president's foreign policy announcements are signalling a significant shift from prior policies and are opening both opportunities and risks for the resolution of global conflicts. They highlight the need for the United States, Europe and other countries to focus on their own competitiveness and ability to deliver stability, security, growth, prosperity and sustainability for their populations in a multipolar world. The US, Europe and other countries all need to invest in digital transformation, public infrastructure, capacity, education and healthcare, and improve the efficiency, costs and outcomes of public services. Much of this progress will be enabled and delivered by the companies we hold and we think it is a significant opportunity for them going forward.

One of the key developments for markets and for our strategy during the month of January were the announcements around DeepSeek and the potential implications for AI and computing capacity. We wrote in an Investment Insight that we thought that DeepSeek validated the potential of AI and the innovation that is taking place by industry participants to develop apps that are more efficient and provide targeted outcomes at potentially lower costs. We also said that the development was a normal part of technological innovation and that we thought it validated the need for the increased computing capacity led by Nvidia's GPUs and enabled by many of the companies we hold which provide equipment, power management, software and other products and services to it.

You can read our Investment Insight by Katerina Kosmopoulou and Giles Tulloch by following the link or clicking on the attachment. The significant capex announcements by the major digital platforms over the past weeks subsequent to the DeepSeek release have provided broad evidence of the increased and continuing demand for computing capacity.

Importantly we have also seen signs of an ongoing turn-around for the consumer products companies we have been investing in as we outline below. The results and outlook provided by several of companies, including LVMH, Nestle and others, have been resilient and provided evidence of increased demand and improved stock levels coupled with renewed product investment and increased advertising and promotional activity. We believe these companies are overcoming the challenges they have faced over the past several years and that their actions bode well for their performance.

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As we look out to the year ahead, we believe that our strategy offers a differentiated balance of risk and reward which addresses many of the current concerns around volatility, valuations and risk. The reason is that our portfolio is invested in high-quality global companies with enduring competitive advantage, a long runway of growth and strong balance sheets. They are well placed to weather adversity and often flourish when other companies struggle. It also consists of companies that are much cheaper than many of the more highly valued S&P and NASDAQ stocks. These companies include Nvidia and Meta despite their strong performance, and reasonably valued or even cheap stocks like the European consumer products companies we have been buying for over a year.

That is why we believe that our portfolio has an attractive risk reward ahead. If things turn out to be all right as we think and hope, it has the prospect of generating 10-12% or more just from the growth in revenues, earnings and cash flow of our companies, with the possibility of 20-40% valuation upside for at least half of our stocks. If things are not all right, there is a risk of heightened volatility, either from geopolitical or macroeconomic issues, or because President Trump and his administration miscalculate some of the moves they are making and end up slowing down the US economy rather than accelerating it. In these circumstances we believe that our portfolio should be relatively resilient. We will continue focusing on the fundamentals of the companies we invest in, remaining vigilant about the risks and looking to take advantage of opportunities as they arise.

World Stars Global Equity

Our World Stars Global Equity strategy had a strong start to the year, up 4.1% in US dollar terms and outperforming global indices. You can find our latest factsheet here.

Performance was led by *Meta*, owner of Facebook (up 18%), on the back of strong quarterly results that provided further evidence of the company's ability to monetise its AI investments through more targeted advertising offerings and deeper user engagement. At the same time, the growing take-up of new interface offerings like the Ray-Ban Meta AI glasses is opening up new possibilities in wearable tech.

Our holdings within the healthcare sector also had a strong start to the year. Life Sciences global leader *ThermoFisher Scientific* was up 15% with the roll-off of Covid-19 related revenues (testing and vaccines) now largely behind us. Orders from key customer groups, including large pharmaceuticals and biotech, returned to positive territory following a period of tighter funding conditions and pipeline rationalisations. Medical devices manufacturer *Abbott Laboratories*, was up 14% as it too benefited from the receding pandemic headwinds and strong momentum in key product lines, including diabetes monitoring solutions. Finally, *Roche* was up 12% in January. The Swiss pharmaceutical giant is currently in the sweet spot of a maturing clinical trial pipeline, which is translating into new drug potential opportunities for a wide range of conditions, including obesity and Alzheimer's.

Within the industrial sector, aerospace engines & systems leader *RTX* closed the month up 12%, fuelled by strong trends in its commercial and defence end markets and with the GTF engine recall programme on plan. With expectations for NATO defence spending to increase, the company remains well-placed in the years ahead.

