WHY QUALITY, WHY NOW?

A Rare Dislocation in Global Markets

Quality is not an act. It is a habit.

Aristotle, via Will Durrant

Investing has never been a smooth or linear endeavour. Even the most well-founded strategies are tested by periods of doubt, when markets move sharply against conviction with unsettling speed and remain so for an uncomfortable period. At such moments, discipline is challenged, patience wears thin, and the temptation to follow the prevailing momentum can feel overwhelming. History shows that these episodes are not anomalies but an intrinsic feature of investing: cycles of enthusiasm and dislocation that repeatedly test an investor's ability to remain anchored to long-term fundamentals.

It is precisely during these periods of uncertainty that clarity of philosophy matters most. When prices diverge from underlying business reality, when short-term forces dominate long-term thinking, and when widely held beliefs are questioned, investors are forced to reassess not only what they own, but why they own it. Conviction, in this context, is not blind persistence, but the result of a coherent framework applied consistently through changing market conditions.

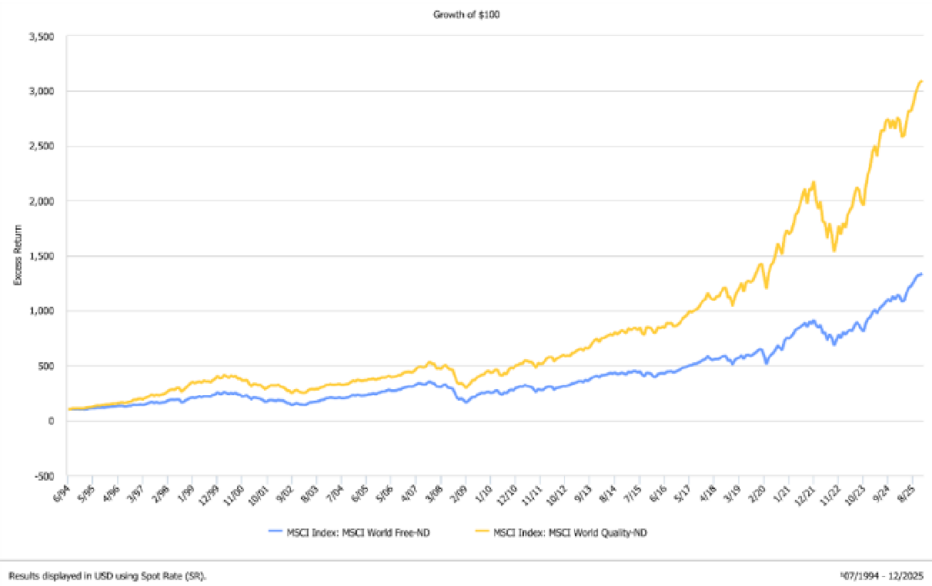
This paper is written against that backdrop. Its objective is to set out the current case for quality investing: to explain why recent market dynamics have created a meaningful dislocation, to examine what history suggests about similar periods, and to articulate why we believe the opportunity in high-quality global businesses is both compelling and timely. In doing so, it also outlines how we define quality, how we implement it within the World Stars Global Equity strategy, and why we believe this approach is particularly well suited to the environment investors face today and into the future.

THE CASE FOR QUALITY OVER THE LONG TERM

Quality as an investment approach has demonstrably outperformed global markets over the long term. Chart 1 shows that the MSCI World Quality Index has outperformed the MSCI World Index by 300bps annually since inception in 1994. The compounding effect of this is striking – an investor would have made more than 2.5 times more by investing in quality instead of the broad market over the last 31 + years.

This performance differential is rooted in deeply engrained economic fundamentals. High quality companies are typically owners of exceptional brands, benefit from strong scale or networking effects, enjoy a structurally lower cost base, or offer their customers a product or service that is embedded in their operations making it difficult to switch to another provider. Their competitive moat is real and enduring. It translates into high pricing power and margins, whilst keeping competitors at bay. Quality companies generate high and stable returns on capital, and compound them over time. They have experienced management teams, who are effective allocators of capital, focusing on higher return opportunities rather than empire building. They typically have lower levels of debt, stronger cash flow profiles and more inherently resilient business models that shield them through adverse market conditions, minimising the risk of a permanent capital loss.

