Investment Commentary

Stock market broadening

Over the past several years, US stock market performance has been led by a number of great technology companies. We have always been selective, applying our quality criteria and investing in companies with strong growth opportunities, sustainable competitive positions, a high proportion of recurring revenues, experienced management teams and strong levels of cash generation.

We have invested in several of them, including *Amazon* and *Alphabet* since the inception of our World Stars Global Equity strategy in 2012, and more recently *Nvidia* and *ASML* since 2022 and 2023 respectively. They have helped our World Stars Global Equities to perform strongly and we are pleased that we have been ranked in the first decile of performance compared to a large group of other fund peers over the last one, three, five and ten years on the IA Global and FO International platforms (although of course past performance is not a reliable indicator of future results).

The 'great rotation' in stock markets that has taken place since the US Fed started raising rates at the end of 2021 has favoured these investments. Equities are the only large and liquid asset class that offers investors the ability to generate real returns in an environment of solid economic growth and sustained inflation. It is perfectly normal for higher growth companies to perform better at first and we still see great value in the technology stocks we hold.

However, the rotation has left behind many other companies that have high quality and offer great upside as well. We have positions in consumer, healthcare and industrial companies trading at valuations that are at multi-year lows, in absolute terms and relative both to the market and to their own long-term trading ranges.

Our approach has always been to invest in a broad set of companies that fulfil our quality criteria and can compound over long periods of time. Since 2012, technology companies *Amazon* and *Adobe* have been the two top performers but the next two are industrial company *Eaton* and healthcare company *Thermo Fisher*, both of which have compounded at 22% p.a. in US dollar terms since our first purchase.

That is why we have expected stock markets to broaden from their narrow focus on the Magnificent Seven, some of which we think are less magnificent than others. The first quarter of this year has seen this broadening accelerate as investors have come more selective and the reality of company fundamentals has prevailed over sentiment and hype.

The demand for increasing capacity, artificial intelligence and other applications will be important drivers of growth and productivity for the global economy and our companies; but so will increased healthcare spending and support of an aging population; the renewal of the public and private asset base in the US, Europe, China, Japan, and just about everywhere else; and the need to address challenges like global warming, energy transition, carbon reduction and water supplies. Our companies are leaders in these markets and for them these great challenges are great opportunities for growth and value creation.

This month, our investment insight is about the healthcare sector and the opportunities we see. Healthcare companies have been held back by a number of issues since the pandemic

and are among the cheapest companies we hold. You can read our insight by following this link or by clicking on the attachment.

Source: IA Global and FO International (Trustnet) performance rankings to 29/2/24 in GBP. These both include over 500 global equity funds and our World Stars Global Equity UCITS. Prior to the launch of the World Stars AI GBP share class on 8/11/19, the performance was that of the World Stars Global Equity strategy.

World Stars Global Equities

February was a strong month for our World Stars Global Equity strategy, posting an 8.1% gain, bringing year-to-date performance to 10.9%, both in US dollar terms. You can find our latest factsheet here.

Performance was led by *Nvidia*, which was up 29% in the month as the company announced fourth-quarter revenues of US$22.1 billion (FY2024). This was an increase of 22% on the third quarter and up 265% over the year. It has forecast FY2025 first-quarter revenues of US$24 billion amid continued demand for its semiconductors. Jensen Huang, founder and CEO remarked that "accelerated computing and generative AI have hit the tipping point with demand surging worldwide across companies, industries and nations." The increase in revenues was also reflected in the adjusted operating income. It was up 28% sequentially (up 563% year on year) with the company posting an operating margin of 66.7% in Q4 (vs. 36.8%), demonstrating the inherent operating leverage of the business.

Social media platform owner *Meta* was up 26%. It reported 21% growth in advertising impressions, an EBIT margin of 41% (20%) and declared its first dividend payment. *Walt Disney* was up 16% following strong visitor numbers at its parks business and news that its streaming business is approaching breakeven levels. We believe that the market continues to undervalue the strength of Walt Disney's businesses, its operational turnaround and its restructuring potential. It has a road map to double-digit margins in its streaming business and the potential to dispose of non-core assets.

Performance continued to broaden to investments beyond the digital sector. Other industrial holdings, including intelligent power management player, *Eaton*, posted strong gains, with the shares up 17%. The company continues to benefit from investments in infrastructure, the reshoring of critical industries and the transition to net zero. With megaproject activity (projects over US$1 billion) in the US reaching US$933 billion since 2021, Eaton has a clear runway of growth for the years ahead and has reached new highs along with several of our other industrial holdings.

