Investment Commentary

Opportunities ahead

Our World Stars Global Equity strategy performed strongly last year despite the geo-political and macro-economic issues, up 30.7% in US dollar terms. As we summarize below, our positions in digital and technology companies contributed most of the returns but performance broadened at the end of the year.

In October last year our view of the fundamentals and valuations of the companies we invest in led us to issue a warning: *caveat venditor* – seller beware. This year, we feel the same. Our outlook for our companies and their prospects is positive. Companies across the board have increased their revenues, profits and cash flows, so despite the strong performance valuations are compelling and offer a great opportunity for long-term investors.

Of course, there is much to be concerned about. Conflicts are ongoing and could escalate. Political uncertainty is high in an election year in the US, the UK and many other countries. The impact of higher interest rates continues to be felt throughout the economy. Consumers have been resilient but are under pressure from higher interest rates and inflation. Valuations for illiquid assets have to adjust, from real estate to private equity and venture capital, leading to increased loan losses and lower returns for investors. However, inflation is moderating and the US Fed has made it clear that it stands ready to cut rates if necessary.

We invest in global leaders that have high quality and great prospects for compounding growth of their results and share prices. In an environment of higher interest rates and persistent inflation, investors will have to look to companies to generate significant real returns. There will be winners and losers. The winners will be companies that have strong competitive positions, innovation and growth in their products or services, pricing power to increase prices, scale and efficiency to offset input cost increases, and cash generation and balance sheet strength to take advantage of opportunities.

The greatest risk for long-term investors is disruption. We want to own the companies that are doing the disruption, driving innovation and creating solutions for the issues we face. Portfolios have to change over time. Even with our long-term investment and low turnover approach our portfolio looks different today as we have been able to take advantage of market downturns at different times over the past five years to buy great companies at compelling prices.

One of the greatest opportunities we see is artificial intelligence. AI is transforming and disrupting how we do business and how we live our lives. This change is on the same scale as prior industrial revolutions like the steam engine and electricity. It will markedly improve productivity and have a transformational effect on the global economy.

Today, AI is most associated with the technology sector. The huge surge in interest and the excitement around AI is one of the reasons Nvidia was the first semiconductor company to break the trillion-dollar valuation in May 2023. Nvidia's strength comes not just from its GPUs but from the comprehensive AI ecosystem it has built.

AI will create great opportunities across many industries, not just technology. For example, in healthcare, it can speed up drug development and analyse genomic data. Within the energy sector, AI can improve geological modelling, usage analytics and pipeline tools. Within retail and freight, it will have an impact on supply chain management, inventory management, as well as autonomous fleet networks. In customer service, the chatbots and automated phones we use today will be transformed with superior interactions and analytics. The use cases go on and on.

We understand the fears that jobs will be lost to AI, but it will be the same as with all new technologies: AI will bring many productivity benefits, new jobs will be created, and this will result in long-term improvements for the global economy.

Nobody knows what AI will look like in 20 years and it is not easy to forecast all the eventual winners. What is important to us is to realise the scale of the opportunity and understand what it means for individual companies. AI is still in its infancy but we believe it will have a far-reaching impact across the broad economy for years to come. The companies that incorporate AI will succeed and those that ignore it will do so at their peril.

Our investment insight this month, written by Charles Gélinet and Jean-Yves Chereau provides a review of our Emerging Markets bond strategy and the once-in-a-generation opportunity we see in emerging markets corporate bonds. You can read it by following the link here or by clicking on the attachment.

Our hopes are for a year in which goodwill, determination and persistence will lead to a resolution of conflicts and in which human spirit, innovation and resilience will pave the way for greater peace and prosperity for all.

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

World Stars Global Equities

Our World Stars Global Equity strategy closed the year strongly, rising 5.3% in US dollar terms in December. This brought the year-to-date performance to an exceptional return of 30.7%, significantly outperforming global indices. You can find our latest factsheet here.

Our strong performance was led by our technology sector holdings. *Nvidia,* the global leader in advanced semiconductors, emerged as the undisputed winner in commercialising artificial intelligence (AI) in 2023. As we highlighted in our end-of-year review, Nvidia posted USD 18 billion in revenues in its latest quarterly results, a 200% increase on the previous year. The company has also guided for USD 20 billion in revenues for its upcoming financial quarter, alleviating any concerns that AI spending has peaked.

Closely behind Nvidia in terms of performance was *Meta* (formerly Facebook), which was up 194% for the year. After a challenging 2022, the company's digital advertising revenues recovered as its investments in an enhanced advertising offering, supported by AI, led to higher user engagement and increased monetisation.