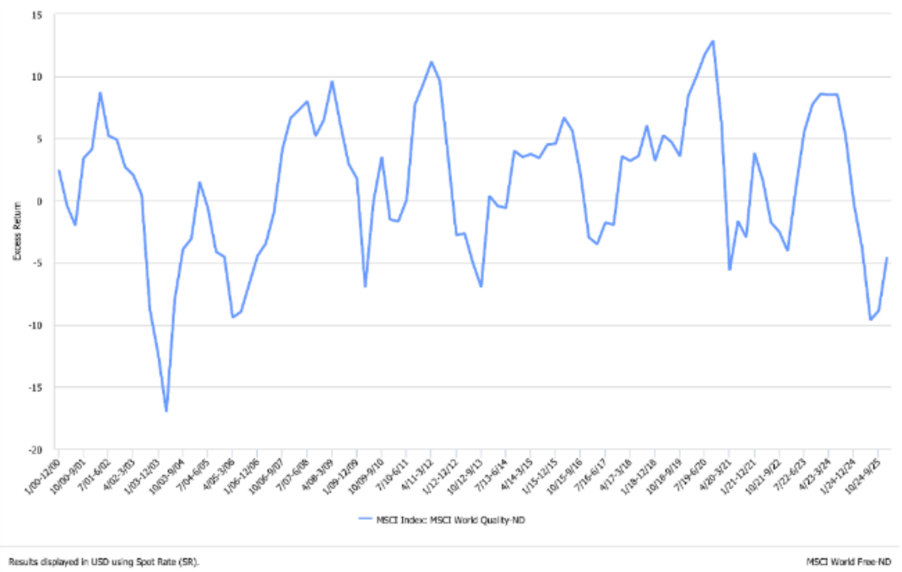
Chart 1: MSCI World Quality vs MSCI World



Source: NASDAQ eVestment

Even so, the market can underappreciate the ability of these companies to sustain their advantages, sometimes even dismisses them as "boring", then rotating to the next story or trend for a period, whilst missing the big picture long-term opportunity. This means there are periods of time where quality has underperformed the overall market as is evidenced in both Charts 2 and 3. These show how the performance of the MSCI World Quality Index versus the MSCI World has varied significantly on both a one- and five-year rolling basis since the turn of the century. In some instances, the underperformance has been substantial and protracted. However, the only way to have achieved the compound effect of quality versus the broad market shown in Chart 1 would have been to remain invested in quality throughout the entire period – in effect holding strong through periods of challenge.

Chart 2: Rolling 1 Year Excess Return: MSCI World Quality vs MSCI World



Source: NASDAQ eVestment

Chart 3: Rolling 5 Year Excess Return: MSCI World Quality vs MSCI World

Source: NASDAQ eVestment

THE CURRENT DISLOCATION AND WHAT HISTORY TELLS US

Right now, we are in one of those challenging periods. You can see from Chart 3 above that quality has underperformed the broad market over the last five years – something that has not happened for close to 20 years. This five-year outcome is the result of the MSCI World Quality index underperforming the MSCI World index by more than 11 per cent since the second quarter of 2024 (see Chart 2). This underperformance has been driven by a rotation into balance-sheet-driven financials, particularly in Europe during 2025, capital-intensive energy and resources companies more recently, and policy-dependent utilities. These are sectors characterised by leverage, opacity and dependence on government policy, and their outperformance is cyclical rather than structural.

History is unambiguous on what happens next. You can see from Chart 2 above that following quality's worst comparable dislocations, in 1999, 2003, 2009, 2020 and 2022, the factor delivered compelling outperformance in the subsequent 12 to 24 months in every single instance, as fundamentals reasserted themselves.

Over the last 24 months, quality companies have not seen their fundamentals deteriorate. Their competitive positions are intact, their industries continue to grow, their balance sheets are stronger than ever and their earnings are growing. The businesses have not changed but their prices have. That gap between price and intrinsic value is the opportunity.

WHY NOW: THE MACRO AND MARKET WARNING SIGNS

The current macro and market backdrop is itself one of the most compelling arguments for owning the highest-quality businesses available.

