Investment Commentary

Beyond 2024: Quality and innovation will matter more than ever

As the year 2024 comes to a close, we look back at a year of dramatic events. Not all of them have turned out as we expected but others have. For example, we said last year that this would be a positive year for our companies and their share prices. We have delivered another year of strong performance as we say below, driven by our investments in global technology, digital and industrial companies. It's the consumer companies that have done less well this year after a strong start, which now make us optimistic for next year…

Our greatest anticipation, however, was Disney's release of *Moana 2*. Warren Buffett has said that no one has made money betting against the United States, and we wholeheartedly agree. We would argue that betting against Wayne 'The Rock' Johnson is equally foolish. We have had to wait eight years since *Moana* was released. It has been the most streamed movie in the world since Disney+ launched with it in 2019 and we have to confess that a couple of those are ours.

Moana 2 is a different movie for an older audience. We liked it, and we were not the only ones: *Moana* 2 had the best Thanksgiving opening of any movie ever and it could help push Disney's revenues from animated movies to above USD 5 billion for the year. *Mufasa*, the prequel to *The Lion King* is not even out yet. Moana's signature song is *Beyond*, a soaring piece in which Moana asks what lies beyond and summons the courage to face uncertain seas. She says that she knows who she is and promises that this is who she will always be.

We are not Moana, but we can make a similar promise: we know who we are and we promise that this is who we will also be. We invest in companies that have great quality, that can compound their sales, earnings and cash flows over long periods, 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 and base our investment decisions on the fundamentals of the companies we invest in.

Our World Stars Global Equity strategy has had a highly successful year. It was up 19.2% at the end of November in US dollar terms. Our investment insight this month provides a review of this year's performance and our outlook for 2025 for the industries and companies we invest in. You can read it by following this link or clicking on the attachment.

In the short term, markets can be driven by investor positioning, profit taking, algorithms and mean reversion. In the long run, it is about the fundamentals of companies and their valuation. Our fundamental conviction allowed us to maintain our portfolio throughout the year and to use lower prices to buy more of the companies we liked. We are not distracted by short-term news flow or predictions, but focused on what is actually happening in the companies we look at.

Elections are an opportunity for people to express a verdict on what matters most to them. The outcome of the US elections did not turn out like many thought but it could not have been clearer. Last year we wrote that 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, investment and innovation, and are more diverse and more resilient than a top-down view would allow. We

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should have added people to that. Real people are not economists. What matters to them is their jobs and income, their communities, hospitals and schools, and their sense of fairness and opportunity.

What lies beyond? Next year will be another year of great challenges, many of which are ongoing. Businesses need both continuity and change, and much will depend on how President Trump and his appointees see the tradeoff. The Trump administration is likely to take an aggressive stance on many issues next year but if this year has taught us anything it is that not all surprises are bad and not all volatility is to the downside.

Scott Bessent, Donald Trump's nominee for Secretary of the Treasury, is quoted in the *Wall Street Journal* as saying that the "tariff gun will always be loaded and on the table but rarely discharged". Half of Elon Musk's Teslas are made in China and his company enjoys privileges there that most non-Chinese companies do not. It is possible that geopolitical conflicts will be resolved, that tariff threats will lead to realignments, not disruption and that liberalisation and deregulation will contribute to growth, not inflation, and that lower inflation and higher incomes will mean that consumers in the US, China, Europe and elsewhere will start feeling better again. These are just some of the unexpected upsides we expect.

We also believe that next year, quality and valuation will matter more than ever. We invest in companies, not markets. We believe that the S&P 500 index is fully priced overall and that many stocks, including some of its biggest components, are overvalued. However, the same is not true for the companies in our World Stars Global Equity strategy. Many of them are outright cheap, including some of the world's leading consumer companies like *LVMH*, *Diageo* or *Nestlé*.

During the year, we have decreased our positions in better-performing and more highly-valued companies and have been increasing our positions in these consumer stocks and other companies. They have been left behind by the impact consumers have felt from higher prices and higher interest rates. They have not benefited from the short-term, post-election rally in banks, utilities and other industries but will do well when consumers go back to buying their favourite brands of coffee, pet food, drinks, cosmetics and handbags.

Our goal is not to buy stocks for short-term upside and then sell them as soon they move but to own them over five to ten years or longer as they generate strong compound returns. We believe that our stocks offer compelling value because of the growth in revenues, earnings and cash flows they offer, with the prospect of strong performance and resilience if we have inevitable volatility and sell-offs. That is why we think next year will be another positive year for our companies and their share prices.

Beyond all the global conflict, division and discords, beyond politics and partisanship, our interests should be aligned and our greatest belief and hope is in people, in their desire for peace and prosperity, in their innovation, ingenuity and spirit, and their resilience.

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

World Stars Global Equity

November was a strong month for our World Stars Global Equity strategy, up 3.1% for the month and up 19.2% for the year, both in US dollar terms. You can find our latest factsheet here.

Performance was led by media powerhouse *Walt Disney,* which was up 22% for the month. The company released earnings that showcased not only ongoing revenue strength in its theme parks and streaming services businesses but importantly solid evidence of a return to profitability for the streaming business after recent cost optimisation efforts. Management also provided detailed earnings guidance for the period to 2027, underlying its confidence in the current strategic plan and the ability to return to a consistent earnings growth path after recent challenges. Disney's hotly anticipated Moana 2 movie came out at the end of the month. It had the best Thanksgiving opening of any movie ever and could help push Disney's revenues from animated movies to above USD 5 billion for the year.

