

J. STERN & CO.

Investing in Quality for the Long-Term

Investment Commentary

Quality Prevails

This month marked a historic Berkshire Hathaway annual meeting. It was a celebration of Charlie Munger's legacy, Berkshire's record of creating a company with US\$897bn of market value and US\$578bn of shareholders' equity, and all that Berkshire stands for. Only in Omaha can you meet and learn from so many like-minded investors from all over the world.



Berkshire is at a point of transition and Warren Buffett told us that Greg Abel, the next CEO, will be in charge not just of Berkshire's operating businesses but of all capital allocation, including its large public equity holdings. In recent weeks Eric Platt at the Financial Times has written an [important series of articles on Berkshire](#) and the issues it faces and our CIO Christopher Rossbach said to him that it will be important to hear from Greg Abel how he thinks about stocks and how he will manage Berkshire's public equities. The articles look to understand the public equity portfolio and to assign the different positions at different times to the people responsible. The methodology is clear and it will be interesting to see if there is feedback from people who are close to Berkshire or perhaps from some of the people involved themselves if there are issues to correct about the analysis or record.

As investors we have to subject ourselves to rigorous analysis to justify the value we create. That is why we are pleased that we have been able to add significant value through the World Stars Global Equity strategy we have managed since 2012 and in particular since the pandemic in 2020. It is now rated five stars on Morningstar and top decile on several investment platforms comparing us to similar funds over the past 10 years to 30th April 2024.

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We are proud of this achievement and wanted to highlight it because it also adds legitimacy to the investment opinions we express.

Warren Buffett's great pride in Berkshire's value creation and the generosity of its shareholders was apparent in his tribute to Sandy and Ruth Gottesman. Warren played the extraordinarily moving video of Ruth Gottesman announcing her US\$1bn gift to Albert Einstein College of Medicine, a leading independent medical school in New York City. The gift had two stipulations: (i) that it would be used to fund free tuition for all medical students and (ii) that Albert Einstein should keep its name. The students' reaction said it all.

As the inevitable transition nears, those who care about long-term investing have the responsibility to keep going the idea and principles that Warren Buffett and Charlie Munger have expressed and that have inspired generations of investors. Of course, we may wish for greater transparency and await greater clarity about the way ahead. However, just as Warren Buffett has said that price is what you pay, value is what you get, it is also true that you only get out what you put in. Defining and explaining investment principles, challenging them and adapting them to try to understand and make the most of the opportunities we have is both Warren Buffett's and Charlie Munger's greatest legacy and the best way in which we can pay tribute to them.

As we outline below, markets pulled back in the past month because growth and inflation came in higher than expected. We expected this kind of move both last year and this year. Underlying economic growth is robust and inflation is sustained. In their first quarter results the large majority of our companies reported strong growth in sales, earnings and cash flows and we believe they are well positioned for the future and the sell-off was driven by such short-term trading that it has already reversed.

A world of 4-6% nominal interest rates, 2-4% inflation and 1-2% real interest rates is a world to look forward to, not to fear. Companies that can grow their revenues because of research and innovation, that have the pricing power to pass on price increases, the scale to absorb input cost inflation and the cash generation and balance sheet so they can make decisions from a position of strength not in reaction to weakness.

We believe that the quality companies we own in our global equity strategy have great prospects for generating strong compound returns over the long term and will look to take advantage to buy more of these great companies at great prices when we have the opportunity.

Our insight this month highlights shareholder engagement and Sika, a company Warren Buffett could like. Shareholder engagement is an important part of our investment approach and our stewardship of the assets entrusted to us by our investors. We defended Sika, the Swiss global leader in material technology for the building industry, for four years alongside other shareholders against a hostile takeover from French company Saint-Gobain, the French building products company. We continued our engagement this year when we spoke at Sika's annual meeting to support incoming chair Thierry Vanlancker and to thank outgoing chair Peter Hälg for his 15 years of service to the company. Sika's share price has quadrupled since Saint-Gobain's bid in 2014 and its market capitalization is now US\$5bn higher than its one-time acquirer. Shareholder engagement, stewardship, fundamentals, stock picking: It all matters!

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World Stars Global Equities

We said at the beginning of this year that the market was likely to react to better than expected economic data and a higher-for-longer interest rate environment as it did in September last year. The sell-off across global markets in April was reflected in the performance of our World Stars Global Equity Strategy, which was down 4.4% for the month in US dollar terms. Year-to-date performance for the strategy remains in solid positive territory up 8.4%, comfortably ahead of global indices. You can find our latest factsheet [here](#).

Fundamentally, first-quarter earnings were very solid for the majority of our holdings. Digital and technology companies benefitted from strong growth in advertising and cloud fuelled by AI, industrial companies were supported by investments in net zero transition, reshoring and the refurbishment of ageing infrastructure, and consumer companies experienced resilient spending in luxury and personal care products.

Alphabet, the owner of Google, was the top performer in April, up 8%, bringing year-to-date performance to 16%. The company reported strong growth in both search advertising as well as in its YouTube franchise, while its cloud business posted better-than-expected growth benefiting from AI-related activity. Solid profitability on the back of tight cost control as well as higher shareholder returns, in the form of a US\$70bn share buyback and a first dividend, all helped to drive its share price to a new all-time high.

