



# Strategic European Smaller Companies Fund

October 2019 Fund Commentary



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PORTFOLIO MANAGER

The Fund gained +0.86%\* during October, taking year to date performance to +16.91%\*.

October was another real roller coaster of a month, consistent with much of 2019, with continued uncertainty and noise concerning issues such as trade war discussions, Brexit and impeachment rhetoric. We also entered the crucial Q3 reporting season: always tricky when there is little visibility.

So far, companies in Europe are on average beating consensus estimates, although the bar has been set low in absolute terms and it seems that Europe maybe heading for an earnings recession. This general picture however masks the diverse fortunes within companies and sectors, which have become fertile ground for volatility and for stock pickers looking to capitalise on stock price swings.

Bank of America strategists say that stocks surpassing their earnings consensus have beaten the market by 3% on average over the period, while those that have missed lagged by 3% - the biggest spread in a year. Crucially, while the number of profit warnings so far is in line with last quarter, these have been the "least punished" since 2015, they add. Certainly, a signal that expectations, at least for 2019, had been rebased prior to the Q3 reporting season.

With the exception of SAF-Holland, detailed in the September letter, the portfolio's holdings reported solid results for Q3, some of them, such as Ipsos and Brembo even increasing their annual expectations.

Valmet was the largest monthly performance contributor, followed by Trigano and Ferronordic Machines. Boozt, Albioma and Mauna Kea were the three largest detractors.

Valmet proved with its Q3 results that the quarterly volatility in earnings experienced in Q2 (and detailed in our July letter) was nothing structural. Valmet's Q3 results removed the two key fears that have hit the share price since the Q2 report, i.e. earnings leverage potentially having weakened, and the services business potentially entering a longer cyclical slump. Post a sizeable beat in order intakes in Q3, the order book is at an all-time high and Valmet is already set for a very strong 2020.

Trigano was one of the key detractors last month for what the Investment Adviser sees as one-off events. More positive news flow around the Brexit situation helped alleviate one of the main concerns around this investment, even though the UK only represents 12% of the firm's revenues. As a result, the stock price has now almost recouped its entire September downward movement. As mentioned above, volatility creates opportunities and has enabled the Investment Adviser on this occasion to significantly increase the Fund's position size at very good levels.

Ferronordic Machines' stock price reacted positively post announcements about the company's entry into a new market, Germany, which is rightly perceived as far less volatile than Russia in terms of market and earnings developments, hence deserving a higher valuation multiple. Ferronordic Machines is a Swedish listed construction equipment supplier.

On the detractors' side, there is nothing to be reported about Boozt and Albioma. Mauna Kea continued to suffer, as it did in September, from a selloff in medtech/biotech names across the European markets.

## 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.

## CONTACT

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


**PERFORMANCE DATA** As at end of October 2019

**CUMULATIVE PERFORMANCE %**

	1M	3M	1Y	2Y	3Y	Fund Inception
EUR	0.81	0.14	5.76	-12.97	14.27	21.11
EUR I	0.86	0.26	6.29	-12.09	15.67	22.59
STOXX Europe 600 NR EUR	1.04	3.36	13.04	6.34	27.33	15.04

**CALENDAR YEAR PERFORMANCE %**

	YTD 2019	2018	2017	2016	Annualised Inception
EUR	16.42	-24.86	22.80	13.55	4.36
EUR I	16.91	-24.48	23.17	13.55	4.64
STOXX Europe 600 NR EUR	20.75	-10.77	10.58	1.73	3.17

Source: Morningstar. Past performance is not an indicator of future performance.



## IMPORTANT INFORMATION

The views and statements contained herein, including those pertaining to contribution analysis are those of Pascal Investment Advisers SA in their capacity as Investment Adviser to the Fund as of 12/11/2019 and are based on internal research and modelling.

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

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