J. STERN & CO.

Investing in Quality for the Long-Term

Investment Commentaries

Global Quality, Global Opportunities

We invest in global companies that have great quality and can generate long-term compound returns. We look for businesses with strong competitive positions in good and growing industries, management teams with track records of value creation and strong balance sheets.

It has been good to see some of them in action over the past couple of months. We participated in the Sika investor and analyst days in Tokyo earlier this year, where the company highlighted the important contribution that its material technology products are making to the urbanisation and sustainability of this vast metropolitan area.

Tokyo is a city of 55 million people built in a flood plain at the confluence of several rivers, in an earthquake zone with ongoing seismic activity, much of it on reclaimed land below sea level, and threatened by rising sea levels and tsunamis. The extent of the reinvestment that public and private entities have made is extraordinary to see, whether it is the high rise buildings built by Mori and other developers where Sika technology is involved in every building in Tokyo above 180 metres, or the redevelopment of the famous Shibuya crossing, which is being rebuilt and future proofed. There has been extensive real estate redevelopment and transport infrastructure improvement. The Shibuya train station flooded during the monsoon season and is now equipped with underground water reservoirs that have been built around the existing infrastructure. Sika is providing the concrete admixtures and waterproofing membranes that enable this construction. It is an inspiring example for urban planning that cities elsewhere would do well to emulate.

With this global perspective it was also good to have meetings at the Quay Quarter Tower during a recent trip to Sydney, where Sika's technology enabled a building built in 1976 – the tallest building in Sydney at the time – to be redeveloped preserving the concrete core, adding nine floors and doubling the floor space while saving 30% of construction costs and 12,000 tonnes of carbon. Companies like Sika point the way for global growth, innovation and sustainability. They are great examples for our investments in businesses that are providing solutions to the problems we are facing and are making opportunities of challenges like sustainability, energy transition or decarbonization.

Another source of great opportunities is the inexorable demand for increasing in computing capacity. We believe that artificial intelligence (AI) and the metaverse will have a transformative impact on the global economy and on the companies driving innovation and growth. Applications and use case are far ahead of the available computing capacity. Nvidia has been our strongest position year-to-date and we continue to believe that it has extraordinary prospects for growth and value creation. Our insight this month discusses the opportunities we see and urges investors to look beyond Nvidia and the other tech companies that are driving this change to the wider set of companies that are enabling the implementation of computing capacity and will benefit from AI in terms of the innovation, efficiency and productivity of their businesses.

As we highlight below, our World Stars Global Equity strategy continued has continued to perform strongly this year, driven not only by Nvidia and the other tech companies we hold but also by the many other companies in consumer healthcare and industrial businesses. Our goal is to deliver absolute performance for our investors but it is good to see that the strong performance of the strategy compared to the MSCI World index is also reflected in ratings like the Morningstar five star rating and the FE Trustnet first quartile rating over the past 1,3, 5 and 10 years.

Political and macroeconomic uncertainty persists but we continue to see great value in our companies as global economic growth is sustained, inflation moderates and as the US Fed follows other central banks with possible rate cuts later this year. We will continue our focus on the quality of the companies we invest in and will look to take advantage of any opportunities.

World Stars Global Equities

The World Stars Global Equity strategy performed strongly in May. It was up 5.3% for the month and 14.3% year-to-date, both in US dollar terms. You can find our latest factsheet here.

The performance was led by advanced semiconductor designer *Nvidia*, which was up 27% for the month (121% year-to-date). The company reported record quarterly earnings, with revenues of USD 26 billion beating guidance of USD 24 billion and up 268% year-on-year driven by continued demand for AI. Hyperscale computing companies including *Meta*, *Alphabet*, *Amazon* and Microsoft, are investing heavily in AI given the tangible uplift they see in monetisation rates within their businesses. Sovereigns, including the US, Japan, Saudi Arabia, Singapore and many others, are also looking to invest in AI to foster economic growth, develop local industry ecosystems and safeguard national security. There are no signs that demand will slow ahead of the launch of Nvidia's next-generation AI platform, with the company guiding for revenues of USD 28 billion in the second quarter.

Performance connected to AI has benefitted other parts of our portfolio. Our holdings in the industrials sector, including power management company *Eaton*, and connector and sensor leader *Amphenol*, are up 40% and 34% respectively this year, as both companies saw accelerated investments in data centres fuelling their businesses.

