J. STERN & CO.

The Value of Long-Term investing

Monthly Commentary

O tempera! O mores! As we write, two of the major political issues that have dominated politics, media, public discourse and our minds appear to be coming to their conclusions. In the US, the independent counsel's investigation into the Trump administration and potential collusion with Russia has concluded with a report being submitted to the Attorney General. In the UK, the Brexit discussions are approaching their climax as Parliament has voted to take control of its legislative agenda and to seek to achieve an outcome that has eluded government so far.

Regardless of the ultimate outcomes and of our individual views about which of those outcomes we would prefer, it appears that in both cases our democratic institutions have proven to be resilient and that responsible actors are working to achieve reasonable resolutions. Most importantly, however, if we are indeed approaching reasonable resolutions, we may have cause for hope that the worst may be behind us and that we can focus on the political, social, economic and environmental challenges that remain ahead. ` Economies, companies and markets have been resilient in the face of the turmoil and growth may well reaccelerate during the course of this year. We will remain vigilant of course but there is no reason that companies with quality and value should not do well.

Last month we wrote about the 'Nestlé way' of growing businesses and generating value over the long-term by having the right balance of growth and efficiency, of reinvestment and capital return. It is a prudent and proven approach that allows companies and their shareholders to prosper over the long-term. We believe that responsible and sustainable investing for the long-term must go along with a concern for society as a whole, which provides us with the opportunity to invest, to preserve and increase the value of assets, and to put them to the uses we see fit.

Our conviction is that the same is true for society as a whole. Growth, prosperity, creativity and opportunity can only come from reinvestment in our greatest resource, people. Education is a critical factor, which is why it is one of the areas we have decided to support as a business and as individuals alongside our support for the arts and other causes.

In May, we will hold the third in our series of discussions on higher education in collaboration with leading academics and educators. In collaboration with King's College, Cambridge, we will host a panel and discussion on access to higher education. We spoke with Tony Sewell CBE, one of the panellists and founder of Generating Genius, an important and dynamic charity that helps people from less privileged backgrounds across the UK access higher education, about why access to higher education matters so much, what the challenges are and what some of the solutions may be.

We have attached our conversation as this month's insight, which you can read by following the link here or clicking on the attachment. Please let us know if you would like us to provide you with more information on our commitment and the event we are holding.

Global equity portfolios

The World Stars global equity portfolio continued its solid performance in February, closing the month up 1.9% in US dollars. It is up 7.9% year-to-date.

J. Stern & Co
4 Carlton Gardens
London SW1Y 5AA
United Kingdom

Tel: +44 20 3478 1800
Fax: +44 20 3478 1799
info@jsternco.com
www.jsternco.com

Equity markets continued to recover during the month, with the global economy continuing to grow, albeit at a slightly slower pace, and as expected central banks stepped in to moderate their policies and provide support. The US remains the engine of global growth with a robust domestic economy, companies continuing to invest in capex and consumers benefiting from healthy employment trends. In Europe, we see a more mixed picture, with the manufacturing sector affected by ongoing Brexit uncertainty and the US/China trade war. China continues to grow at a healthy rate, though here too we see a slowdown in manufacturing and exports as the ongoing trade dispute takes its toll.

Critically, however, as we have said all along, governments and central banks continue to provide support in order to safeguard growth. Both the Federal Reserve and the European Central Bank signaled clearly that they will keep interest rates low for the foreseeable future to foster economic growth. Similarly, in China, authorities have instigated numerous stimulus measures, in particular tax cuts, to support the local economy.

In short, despite pockets of weakness and any geopolitical headlines, global growth remains healthy, underpinned by accommodative monetary and fiscal policy. Although we cannot time any ultimate resolution in the US/-China trade dispute, we are hopeful given the strong vested interest by all parties that a way to meaningful de-escalation will emerge.

Performance for our portfolio was supported by our holdings across all sectors. Luxury goods provider *LVMH* provided a solid earnings update, closing 2018 with 11% organic growth, led by its Asian business, alleviating concerns that the ongoing trade dispute between China and the US would affect demand for its products. Within the industrials space, new position *Honeywell* reported solid results, closing 2018 with a 6% organic growth, led by its aerospace and warehouse automation businesses.