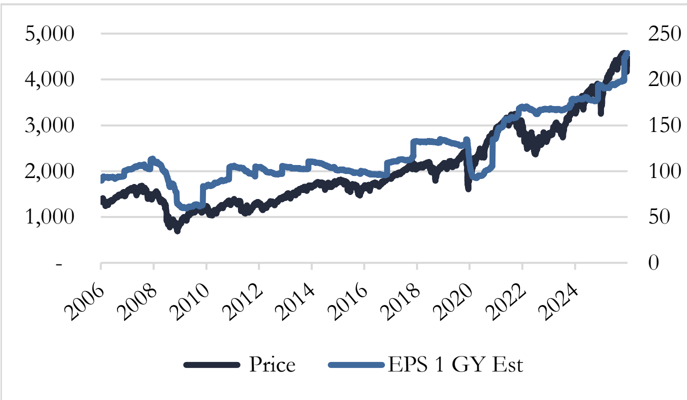
Let's start with valuations. The MSCI World is trading at levels of frothy valuations. Chart 4 shows the P/E multiples and shows that they were last higher during the dotcom bubble at the turn of the century.

Earnings expectations for the market continue to be revised upwards, with margin forecasts that look aggressive (see Charts 5 and 6).

Chart 4: MSCI World Valuations using P/E multiples

Source: Bloomberg

Chart 5: Rolling EPS Earnings Revisions



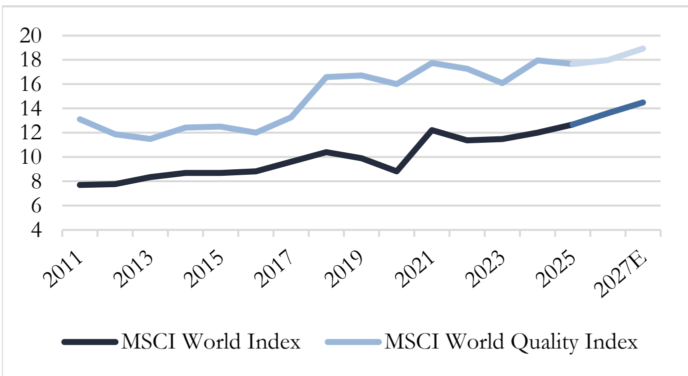
Source: Bloomberg

This is true not only of the global technology sector, but also of deep cyclical sectors including industrials, materials and financials.

Markets are priced for a degree of perfection that leaves very little room for disappointment.

In an environment of geopolitical disruption, tariff uncertainty and slowing consumer momentum, the possibility of earnings disappointment is a significant risk. Simply tracking an index at these levels is not a neutral act. It is a choice to accept very elevated risk for very compressed prospective returns.

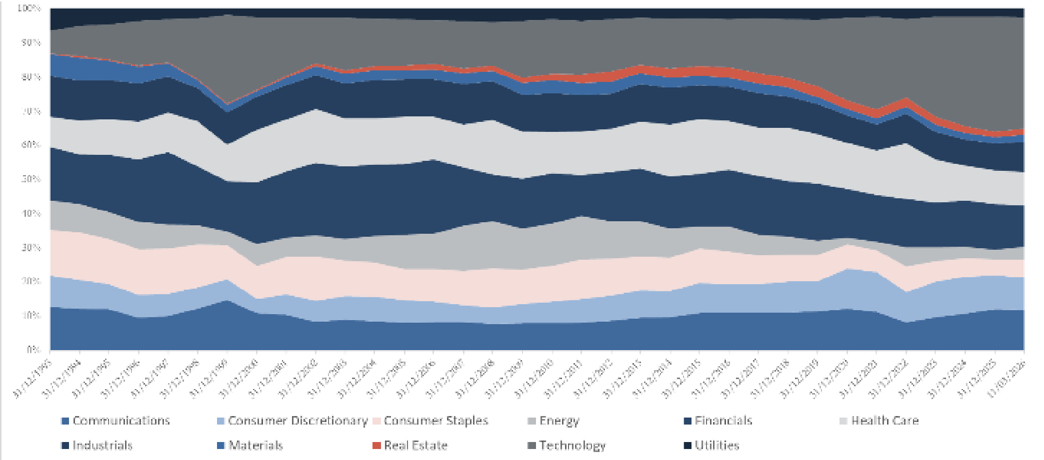
Chart 6: Profit Margin – MSCI World Quality Index vs MSCI World Index



Source: Bloomberg

The concentration risk compounds this concern. Charts 7 and 8 show market concentration is now at historical highs, both in terms of the number of stocks driving returns and in terms of the dominance of the technology sector.