The strategy's performance was also driven again by our industrial holdings. This strong performance has been underpinned in recent quarters by solid momentum in structural trends such as the transition to net zero, the reshoring of critical industries infrastructure stimuli programmes, as well as the uptick in data centre buildouts. The recent US election result has only served to fuel expectations for even stronger domestic manufacturing spending.

Among our holdings benefiting from these trends, power management solutions provider *Eaton* and connector and sensor leader *Amphenol* were up 13% and 8%, respectively. *Honeywell* closed the month up 14%, with performance further boosted by the potential for further portfolio restructuring after activist investor Elliott Management took a stake in the company and recommended the separation of the company's aerospace and automation businesses. Honeywell has already taken significant steps to optimise its portfolio under new CEO Vimal Kapur and we believe there is significant potential to unlock further value from what is a best-in-class set of industrial technology assets.

Finally, enterprise software provider *Salesforce* was up 13% as the company's Agentforce autonomous AI agent offering gained momentum in terms of customer deal signings. The company's previous efforts to streamline its sales team and optimise its cost base are also starting to reap results.

On the negative side, our holdings in the consumer sector remained weak. However, we are convinced that these companies are approaching an inflection point as prior earnings headwinds, including a post-covid inventory normalisation in areas like spirits, are largely behind us. Coupled with historic low valuations, we believe these stocks are coiled for performance as we move into 2025.

Of note within the consumer space, food & beverage leader *Nestlé* held its capital markets day in November, outlining a convincing roadmap under new CEO Laurent Freixe, to reaccelerate its top line through investments in marketing and high-impact innovation, whilst again showcasing its exceptionally strong positioning in categories like petcare, coffee and nutrition & health science. We believe the recent more muted performance reflects operational mishaps and a muted consumer spending environment and the new strategic plan will serve as a catalyst for returning the company to its inherent long-term growth potential.

Multi-Asset Income

November was another strong month for our Multi-Asset strategy, which gained 1.4% for the month (now up 15.8% for the year in US dollar terms). Equities contributed 0.7% and the fixed income portfolio 0.7%, whilst our alternative assets were flat over the period.

Markets were in a positive mood after the US presidential election with risk assets reacting positively and volatility dropping off substantially. The earnings release season was also constructive with few disappointments except for parts of the consumer sectors. Otherwise, *Siemens Healthiners* (+7%) and *Estée Lauder* (+5%) both recovered from the previous month, while *Eli Lilly* (-4%) saw further profit-taking with very limited news flow.

The fixed-income portfolio benefited from a US Treasury post-election rally. Markets appeared to have priced a Trump victory and increased inflation as a result of expected trade tariffs. Our corporate bonds mostly performed positively and, in some cases, strongly (see Emerging Market Debt below).

Sequoia and *Biopharma* credit were strong performers in an otherwise fairly neutral market with market participants still digesting the aftermath of the UK budget.

As we approach the end of the year, macro data confirms the divergences in economic outlooks between the US economy still growing strongly and the European and Chinese economies struggling with momentum. Core inflation remains sticky in developed countries but markets still expect interest rates to be cut reasonably aggressively. Cuts should be expected in Europe and the UK but less so in the US where both GDP and earnings growth expectations are buoyant. The question is whether we can have both.

Heading into next year, the markets' focus is likely to shift to what real actions the new US administration will take. In Europe, the political uncertainty in France and Germany is also likely to drive markets' performance. With our equities exposure now close to the lowest band of our range and the great visibility provided by our emerging market corporate bonds, we feel we are well-positioned to achieve our investment objective for the end of the year and the beginning of 2025.

Emerging Market Debt

Our Emerging Market Debt strategy was up 1% for the month and 11.8% year-to-date, both in US dollar terms. The US presidential election and the Fed cutting interest rates were the main events. Anticipated policies of the incoming administration were reflected in higher US Treasury yields and a stronger US dollar while emerging market credit spreads were relatively unchanged. You can find our latest factsheet here.

Our Ukrainian corporates were amongst the top-performing bonds. Trump's victory raised expectations of a resolution to the ongoing conflict in the country. *MHP* (agro-industrial) also released solid Q3 results highlighting 56% y-o-y EBITDA growth driven by their agricultural operations. Management raised full-year EBITDA guidance, which will improve the company's free cash flow profile and liquidity.

Unigel (Brazil; Materials) made progress on its capital reorganisation, in agreement with bondholders. The plan received court approval and is set to be completed in the coming months. The company's focus will then be able to return to operations and it is set to benefit from the recovery in petrochemicals spreads.

Finally, *UPL* (India; Materials) announced fundraising initiatives to improve liquidity and shore up its balance sheet. These included the sale of a stake in its global seeds platform and a rights issue, with proceeds earmarked for deleveraging.

Focus is now on the US president-elect and the impact that an expansionary fiscal policy will have on the economy. Plans are likely to be supportive of growth but may also be inflationary. The Fed indicated its continued bias towards easing monetary policy but possibly at a slower pace than previously guided. The risk of spread widening related to uncertainty on trade and foreign policy is offset by overall attractive carry and all-in yields. Importantly, underlying credit fundamentals remain robust and default rates are in check.

Today, our Emerging Market Debt strategy offers a 9.0% per annum yield to maturity (in US dollar terms) with a relatively short duration of 2.2 years. This comprises a 7.4% per annum income yield which provides a degree of visibility on future returns as well as capital appreciation potential given that the average bond price is 97 cents on the dollar.

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