Our healthcare holdings continue to see signs of a return to normalised levels of activity in the aftermath of the pandemic. This was reflected in the earnings of ophthalmology solutions provider, *Alcon*, up 15% in the month. Its surgical business has recovered, its footprint in the key Chinese cataract market has increased and it continues to leverage its strong pipeline of new products. This month's investment insight is dedicated to the healthcare sector and goes into detail on why it is an important source of opportunity for our World Stars Global Equity strategy.

During February, we reduced our position in *Nvidia* as its size in the portfolio had grown to almost 9% given its strong performance. This is in line with our proactive approach to managing the portfolio and its risk. We also exited our position in *Becton Dickinson*, the medical technology company. The company has been a modest positive contributor to the strategy since we first invested but we believe there are stronger upside opportunities

elsewhere. We reinvested part of the proceeds into *Zoetis*, a provider of medicines, vaccines and diagnostics for pets and livestock. The company benefits from robust demand in the animal health market, a strong pipeline of new products, and is a consolidator in the industry. We also added to other positions in portfolio companies trading at compelling valuation levels.

Multi-Asset Income

Risk sentiment held up well in February, providing support to most asset classes with our Multi Asset Income portfolio gaining 3% during the month and up 4.1% year-to-date, both in US dollar terms. You can find our latest factsheet here.

Equities were particularly strong up 6.9% (up 11.8% so far this year) helped by a very constructive earnings season for our holdings. Our fixed income portfolio was up 1.1% (up 2.9% in 2024) and our funds were down 1.5% (down 2.6% this year).

On the equity side, *Estee Lauder* (+13.1%) announced operating results in line with expectations and a restructuring plan that led the market to conclude that the worst is behind the cosmetic company. *Siemens Healthineers* was up 7.9% following solid results backed by a convincing message from its management about its growth outlook.

The fixed-income portfolio benefited from positive idiosyncratic news flow (see Emerging Market Bonds) but also the general trend for spread compression in the sector. Our funds were weak driven by the cautious outlook for interest rate cuts in the UK. *Hipgnosis*, the royalties investment fund, was affected by the ongoing battle between the fund manager and its new board, together with the expected fall in the value of the portfolio following a recent independent valuation review.

Markets have mostly recalibrated interest rate expectations for 2024 from the end of last year. Current pricing implies a scenario more aligned with the US Federal Reserve's indications. With the earnings season almost behind us, we expect markets' focus to switch to macro news flow and the resilience of the US economy.

Our portfolio is well-positioned to handle the current environment with yield generation providing downside protection for our investors but keeping the upside potential on the equity side.

Emerging Market Bonds

Our Emerging Market Bond strategy was up 0.7% for the month and up 2.1% year-to-date, both in US dollar terms. Risk sentiment remained constructive on robust underlying economic data. This supported credit spread compression and offset the move higher in US Treasury yields. You can find our latest factsheet here.

There was positive underlying corporate news too. *Unigel* (Brazil, Basic Materials) reached an agreement with its core creditor group to start an out-of-court capital reorganisation. In Ukraine, the government asked the central bank to allow the sale of foreign currency to *Kernel* (Agro-Commodities) to deal with upcoming Eurobond payments, thereby maintaining investor confidence and ensuring greater operational stability.

In Moldova, *Trans-Oil's* (Agro-Commodities) credit rating was upgraded given its increased scale, improved geographic diversification and an expectation of positive free cash flow underpinned by a conservative financial policy.

First Quantum (Zambia, Basic Materials) announced an extensive refinancing package to address near-term balance sheet risks and significantly boost liquidity. Finally, *Grupo Posadas* (Mexico; Consumer-Cyclical) results were strong amid improving occupancy levels and pricing. The company used free cash flow to repurchase bonds.

The main detractor was *UPL* (India; Consumer-Cyclical). Its results were weak as the crop protection sector was impacted by inventory de-stocking and pressure from post-patent price competition. The company expects to close a rights issue soon to bolster liquidity and liability management.

The market remains focused on US economic growth, with a soft landing looking likely. However, firmer inflation has led to a recalibration of when the US Federal Reserve will start cutting interest rates. Corporate fundamentals remain robust.

Our Emerging Market Bond strategy offers a 10.9% p.a. yield to maturity (in US dollar terms) with a relatively short duration of three years. This comprises a 7.6% p.a. income yield, which provides some visibility on future returns as well as capital appreciation potential given the average bond price is 92 cents on the dollar.

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