Finally, in the consumer sector, global luxury leader *LVMH* was up 11%, on tentative evidence that spending for luxury goods is starting to inflect. The company pointed to double-digit growth in its key Louis Vuitton and Tiffany brands during January. We believe that the recent pullback in consumer spending across key categories including luxury, cosmetics and spirits is cyclical and that the deep discounts to historical levels that some of the related stocks are trading at represent a rare opportunity to add to positions, as we did over the last year.

On the weaker side in January was advanced semiconductor designer, *Nvidia*. Its shares fell 11% following concerns around the implications of cost-efficiency announcements claimed by Chinese AI-powered chatbot, DeepSeek. As outlined in the investment insight we published in the wake of the announcement and are sharing with our commentary this month, DeepSeek's achievements (which remain to be fully evidenced) represent a fully anticipated step into the AI development cycle. We believe that reducing the cost of delivering AI solutions will lead to greater adoption and unlock the application of AI across economic sectors. All the main players, including Meta, *Amazon* and Microsoft, announced the continuation of their capex spending plans after the DeepSeek news, underlining our core thesis for AI and leading to a partial recovery of Nvidia's stock price. Ultimately, we believe that we are at the early stages of an emerging and fast-evolving new technology landscape with companies moving at pace to entrench their competitive position.

Multi-Asset Income

Global sentiment was positive for much of January with most asset classes performing well. Our Multi-Asset Income strategy rose by 1.4% in US dollar terms. Equities contributed 1.1%, fixed income provided 0.6% and alternative funds fell 0.3%.

Lower long-term US Treasury yields supported equities across the board. Meanwhile, *Eli Lilly* (+5.1%) the drug company, recovered from a bout of profit-taking in December and rose on expectations of strong soon-to-be-released results.

Credit spreads were slightly tighter and our fixed-income portfolio also benefited from lower yields. Some of our bonds had outstanding performance (see Emerging Market Bonds commentary) post results or resolutions of issues.

The negative contribution from the fund portfolio can be explained by uncertainties regarding UK politics and a lack of visibility around the UK economy. *Biopharma* remained a solid contributor ahead of the expected dividend payment.

The US economy continues to demonstrate underlying strength and as much as President Trump would like to see lower interest rates, it feels like the US Federal Reserve (Fed) has very limited room to cut those, at least for the foreseeable future. Prospects for trade tariff disruptions and possible higher inflation are further reducing the Fed's ability to manoeuvre. By contrast, European economies show little signs of revival and the ECB has shown less restraint in cutting interest rates.

As a result, we expect volatility to remain. We have positioned our portfolio to perform in such an environment with the ability to generate an attractive income yield with lower volatility and with a reasonably high degree of visibility.

Emerging Market Bonds

Our Emerging Market Bond strategy was up 0.9% for the month in US dollar terms. You can find our latest factsheet here.

Risk sentiment improved on resilient US economic data and moderating inflation. The start of President Trump's term proved relatively benign for emerging market credit spreads. The concern of universal tariffs was reduced by a more gradual approach by the new administration and there was positive underlying corporate news.

Liquid Telecom (South Africa; communication) made headway on bond refinancing initiatives. This included the execution of a new ZAR term loan, progress on an additional equity tranche from a new set of investors, and non-binding offers received on asset sales.

Tullow Oil (Ghana; energy) had a successful tax arbitration outcome. Management later stated it would repay the March 2025 bond at maturity and planned to refinance the rest of the capital structure before year-end.

Total Play (Mexico, communication) undertook a successful liability management exercise. The transaction extended the debt maturity profile and improved its liquidity profile, which supports the company's growth trajectory.

Finally, *Arcos Dorados* (Brazil, consumer) was upgraded to investment grade by S&P. The rating agency cited declining leverage, good liquidity, strong operating performance and a recent 20-year extension to their exclusive McDonald's master franchise agreement as reasons for the change.

As we move into 2025, the focus remains on President Trump and trade policy developments. Greater tariff implementation would be inflationary and likely lead interest rates to remain elevated for longer. This would be against the President's desire for lower rates. We believe that the risk of credit spread widening on policy uncertainty is offset by overall attractive carry and all-in yields. Importantly, underlying credit fundamentals are healthy and technicals supportive.

Today, our Emerging Market Bond strategy offers a 9.4% 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 97 cents on the dollar.

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