



# Strategic European Smaller Companies Fund

August 2019 Fund Commentary



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PORTFOLIO MANAGER

August was a month with two distinct halves accompanied by a sense of déjà vu. The month started with an early sell-off due to the resurgence of the trade war before a recovery towards month end, when central banks came to the rescue. The Fund recorded a loss of -2.53%\* in the month; however on a year to date basis has delivered a positive return of +13.32%.

Boozt was the largest monthly performance contributor, followed by Takeaway.com and Barco.

Boozt recovered during the month, returning +11% thanks to strong Q2 numbers, which came in well ahead of market expectations, leading most brokers to upgrade their EPS expectations for FY 2019, and price target. For H2 and lasting into 2020, the Investment Adviser believes external headwinds will turn into tailwinds, with a strong margin expansion as a result.

At the beginning of August and following media rumours during the preceding weekend, Takeaway.com and Just Eat confirmed they have reached an agreement on the key terms of an all-share merger between the two companies. The two players are only overlapping in one market, Switzerland, which is comparatively small. The team believe that this deal is not about cost synergies and marketing savings (unlike the "German deal" between Takeaway and Delivery Hero); but rather about leadership, execution and M&A. The share price of Takeaway.com reacted strongly to the announcement, which the team used as an opportunity to trim down the position size given that this merger has not been finalised and is therefore not without risk.

Barco recorded a new high at the end of August with a +98% total return for the year (incl. dividends). Since Van de Wiele took over the chairmanship of the Company in 2015 (which was the trigger for the Fund's investment) the stock price has more than tripled, with the multiple rerating being sizeable. As with Takeaway.com, the position size was trimmed during the month.

At the other end, Akwel, Gränges and Ferronordic Machines were the 3 main detractors during the month.

Both Akwel and Granges suffered from their automotive exposure when cracks resurfaced about the prospects of a trade agreement between the US and China. Please refer to the July commentary for specific information on both companies' H1 2019 reports.

Ferronordic Machines' stock price development was more puzzling in August, in the context of the Company delivering another record high quarter in terms of sales and EBIT. Q2 sales grew 29% organically, whilst adjusted EBIT increased 44% y-o-y. Operating cash flow was negative, due to significant working capital build-up related to seasonality and the transfer of importation responsibilities for machines and parts from Volvo to Ferronordic. As part of their Q2 conference call, management commented that they expect working capital to decline in relation to sales and to come back to normal levels.

The Russian construction equipment market has grown since 2015, but 2018 demand was only about half of that of the years 2011–13. The Russian government indicated that it will spend USD100bn on infrastructure investments, which will support demand for machines from 2020 onwards.

According to the team, there has been a large and swift shift from momentum shares to value stocks since early September, certainly triggered by a temporary truce in the trade talks and by the fact that August was such an extreme month with regards to how markets priced in lower growth. Goldman Sachs strategists believe that "sector rotations are not that unusual, counting 13 since 2008, one or

## INVESTMENT APPROACH

The Fund's competitive advantage and its key differentiator between it and its peers is the ability to focus on target companies from every angle and leverage the network of relationships and corporate access provided by a number of stakeholders, including founding partners to provide a real understanding of the market share and performance of the investee companies that results in the totality of the investment research being generated internally.

## INVESTMENT OBJECTIVE

To outperform small and medium capitalisation firms in the European equity markets

A sub-fund of E.I. Sturdza plc.  
Registered in Ireland.

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\* For detailed performance information based on complete 12-month periods since inception, please refer to page 2.



two a year". Whether this trend is durable or not might depend on central banks and governments meeting investor expectations especially given the ECB's decision to restart quantitative easing and to lower rates.

## PERFORMANCE DATA As at end of August 2019

### CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	3Y	Fund Inception
EUR	-2.53	1.06	-7.46	-10.11	13.91	17.88
STOXX Europe 600 NR EUR	-1.35	3.38	2.25	7.46	20.14	9.79

### CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	2017	2016	Annualised Inception
EUR	13.32	-24.86	22.80	13.55	3.88
STOXX Europe 600 NR EUR	15.25	-10.77	10.58	1.73	2.18

Past performance is not an indicator of future performance.



## IMPORTANT INFORMATION

The views and statements contained herein are those of Pascal Investment Advisers SA in their capacity as Investment Adviser to the Fund as of 12/09/2019 and are based on internal research and modelling.

Please contact [info@eisturdza.com](mailto:info@eisturdza.com) should you wish to have an update call with the investment team.

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