Investment Commentary

This time last year we were in the midst of the storm caused by US Feds raising interest rates from close to nothing to normal levels. We wrote then that:

"Micro is what we do, macro is what we put up with, and this year has been all about macro. Macro can be as much a source of opportunity for long-term investors as volatility and market rotation. We believe that there are reasons for optimism and that there is much more to come."

Our World Stars Global Equity strategy has performed strongly since then as we outline below. The market sell-off was an opportunity and we took advantage by buying stocks like *Nvidia*, *Walt Disney*, *Xylem* and *ASML*. They are high quality global companies that we believe have the ability to generate strong compound returns over time.

Underlying economies have remained resilient, inflation has moderated and interest rates in the US and Europe have reached the sustainable levels they should have been at all along. Results reported for the second quarter of this year have shown that most of our companies have strong demand for their products and services, they are investing in capacity and innovation, raising prices and working through bottlenecks and cost pressures.

Our allocation/ selection attribution analysis for 2023 year-to-date shows that while the best performers this year have been Nvidia, Meta and Salesforce, and therefore it would appear that the World Star's strong performance is due to its industry factor exposure, analysis shows that we are in fact only slightly overweight communications services and actually underweight information technology. Our overweights are in consumer staples, industrials and healthcare.

Our bottom-up approach has allowed us to focus on companies that benefit from long-term structural growth. These include growth in consumer demand due to increased incomes and expectations; innovation through research and development; digitalization of the global economy; electrification and automation of industry; increased computing capacity to satisfy demand from AI, metaverse and other drivers; and investment in public and private infrastructure. The industrial companies we own that are benefitting from this investment will boost productivity and increase capacity, driving global growth and enabling the transition to a lower carbon economy. We believe these companies are the right ones to deliver strong returns over the next 10-25 years.

The second half of the year could bring a long-expected slowdown. However, we believe that private and corporate demand will be resilient and interest policy in the US and Europe will support economies and markets.

In the US, the most important driver for the world economy and for asset prices, economic growth continues and Fed policy is as data driven as always. If the US does what it does, we will have global economic growth, in fits and starts of course, but sustained nonetheless. It implies that rates should stay at current levels or go higher, with volatility and uncertainty from political and economic risk, but driven by real economic growth and, if we see continued inflation, by real increases in wages and in spending power. All of this is part of a normal economy and something to look forward to, not to fear.

In this inflationary environment we expected active management will be increasingly important to generate real returns. As we have seen, there will be winners and losers so fundamental analysis and picking the right stocks will matter. The winners will be kind of quality companies we invest in, with growth and innovation, pricing power and economies of scale, that can generate resilient and growing earnings and cash flows.

Valuations for the companies in our World Global Equity strategy have reset and are attractive despite the rebound. They are also entirely aligned with the inflation and interest rate environment. The sustainability and strength of the companies' businesses should enable them to generate attractive returns with lower absolute and relative risk, while their quality should provide resilience to the downside (as it did during the March 2020 pandemic-related sell-off) should a greater than expected slowdown or other issues occur. There may well be volatility but that is why we think any pullback will be a buying opportunity like last year.

World Stars Global Equity

Our World Stars Global Equity strategy was up 3.2% in July and is up 27% year-to-date, both in US dollar terms, entrenching its significant outperformance of global markets.

Performance was led by our technology and digital transformation companies, with five of our top 10 holdings benefiting from the game-changing potential of AI solutions and the improved outlook for digital advertising. *Meta*, the social platform company, was up 11% after reporting 13% revenue growth for the second quarter of the year. The company's AI investments enabled it to provide a superior digital advertising offering and user engagement continued to deepen with 3.9 billion active users across its suite of applications. *Alphabet* also posted strong results and was up 10% in July, after reporting 9% revenue growth, buoyed by its AI enhanced product suite and a recovery in digital advertising.

Continuing the pattern of recent months, performance was broadened from our technology and digital transformation companies. Our industrial, healthcare and consumer companies also performed well.

Amphenol, one of the world's leading connector and sensor producers, reached new all-time highs as the company reported increased customer investments in AI related applications. At the same time, its automotive, commercial aerospace and military verticals continue to benefit from robust end-market trends. *EssilorLuxxotica,* the leading eyecare products provider, posted solid results fuelled by new product introductions, while the company's recent expansion into the hearing aid markets offered a new avenue of incremental growth.

