ERIC STURDZA
INVESTMENTS

# Sturdza Family Fund

September 2019 Fund Commentary

## MARKET DEVELOPMENT

Equity markets stabilised at higher levels in September. The MSCI World Net Total Return Index increased by 2.2% and the US equities increased by 1.8%, whilst the Dollar continued its ascent (DXY Index +0.58%). The slight rise in bond yields alleviated the continuous selling of equities over the summer with the two first weeks of September seeing inflows into the latter asset class. Volatility decreased at the index level during the month as investors reinvested previous crystallised profits in less crowded factors such as value.

## PORTFOLIO DEVELOPMENT

The Fund's performance was mainly driven by the equity book during the month. For the equity exposure, Dollar Tree and Charles Schwab were the leading contributors whilst United Health and Centene were the largest detractors.

Dollar Tree's stock price increased by more than 12% during the period after disclosing solid Q2 earnings result. More specifically, the Family Dollar banner showed positive comparable strength even though the Dollar Tree banner came under slight pressure. The company gave explicit guidance on the limited incremental impact of tariff changes and management is expected to continue to mitigate these already-limited impacts. Management is also projected to systematically work through this integration for improved SG&A performance (and gross profit) over time. The positive update demonstrates that the company is moving closer to a more integrated and healthy business, and a positive testing stage of an increase on the $1 price point for the Dollar Tree banner, should accelerate this process further.

Charles Schwab struggled with implementing various strategic moves alongside multiple yet increasing headwinds such as the interest rate environment. Even though the company saw its stock price increase nicely over the month, the Investment Adviser decided to start reducing the Fund's exposure as to eventually exit the stock completely by mid- to- end of October.

United Health and Centene have been under pressure despite both delivering solid results. The entire healthcare sector has been relatively-speaking sold-off. The overhangs mainly stem from sector-wide forward looking fears such as possible healthcare reforms and Washington's focus on reducing national drug prices. While the risk of regulatory change is ever present for healthcare players and providers, both business models reinforce the Investment Adviser's conviction. Depressed stock prices are not a negative signal but an opportunity to be exposed to best-in-class companies that would be part of the solution for the most likely reform scenarios. As such, both positions have gradually been amplified. Modifications to the Affordable Care Act, continued expansion of Medicaid, or creating an early buy-in option for Medicare are all on the table and positive for both entities. Long term growth in Medicaid, combined with their attractive valuation is the base case of the Investment Adviser's compelling risk/reward outlook. Furthermore, in the event of a recession, the counter cyclical nature of a Medicaid MCO which, would see growth in a downturn, is appealing.


**Eric I. Sturdza**
PORTFOLIO MANAGER



**Constantin Sturdza**
PORTFOLIO MANAGER


### INVESTMENT APPROACH

An active and flexible investment process, managing a mixed asset investment portfolio predominantly comprised of equities and fixed income investments. Investing directly or indirectly, between 51-81% in global equities or equity related instruments and between 20-49% in fixed income instruments. Focusing on strong growth companies that the Investment Adviser deem to be underappreciated by the market, whilst fixed income investments will be selected based on global macro economic analysis and evaluation of central banks' policies.

### INVESTMENT OBJECTIVE

To achieve capital appreciation over the long term.

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

### CONTACT


E.I. Sturdza Strategic Management Limited

+44 1481 722 322

info@ericsturdza.com

ericsturdza.com

## OUTLOOK

The Investment Adviser's outlook has not been significantly altered since the previous monthly publications and therefore remains cautiously optimistic. The current expansion seems to stand a good of lasting for the foreseeable future. While a non-recessionary call is harder to iterate now compared to 12 months ago, when one differentiates between specific risks and generic risks, a clearer picture of the overall environment can be drawn.

Specific risks, such as real imbalances, policy errors and the financial system, seem to currently be well contained while generic recession risk is increasing as the global slowdown unfolds and inherently makes the global economy more vulnerable to shocks. The only way the US and/or global growth could re-accelerate from the current slowdown is for policy (whether fiscal and monetary) to aggressively force it in that direction.

The Investment Adviser wouldn't be surprised to see a boost in near term growth before structural issues become a binding constraint. The political calendar combined with how various subjects are unfolding is the main driver of this interim conclusion.

## IMPORTANT INFORMATION

The views and statements contained herein are those of the Eric Sturdza Group in their capacity as Investment Advisers to the Funds as of 18/10/2019 and are based on internal research and modelling.

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