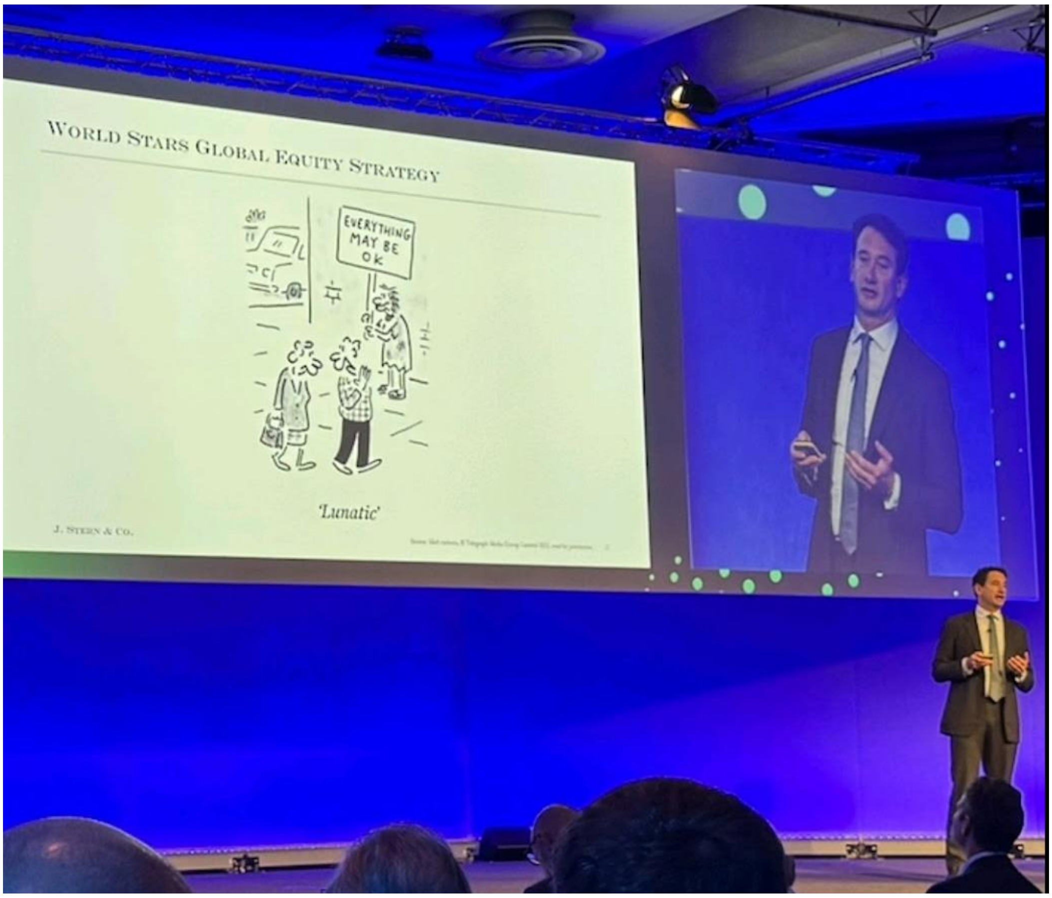
J. STERN & CO.

Investing in Quality for the Long-Term

Investment Commentary

Everything may be OK – Investing in Quality for the Long-Term



We were privileged to participate recently in the London Quality Growth Investment Conference, which attracts some of the most thoughtful and discerning minds in the investment community. It was an opportunity to share our views on navigating today's volatile market environment and to affirm our commitment to investing in quality companies that deliver sustainable long-term growth at attractive evaluations. We opened our presentation with one of our favourite cartoons by the British cartoonist Matt, whose insightful humour encapsulates an important part of our investment outlook: "Everything may be OK." This simple yet powerful message aligns with our conviction that, despite the significant global challenges we face, human resilience, resourcefulness, and innovation will ultimately prevail.