The portfolio's third-best performer in 2023 was *Salesforce*, the customer relationship management software provider. Its shares were up 99% on signs of green shoots in enterprise spending. This recovery in demand, coupled with streamlined cost measures, fuelled the performance of our portfolio holdings across the technology sector.

We expect performance to continue to broaden beyond technology in 2024, given attractive valuation levels and improving earnings prospects in other sectors of the market. While our technology holdings have led the way over the past year, six of the strategy's top ten performers in December came from companies within the industrial and materials sectors.

Sika, the Swiss chemicals company, was up 15% in December (25% for 2023) as the market anticipated a recovery of volumes in the key European market in 2024 and the realisation of annual synergies of CHF 180-200 million from its acquisition of MBCC, the former BASF construction chemicals business.

Amphenol, a US-based manufacturer of sensors & connectors, closed the month up 9% (32% for the year), as the need for high-speed connector content for AI applications became increasingly evident. This, together with accelerating investments in the transition to a net zero economy, positions the company for strong revenue and earnings growth in the years ahead.

In early December, we took some profits in Nvidia and Adobe, although we retained significant exposure to both companies. With the proceeds, we added to other positions including in Sika, water technology company *Xylem* and *Pernod Ricard*, the leading global spirits business. This repositioning leaves our strategy well-placed to capitalise on a broadening market as structural trends including re-shoring, decarbonisation and fixing ageing infrastructure, continue to gather pace.

Multi-Asset Income

The Multi-Asset Income Strategy was up 3.3% in December bringing its performance for the year to 14.6% in US dollar terms. Equities continued to be the strategy's strongest driver of performance and rose 5.7% (up 31.7% over the year). The fixed income portfolio, which was up 2.6% (10.4% for the year) and the alternative funds' portfolio, which was up 1.5% (down 1.6% in 2023) showed strength in the run-up to the end of the year. You can find our latest factsheet here.

In December, Jerome Powell, the Chairman of the US Federal Reserve, spurred expectations of a higher-than-expected number of interest rate cuts in 2024. His comments led to a broad end-of-month rally across all risk assets.

On the equity side, *Booking*, the leading online travel platform (up 13.5%) and *Zoetis*, the world's largest producer of medicines for pets and livestock (up 11.7%) were among the strongest performers in December. Our fixed income portfolio saw our investment grade holdings (*Pemex* +11.1%, *DP World* +9% and *Grupo Bimbo* +8.4%) benefit from a rally in US Treasuries. The investment trust holdings in our alternative funds' portfolio recovered after a challenging year on the prospect of lower interest rates.

We remain confident that our Multi-Asset Income strategy will benefit from the current macro environment. As the global economy normalises post-Covid and inflation moderates, it is positioned to generate income with low volatility. The portfolio delivered an income yield above 4% in 2023 and our total fixed income exposure (51%) provides us with income visibility in a potentially more volatile environment in 2024.

Emerging Market Bonds

Our Emerging Market Bond strategy was up 2.3% in US dollar terms in December, bringing the year's performance to 7.5%. You can find the latest factsheet here.

Global risk sentiment improved as inflationary pressures continued to moderate. The Fed signalled interest rates had peaked by suggesting it would start to cut rates in 2024. Subsequently, US Treasury yields declined and emerging market credit spreads tightened.

There was positive underlying corporate news. *AES Andes,* the Chilean utility company, expanded its partnership with Global Infrastructure Partners, the global fund manager, securing important financing for the company's transition towards renewable energy and storage solutions.

Exports picked up at *Kernel*, the Ukraine-based diversified agriculture commodities business, on the opening of a temporary grain corridor. The company also reached an agreement with bank lenders to defer debt maturities and committed to Eurobond coupon payments.

The main detractor to performance during December was *Braskem*, the Brazilian petrochemical company, after the partial collapse of a non-operational salt mine. The company now faces potential liabilities, which would impact liquidity. Credit rating agencies subsequently downgraded the company.

The market remains focused on economic growth with a soft landing looking more likely. Corporate credit metrics continue to be in good shape with high-quality companies maintaining a conservative stance. This environment is extremely supportive of the emerging market debt asset class, providing investors with the opportunity to generate very attractive returns from both income and capital appreciation. Please read this month's Insight for a detailed discussion of the portfolio and the opportunities we see.

Our Emerging Market Bond strategy currently offers an 11.0% per annum yield to maturity (in US dollar terms) with a relatively short duration of 3.1 years. This comprises a 7.6% per annum income yield, providing visibility on future returns and capital appreciation potential.

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