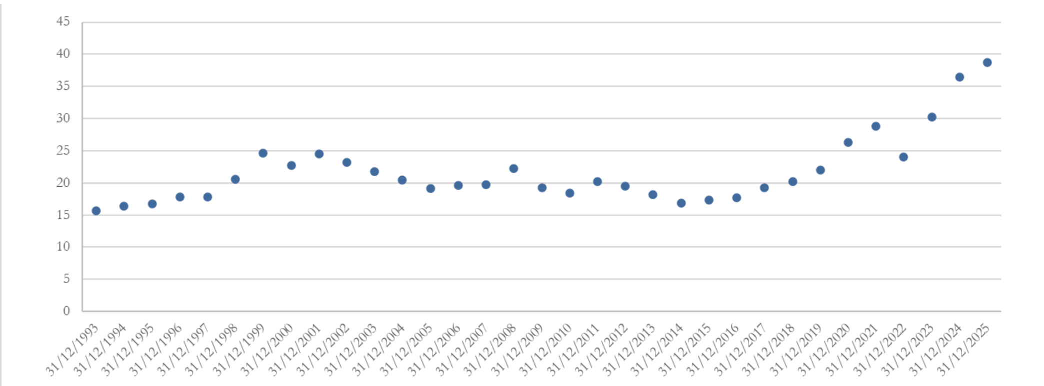
Chart 7: Historical Sector Weights



Source: Bloomberg, using the sector weights within the B500 Index

A handful of companies have accounted for the overwhelming majority of index returns over the past three years. That concentration creates fragility.

Chart 8: Market Concentration – Top 10 Stocks % Concentration over Time



Source: Bloomberg using the B500 Index.

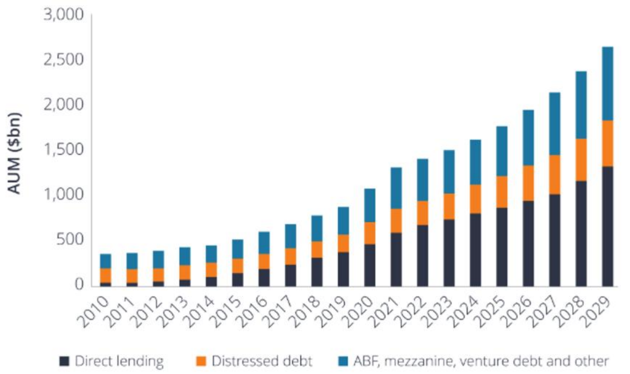
When exuberance fades and leadership rotates, as it always does, the impact on passive portfolios will be severe. Active, fundamentals-driven selection has rarely been more important.

The financial markets backdrop adds a further layer of concern that we believe is underappreciated. Credit conditions have remained loose for an extended period, enabling a significant expansion of private credit markets to a scale that now poses potential systemic risks. Delinquencies are increasing and market participants are starting to question the opacity of the asset class.

This all comes at a time when the US Federal Reserve is shrinking its balance sheet. In fact, incoming Fed chair Kevin Warsh has signalled a desire to continue to reduce it. Should that happen there would be upward pressure on interest rates at least in the short to medium term with the knock-on effect of higher borrowings for businesses and consumers.

These are not the conditions in which leveraged, balance-sheet-intensive businesses are best placed to continue their recent outperformance. They are, however, the conditions in which companies with fortress balance sheets, transparent cash generation and no dependence on financial system stability are most powerfully differentiated. Quality companies do not just survive financial stress. They exploit it and get stronger.

Chart 9: Private Credit AUM Growth from 2010 onwards



Source Preqin 2025 Global Report: Private Debt. 2024 onwards are forecasts

Against this backdrop, the valuation of quality is even more striking as is demonstrated in Charts 10 and 11 which show that quality has derated significantly versus both the broader market and value stocks.