Risk management and valuation discipline are important parts of our investment approach. Towards the end of the month, we reduced our position in Nvidia as it had exceeded the 10% threshold we set per stock in the portfolio. We also took profits in Eaton and Amphenol, selling parts of the positions because we believed valuations priced in more of the upside we expect from the stocks. We reinvested the proceeds into other existing holdings with compelling valuations and potential for earnings inflections as headwinds like inventory destocking in the spirits industry reverse.

We wrote at the beginning of this year that we expected stock markets to broaden from their narrow focus on the Magnificent Seven. This is evidenced by the performance of our holdings including flavour and fragrances leader, *Givaudan*, and water technology company *Xylem*, which are among our top 10 performers this month and year-to-date.

Givaudan has seen a normalisation of demand as customers worked through post-Covid-19 inventories. Xylem has outlined a compelling plan for revenue synergy realisation and margin expansion following its acquisition of Evoqua.
An exception in May was *Salesforce*, the enterprise software provider. The shares were down 13%, with the company reporting weaker bookings as customers took longer to reach decisions on larger deals, pausing to strategise their own IT investments amidst the current AI-related innovation and investment cycle. Nonetheless, Salesforce has its own AI-product offering and is well-placed to capture demand as clients start to release budgets again in the quarters ahead.

Multi-Asset Income

Our multi-asset portfolio had a strong month with a total return of 2.8% in US dollar terms (up 7.3% year-to-date). All asset classes performed well, with equities the stronger contributor, up 6.2% for the month (up 16.5% year-to-date), fixed income up 1.7% (up 6.4% year-to-date) and alternative funds up 0.7% in May (up 2.4% year-to-date). You can find our latest factsheet here.

Following the acceleration in inflation in April, more subdued data helped the overall sentiment, albeit with increased volatility. This resulted in a positive outcome for US Treasuries and fuelled expectations that the US Fed may cut interest rates this year.

Our equity portfolio saw strong performances from *Booking.com* (+9.4%) and *Eli Lilly* (+5.2%). A detractor was *Estee Lauder* (-15.5%), following disappointing results and a lowering of forecasts.

Idiosyncratic stories (see EM debt commentary) helped our fixed income portfolio generate solid performance helped by the benign economic environment and perceptions of improved prospects for interest rates.

Our funds carried on their slow recovery again helped by the possibility of interest rate cuts. *Biopharma Credit* investment trust was weak (-4.8%) as it faced concerns about the review by the UK Competition and Market Authority (CMA) of the disposal by one of the trust's holdings to Roche and the possibility that it could delay the repayment of a loan. This review combined with a pause in the buy-back program to create pressure on the share price. We believe that these are short-term issues and they provided us with an opportunity to increase our holding with the shares trading at a discount of 16% to NAV whilst yielding close to 11%.

The US economy remains resilient although there are some signs that it may begin to slow. Following the strong performance of our equity portfolio this year, we have reduced the exposure to 25% in line with our multi-asset income investment mandate and approach. The proceeds have been reallocated to the fixed-income strategy, which offers an 8% current yield and close to 11% yield to maturity.

Emerging Market Bonds

Our Emerging Market Bonds strategy was up 1.6% for the month and 5.3% year-to-date, both in US dollar terms, as US economic growth moderated and inflation eased. This drove US Treasury yields lower and supported global risk sentiment, while some positive corporate news led to tighter credit spreads. You can find our latest factsheet here.

Liquid Telecom (South Africa; communication) gave an update on refinancing plans for its 2026 US dollar bonds. This included equity injections from existing and new shareholders, upsizing local currency loans given healthy appetite from banks and monetising spectrum assets.

Pemex (Mexico; energy) rallied as the government said it was analysing options to absorb up to USD 40 billion of the company's debt. This sent an important sign of implicit support.

IHS (Nigeria; Communication) earnings highlighted organic revenue growth and contract extensions with a key client. The company was able to up-stream cash from Nigeria, which helped debt servicing. Management also gave guidance on asset disposals of up to USD 1 billion with proceeds to be directed towards debt reduction.

The general narrative around economic growth, inflation and the Fed's interest rate policy will continue to be the main driver for credit spreads. Credit fundamentals remain resilient and default rates are in line with historical averages. Increasing probabilities of either a soft or no landing for the US economy are also supportive.

Our Emerging Market Bonds strategy offers a 10.3% per annum yield to maturity (in US dollar terms) with a relatively short duration of 2.9 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 94 cents on the dollar.

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