United Technologies continued its upward trajectory with the business' fundamentals looking strong and investors start to look towards the significant value creation potential of the company's upcoming separation into three independent entities. Card network provider *Mastercard* continued to post double digit revenue growth, benefiting from the ongoing shift to cashless payments and robust payment volume trends both in the US and internationally.

On the weaker side, leading gaming software player *Activision* came under pressure on the back of concerns over the competitive threat from peer Fortnite, as well as lower than expected short-term sales momentum in the company's flagship game, Call of Duty. Nonetheless, we believe that the company, with its industry leading game IP portfolio, is well placed to take advantage of the structural trends in the industry, including capturing advertising opportunities, in-game monetisation and eSports.

Income-driven portfolios

Our portfolio continued its positive path, closing February up 0.7% in US dollars and is now up 4.0% since the start of the year. All asset classes contributed positively, with equities leading the charge up 2.2% for the month in US dollars and now up 9.8% year to date. Less volatile but still positive, our credit portfolio was up 0.2% in February with a year to date performance up 3.3% and with an income generation of 1.1% over the last two months. Non-correlated income funds were slightly up for the month.

As a result, the strategy continues to be in line with its long-term objective of generating around 6.5% annualised returns, of which around 3.5% is distributed income.

Our credit portfolio benefitted from positive inflows in the asset class as more signs of global economic slowdown were disclosed and markets expecting more support from central banks.

Of notice at the securities level, last month saw more positive performance from oil related investment as the price of the commodity further strengthen. *Tullow* and *YPF* performed well as a result. On a negative note, *European Lingerie* group released disappointing results and as a result the issuer's bonds came under pressure in a fairly illiquid market.

Global monetary conditions are being significantly loosened relative as we expected. The 'search for yield' is back on, as illustrated by strong performances from the emerging market credit and developed markets high yield asset classes. Although we think that it is a supportive environment for risk assets, the countervailing forces of policy loosening and possible further deterioration of economic indicators do not warrant a change in asset allocation.

Our focus will remain on the high quality and strength of the fundamentals of our investments. We may institute a slight increase in duration to harvest higher yield opportunistically as we see less chances of unexpected rises in interest rates. The share of assets invested in non-correlated income funds will remain constant at this stage to keep volatility low.

Emerging market bond portfolios

The patience displayed by the Federal Reserve offered a supportive background for Emerging Market Bonds, which continued to push higher in February. Flows into the asset class remained positive, albeit at a slower pace. Our Emerging Market Bond portfolio ended February +1.3% up, bringing the year-to-date performance to 5%, both in US dollars.

We have not made any adjustment to our strategy and are waiting for better entry points on the credits we have on our radar list, whilst enjoying the ride of our current holdings.

The top performer was the Argentinean conglomerate, *CLISA*, rallying 12.3% in low liquidity conditions due to a concentrated pocket of buying. The company posted strong results recently and won two new projects in transportation, despite a challenging environment. The firm's 2018 earnings are to be released imminently and we will be watching with interest.

One detractor in the portfolio was *Pemex*. The firm's bonds were under pressure, down -1.2% on the month, following a two-notch downgrade by Fitch to BBB-, just above junk status. This followed President Andres Manuel Lopez Obrador's announcement on tax and investment policy towards the oil monopoly. Pemex currently accounts for 15% of the country's total taxes.

Kaltex bonds dropped 4.8% after the release of their earnings, which showed margin contraction, as continued high raw material prices more than offset the increase in product pricing. We gain comfort on the bonds from the members of the family behind Kaltex stating their willingness to provide financial support using their personal funds to guarantee the coupon payments.

As we said, political events in the United States and the United Kingdom are heading towards their conclusions and we may have cause for hope that the worst may be behind us. Economies, companies and markets have been resilient overall, growth may well reaccelerate, and most if not all of the companies we have invested in are doing well. It reinforces our conviction to keep investing for the long-term, to remain vigilant and to look for opportunities as they arise.

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

March 2019