Chart 10: PE Ratio of MSCI World Quality Index Compared with MSCI World Index

Source Bloomberg

Labour markets have remained resilient, real wage growth has been broadly positive and inflation has moderated from its peaks. These positive fundamentals have been obscured by political volatility, but they have not disappeared. As the environment stabilises and the normal dynamic of economic activity reasserts itself, the focus will return to fundamentals, to businesses and to valuations. When investors survey a market that is expensive in aggregate, concentrated in a handful of names and fully valued in the very

Chart 11: PE Ratio of MSCI World Quality Index Compared with MSCI World Value Index

Source Bloomberg

cyclical sectors that led the last rotation, they will find that the one style that remains attractively priced is quality

WHY J. STERN & CO?

WHAT QUALITY MEANS FOR US

At J. Stern & Co., quality is not an aspiration or a marketing label. Since our founding in 2012 it has been a gating condition, a precise framework built on four interlocking pillars that every company must satisfy before we will invest a single pound or dollar.

Strong & sustainable competitive position

Good & growing industry

Management with a track record of value creation

Financial strength to weather adversity

The first two pillars are a strong and sustainable competitive position in a good and growing industry: businesses with genuine economic moats, great brands and growth prospects from innovation, market growth and capital allocation.

The third is management with a demonstrable track record of value creation, leaders who allocate capital wisely, think in decades rather than quarters, operate in good corporate governance frameworks and invest in innovation and growth.

The fourth is a balance sheet of great strength, so robust that the company can weather any adversity, whether a pandemic, a banking crisis, an oil shock, a recession or a wave of tariffs, and emerge not merely intact but stronger than its weakened competitors.

Quality companies are inherently resilient to external shocks like tariffs or an oil price spike. Many have global operations spanning multiple geographies and currencies that can shift supply chains, adapt sourcing and hedge currency exposures in ways that smaller, less diversified competitors cannot. Their fortress balance sheets allow them to make acquisitions when competitors are weakened and opportunities are cheapest. They can act where others must react, invest where others must retrench, and acquire where others are forced to sell. Adversity, for the businesses we own, is not merely a risk to be managed. It is an opportunity to be seized.

Critically, this framework is forward-looking by design. We care about forward-looking quality. We look at backward-looking quality, consistency of revenues, margins, returns on equity and balance sheet strength over time, and we understand it. But what matters far more is what a company's competitive position, management quality and financial resilience imply about the decade ahead. We want to invest in companies that are solving problems, not creating them, and that are doing the disrupting, not getting disrupted.

Critically, our approach is adaptive by design. We have never had to change what we do to recognise technology companies, or to respond to disruption, because identifying disruption ahead of the market is precisely what forward-looking quality analysis is built to do.

We focus on growth drivers

Digital Transformation	Consumer	Healthcare & Life Sciences	Industrials & Infrastructure
Leading exchange operator and data services provider	*No. 1 global luxury goods company*	*Leading global life sciences company*	*High-tech industrial, power management, electrification*

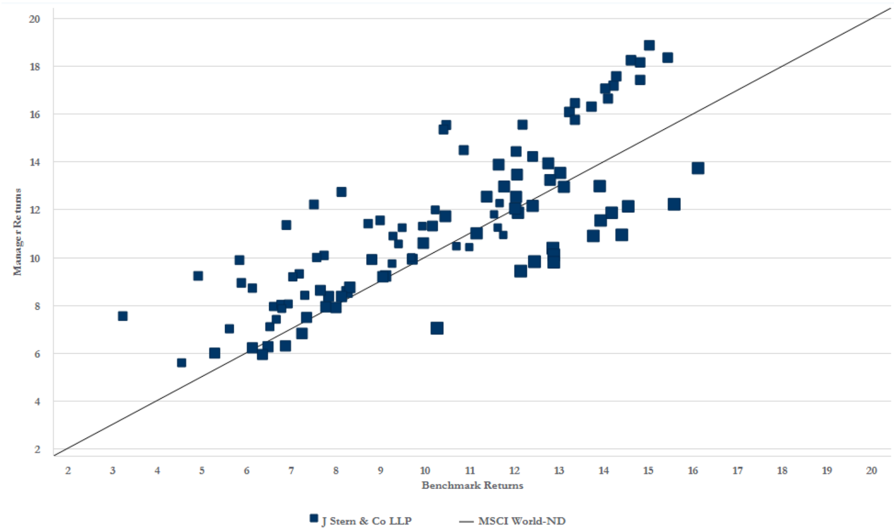
While we seek to avoid

- Balance-sheet driven financials
- Regulated businesses
- Resource-based industries
- Capital-intensive businesses