Our optimism is not to be mistaken for complacency or a disregard for the very real challenges that lie ahead. We are deeply aware of the pressing issues confronting the global economy, from geopolitical tensions, political uncertainty and environmental crises to mounting levels of indebtedness, inflation, and the shifting landscape of interest rates. These challenges create a complex and turbulent backdrop for

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investors, and they are certainly not to be underestimated. Yet, we maintain our belief that navigating such adversity requires a steadfast focus on quality. Quality companies are the bedrock of resilient investment portfolios, able to thrive amid uncertainty by continually evolving, innovating, and delivering solutions at scale.

The companies we invest in are not just surviving in today's environment—they are leading the way forward. These businesses are at the forefront of addressing many of the most critical challenges we face. They are involved in developing new technologies, optimizing processes, and creating products and services that enhance productivity and quality of life. They are finding new ways to solve problems, not create them, and are disrupting others, not getting disrupted. This is what we look for in quality companies that we seek to buy at attractive valuations so they can compound in value over the long term and generate superior returns for our investors.

This investment philosophy is not just a theory—it is a strategy that has delivered consistent and strong performance over time. Over the past decade, our portfolio has achieved a compound annual growth rate of 12%, placing us in the top 10% of comparable funds, according to the IA Global.

The Investment Insight we share this month provides more details of our analysis of the strategy's performance characteristics over the past five years since the Covid-19 pandemic. The data highlights two important facts:

The first is that our returns over the period are attributable entirely to stock selection and not to sector allocation or other factors like style or momentum. Our performance has been driven by our ability to identify and invest in exceptional companies that have sustainable competitive advantages, strong managements with a track record of value creation and robust balance sheets.

The second is that our fundamental bottom-up approach to stock selection and our rigorous qualitative and quantitative analysis lead us to invest in stocks that are broadly diversified, with stocks in digital transformation, consumer, healthcare and industrials all contributing to returns at different times. You can read our Investment Insight by clicking on this link or on the attachment.

As we navigate the challenges ahead, our belief that "everything may be OK" is not a dismissal of the real risks and uncertainties we face, but rather a recognition of the resilience and resourcefulness inherent in quality businesses and, indeed, in humanity itself.

History has shown time and again that periods of economic turmoil and uncertainty have given rise to transformative innovations and remarkable achievements. We believe that this time will be no different. The companies in our portfolio are well-positioned to take advantage of new opportunities and continue to grow, supported by the strength, sustainability and resilience of their business.

This conviction guides our investment decisions and reinforces our confidence that, by focusing on quality, we can continue to deliver strong, sustainable returns for our investors over the long term.

World Stars Global Equity

Our World Stars Global Equity strategy continued its positive performance in September closing the month up 2.2% in US dollar terms, outperforming global indices and bringing performance year to date to 20.7%. You can find our latest factsheet **here.**

Performance was led by social media platform owner, *Meta*, up 10%, on the back of increasing evidence the company can leverage its AI investments to drive higher user engagement and digital advertising monetisation. The extension of its partnership with Ray-Ban maker *Essilor Luxottica* for smart glasses is another indicator of the company's commitment to transforming the ways consumers interact online. Staying within the digital transformation, enterprise software developer, *Salesforce*, rebounded 8%, on the back of better-than-expected revenue growth against a continued challenging corporate spending environment. Importantly, Salesforce's AI product, Agentforce, which seeks to optimise marketing workflows, is gathering traction and positions the company well for the quarters ahead.

Interest rate cuts by the US Federal Reserve and the European Central Bank, as well as a more assertive stance by the Chinese authorities towards re-accelerating the local economy, acted as a catalyst for some of our consumer and industrial holdings that have lagged this year. Elevator manufacturer *Otis* was up 10%, on the expectation of a stabilisation in the Chinese property market. Spirits producers, *Diageo* and *Pernod Ricard* were up 5% on the anticipation of a return to more normalised demand in both China and key Western economies after a period of destocking and tepid consumer spending levels. This also fuelled our holdings in other attractive industries, with flavour and fragrance producer, *Givaudan* up 6% as a result.