RTX, the world's largest aerospace systems and engines provider, was up 4% for the month bringing performance to 21% year-to-date. It continues to see strong trends in both its commercial aerospace and defence businesses giving rise to strong revenues and a growing backlog of orders. The company provided an update on the GTF fleet accelerated inspection programme (powering the Airbus A320neo), which continued to be on track with regard to timelines and costs. Its shares now trade above levels before the initial GTF announcement in July 2023, having recovered over 45% from their lows.

Amphenol, the leading connector and sensor manufacturer, continued its strong performance, up 5% in April and 22% year-to-date, posting strong results driven by its aerospace, military, automotive, IT and datacom businesses. The company has also emerged as a key solutions provider to the current AI investment boom. The critical nature of connectors in data centres that cater to AI-related applications and higher associated content requirements is stimulating demand, especially for those manufacturers that have the product depth and manufacturing capacity to meet it.

On the weaker side in April, mobile tower operator, *American Tower*, fell 12%, despite strong results and raised guidance, reflecting the shift in interest rate expectations. The company is experiencing strong demand for its data centre business and we expect the 5G investment cycle to support its mobile tower core franchise. This will position American Tower for solid growth, making its current valuation levels compelling.

Meta, the owner of social media platforms Facebook and Instagram, was down 11%, although it is still up 22% year-to-date. The sell-off was triggered by the announcement of higher AI-related investments as capex guidance increased by US\$4bn to a new level of US\$35-40bn. We believe the incremental investments come from a position of strength as Meta seeks to leverage and build upon the positive effect of AI integration. The company continues to deliver strong financial results, backed by a strong digital advertising business.

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Finally, enterprise software provider *Salesforce* came under pressure after announcing it was seeking to acquire data-management software provider *Informatica*. *Salesforce* has a long track record in integrating acquired franchises but the market saw this acquisition as an unnecessary distraction from its focus on improving operational performance. The deal subsequently fell through when the companies failed to agree terms.

Multi-Asset Income

Following a strong first quarter, April experienced some profit-taking driven by markets adjusting to a higher-for-longer interest rate scenario. This pushed US 10-year Treasuries towards the top of their trading range.

As a result, the strategy was down 1.5% (up 4.4% for the year in US dollar terms) with equities, the main detractor, down 3.5% (up 10.1% year to date) despite a constructive earnings release season. You can find the latest factsheet [here](#). Profit taking in equities was quite broad but *Schlumberger* (-13.4%) underperformed despite steady oil prices and in-line results as management failed to raise guidance.

Higher Treasury yields did not prevent our credit portfolio from benefiting from idiosyncratic stories (see emerging market debt commentary) delivering as expected. The credit portfolio was up 0.3% (now up 4.4% so far this year) and our funds had a strong month up 2.4% (up 1.5% for the year).

More significantly, the Multi-Asset Income strategy profited from the renewed interest in the investment trust asset class, which had been trading at a depreciated value for a while. *Hipgnosis Music Royalty fund*, which was at the centre of a bidding war, was our best performer. We highlighted the mispricing of Hipgnosis' asset price from the end of last year and the agreed acquisition price helped the shares up 55%.

With faster-than-expected economic growth in the US and inflation failing to subside as previously expected, macro data is likely to remain the main driver of market performance until the summer. We expect our strategy to navigate this environment positively with lower volatility and the support of higher income.

Emerging Market Bonds

Our Emerging Market Bonds strategy was marginally down 0.3% for the month and is up 3.6% year-to-date, both in US dollar terms. Economic data was strong and inflation surprised to the upside, pushing out expectations on when the Fed will begin easing monetary policy. This drove US Treasury yields higher. You can find our latest factsheet [here](#).

There was positive underlying corporate news which led to tighter credit spreads. *Trans Oil* (Moldova; agro-commodities) benefited from a rebound in crop yields in the Central and Eastern Europe region. This translated into higher sales volumes and improved utilisation rates. Management also provided a constructive outlook and is proactively addressing bond refinancing.

Cemex (Mexico; industrial) announced record first-quarter earnings driven by price increases and margin expansion given decelerating input cost inflation and operational efficiencies. Management acknowledged market dynamics were improving in key geographies driven by nearshoring trends and fiscal stimulus while deleveraging trends continued.

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Credit rating agencies upgraded several of our companies. *Helios Towers* (Tanzania; industrial) was upgraded to B+ following a successful deleveraging plan. *Sisecam* (Turkey; industrial) was upgraded to BB+ reflecting higher offshore hard currency liquidity and *Medco Energi* (Indonesia; Energy) was upgraded to BB- reflecting greater scale and improved commodity reserve life following recent acquisitions.

The narrative around economic growth, inflation and Fed interest rate policy will continue to be the main driver for credit spreads. Improved prospects in the US and China could prompt upward revisions to growth in other emerging markets. The increasing probability of either a soft (or no landing) is supportive of the asset class.

Today, our Emerging Market Bond strategy offers a 10.2% 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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