THE LONG-TERM RECORD

The case for this approach is not theoretical. The World Stars Global Equity strategy has outperformed the MSCI World in 76 per cent of all five-year monthly rolling periods since inception in October 2012, measured across 100 rolling periods, net of fees. That record was not built by rotating into whatever the market fancied in any given year. It was built by holding, with conviction, for five to ten years or more, companies that possess genuine structural advantage and the financial resilience to compound through adversity.

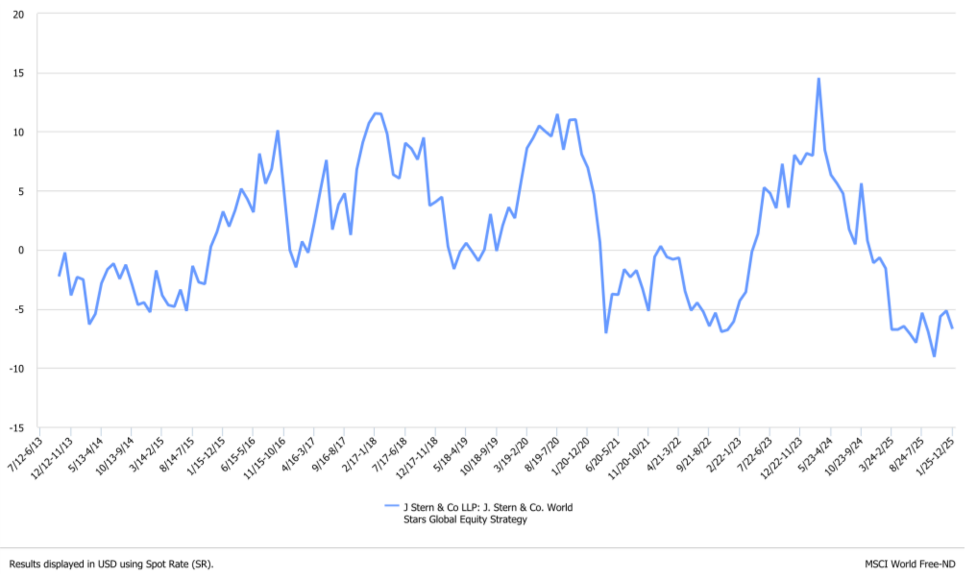
Chart 12: World Stars outperforms MSCI World over most 5 Year Rolling periods



This chart 12 looks at 103 five year monthly rolling periods since the inception of the World Stars Strategy. Source: NASDAQ eVestment. MSCI World-ND is the MSCI Net Total Return index. As at 31st March 2026.

What the long-term track record demonstrates is that those periods of underperformance have consistently been followed by strong recoveries as can be seen in Chart 13 below. Avoiding permanent capital loss, which quality's resilience in declining markets makes structurally more likely, is the single most powerful way to protect the compounding engine over time. It is about time in market, not market timing.

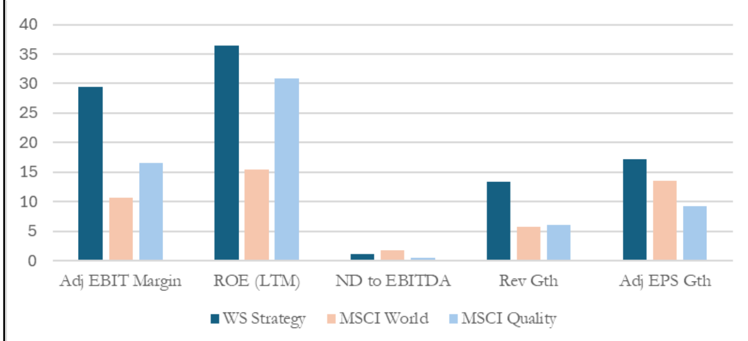
Chart 13: World Stars Rolling 1 Year Excess Return