On the downside, *RTX*, the world's largest supplier of aerospace engines and systems (formerly Raytheon Technologies) fell 10%, despite posting strong results amid a robust commercial travel market and an increase in defence spending. However, the company's share price came under pressure on the news that it will have to undertake an inspection on part of its GTF aircraft engine fleet, which powers the Airbus A320neo, due to a historical manufacturing issue. While it is undoubtedly a reputational hit to the company, we believe that new engine platform problems are not unusual with, the specific issues are not related to engine design, and the actual fault rate is likely to be small. We believe that the stock price reaction was disproportional to the potential financial impact on the company's cash flows and that the structural drivers of the investment remain intact.

Multi-Asset Income

Our Multi-Asset Income strategy was up 2.1% in July is now up 10.9% year-to-date, both in US dollar terms, and with all asset classes contributing positively.

Equities were again the main driver with a positive return of 3.4% for the month (up 26.3% year-to-date) but our fixed-income portfolio gained momentum with a positive 2.4% gain (now up 6.3% year-to-date). Our non-correlated funds were more balanced, up 0.5% (but still down 2.6% year-to-date) as the outlook for inflation and interest rates in the UK remains far from clear.

Our equity portfolio benefited from the bounce back in energy prices (*Schlumberger* +18.8%) and a potentially positive development at *Zoetis* (+9.5%) ahead of their result this coming month. However, *Estee Lauder* (-8.3%) came under further pressure amid falling expectations of a recovery in China.

The positive economic environment supported our fixed-income portfolio, which saw most bonds performing well with a few exceptions. *Lumen's* bonds, which had been volatile around earnings this past year, strengthen ahead of good results.

Hipgnosis, the music royalties fund, announced solid results, highlighting that revenues grew 12% last year and that streaming revenues were up 14.8%. However, its management did not communicate the options they are working on to crystalise the value of the catalogues and its share price fell 1%.

The second quarter reporting season has been delivering strong results for our equity holdings, suggesting potential for further positive performance in the months ahead. However, rising US Treasury yields in the wake of the US Government debt credit downgrade and the prospects of substantial primary supply for the rest of the year in the wake of the debt ceiling crisis could trigger bouts of nervousness and increased volatility.

Following our gradual reduction in exposure to the equity asset class over the past few months, we have built a holding in short-duration US Treasury bills currently providing investors with a 5.4% annualised return.

As markets gradually absorb the likelihood of interest rates remaining higher for longer, our strategy for the rest of the year is firmly focused on capital preservation and cash generation.

Emerging Market Bonds

Our Emerging Market Bond fund was up 2.1% for the month and is up 4.3% year-to-date, both in US dollar terms, as risk sentiment improved due to strong economic data and moderating inflation. This has increased the likelihood that the US Fed and other central banks are nearing the end of interest rate increases. Increased positive sentiment led to further tightening in emerging market credit spreads, particularly in the high-yield sector, which now trades below the past 20-year average.

There was positive underlying corporate news too. *Liquid Telecom* (South Africa, communications) proactively discussed refinancing options for its bonds ahead of schedule. Other plans included reducing capital expenditure to improve cash flow, monetising assets and a potential capital injection from its main shareholders.

Kosmos and *Tullow Oil* (Ghana, energy) announced new assets coming online that will materially increase production. Capex will subsequently decline at both companies and aid free cash flow generation going forward. *Kosmos* also had its credit rating upgraded on the back of recent improvements in the sovereign rating.

Kernel (Ukraine, agro-commodity) was weaker in July, given the ongoing military conflict and the attack on the Ukrainian port of Chornomorsk following the suspension of the Black Sea grain deal, which disrupted exports.

The market is increasingly focused on the resilience of economic growth with probabilities shifting from recession to a 'soft landing'. This would be supportive of the asset class and corporate credit fundamentals continue to be robust. Our Emerging Market Bond strategy currently offers a 12.2% per annum yield to maturity (in US dollar terms) with a relatively short duration of 3.2 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 85 cents on the dollar.

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