On the negative side for the month was creative software provider, *Adobe*, which was down 10% despite strong third quarter results. More muted fourth quarter guidance given the timing of the important Cyber Monday e-commerce day, one of the busiest shopping days of the year, as well as investor desire to see more tangible evidence of monetisation of its AI offering, weighed on the stock. Despite the short-term pullback, second-half results are likely to exceed the company's original guidance underlying the positive momentum in the business. The company's AI offering has been gaining significant traction with Firefly, its AI-image generator product which has already been used more than 12 billion times, creating a powerful installed base of users that will drive monetisation.

Multi-Asset Income

September saw further positive performance for our Multi-Asset Income Strategy with a return of 1.4% for the month (now 15.4% for the year) in US dollar terms. Equities contributed +0.5% last month (now +7.4% year-to-date) whilst Fixed Income contributed +0.8% (+6.6% so far this year) and funds +0.2% (+1.9% this year).

The announcement by the Chinese central government of a support package for the economy had a strong positive impact on some of our equity holdings. *Estee Lauder* (+8.8%) had been suffering from the reduced local consumers' appetite for luxury goods and similarly, *Siemens Healthineers* (+2.7%) had been impacted by the cuts in equipment capital spending from local hospitals. Both these companies bounced back on the back of the news. However, *Eli Lilly* (-7.7%) suffered a bout of profit-taking following reports of the potential launch of competitor drugs.

Our bonds in general benefited from market expectations that the US central bank would aggressively cut interest rates for the remainder of the year (see our Emerging Market Debt commentary).

Our investment trust investments were helped by renewed interest from investors driven by the attractive valuation of the asset class ahead of expected interest rate cuts in the UK. There was also a positive earnings release and news flow for the *Biopharma Credit Fund* (+3.2%).

US Macro news is driving market performance in the absence of corporate earnings announcements. With market participants concerned about the short-term news related to the US labour market and expectations of a substantially weakening economy, we believe that the market is discounting too much monetary easing. Our central scenario for a soft landing for the US economy with gradual interest cuts remains.

Similarly, in as much as we welcome the Chinese government's supportive actions, we believe it will take some time before the underlying benefits will be witnessed. We remain constructive for the rest of the year but are keeping a long-term perspective and focusing on portfolio positioning for next year.

Emerging Market Debt

Our Emerging Market Debt strategy was up +1.4% for the month and +10.3% year-to-date in US dollar terms. Risk sentiment was strong, supported by robust US economic data and the Fed beginning its easing cycle, cutting interest rates by 50 basis points. The US Treasury yield curve steepened while emerging market credit spreads tightened marginally. You can find our latest factsheet **here.**

There was positive underlying corporate news. *Wom* (Chile; Communication) has attracted interest from both strategic and financial parties. This includes Telefonica and America Movil signing a non-binding agreement to jointly participate in the asset sales process, stating it would bring greater stability to Chile's telecom sector.

Our Ukrainian companies benefited from the Ukrainian Central Bank's latest round of easing measures around capital controls. *MHP* (agro-industrial) also reported strong 1H results with EBITDA growth of 21% y-o-y. Poultry production facilities continue to operate at close to full capacity and their agricultural operations saw a significant increase in corn sales on the export market. During the month, the Public Investment Fund of Saudi Arabia also acquired a minority stake in the company, supporting food security in the country.

During the month we added a new company to the strategy. *Arcos Dorados* is the world's largest McDonald's franchisee, with the exclusive right to own and operate restaurants in 20 countries across Latin America and the Caribbean.

The extent of the economic slowdown and Fed policy will remain in focus. The pace of interest cuts will be data-dependent, which is likely to provide bouts of volatility. Importantly, underlying credit fundamentals remain robust and default rates in check.

Today, our Emerging Market Bond strategy offers a 9.2% per annum yield to maturity (in US dollar terms) with a relatively short duration of 2.6 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 the average bond price is 97 cents on the dollar.

We wish you all the best and look forward to your questions and comments as always.

Best regards,

Christopher Rossbach

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