Source: NASDAQ eVestment

THE PORTFOLIO TODAY

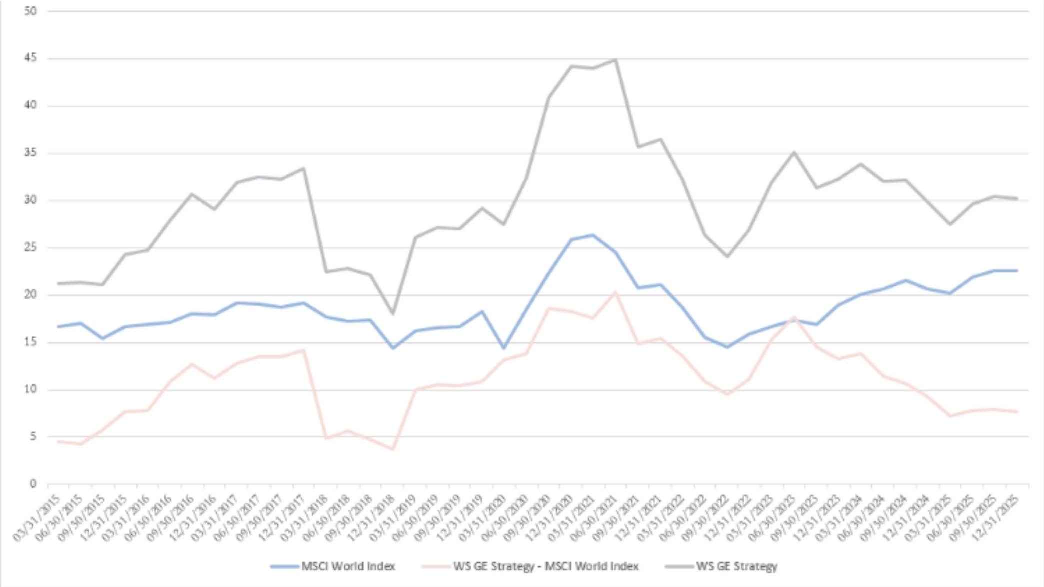
Chart 14: Portfolio Characteristics – World Stars vs MSCI World & Quality Index



Source: Bloomberg

The characteristics of the World Stars portfolio today continues to reflect the strength of the underlying companies as can be seen in Chart 14. As in the past, the portfolio continues to hold companies with margins, return on capital, leverage and growth characteristics that are both better than the broad market and the quality universe of stocks. Chart 15 shows that the premium we are paying for this portfolio of substantially higher quality companies is now trading at a ten-year low versus the broad market.

Chart 15: P/E History – World Stars vs MSCI World Index



Source: Bloomberg

The evidence of more than a decade of World Stars, and of a century of market history, is unambiguous: patience through periods of quality underperformance has always been rewarded. Those who rotate away at the point of maximum dislocation are the ones who miss the recovery. We are being offered the world's best businesses at a discount to their own history. The combination of systemic risk in the broader market and exceptional value in quality is rare. It will not last indefinitely.

In this environment of debasement and structural costs, the argument for World Stars is stronger than ever. Quality companies — those characterised by high returns on invested capital and strong pricing power — are uniquely positioned to thrive. Unlike firms that may be crushed by widening credit spreads, quality businesses fund their own growth through internal cash flows. As the realisation sets in that structurally higher inflation is a permanent feature, investors will seek the safety of proven balance sheet strength. This fundamental flight to quality will drive the next phase of market leadership, rewarding those who stayed disciplined through the recent period of factor volatility.

CONCLUSION

The conclusion for the modern investor is clear: the tailwinds of the past have turned into the headwinds of the future. Investors must prioritise assets that offer real growth and resilience — companies capable of maintaining pricing power regardless of the inflationary backdrop. By shifting toward a concentrated, quality-driven approach like World Stars, investors can navigate the dual threats of rising operating costs and currency debasement, ensuring that their portfolios are built for the reality of the new economic era rather than the memory of the old one. Quality is on sale. The challenges are real — and so is the opportunity. When the rotation comes, it will be fast and it will be significant. We believe that moment is now.

Christopher Rossbach & Katerina Kosmopoulou
April 2026