ERIC STURDZA INVESTMENTS

Sturdza Family Fund

October 2019 Fund Commentary

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MARKET DEVELOPMENT

Equity markets continued their ascent in October. The MSCI World Net Total Return Index increased by approximately 2.5%, again above US equities (approximately +2% for the S&P 500) whilst the Dollar declined (DXY Index approx. -2%). The US generic Government 10 year yield prolonged its decline since mid-September but ended slightly higher over the month (from approx. 1.66% to approx. 1.69%). Over the same period, volatility at the index level fell close to April lows.

PORTFOLIO DEVELOPMENT

During October the Fund's performance was for the most part, driven by the equity book, with Centene and UnitedHealth being the leading contributors, whilst E*Trade Financial and Constellation Brands were the largest detractors.

Centene reported its 3rd quarter results in line with expectations and reiterated its full year guidance. The stock price has been under pressure since the end of January as multiple factors weighed on investor sentiment. Beyond the general pressure at the sector level, the company is dealing with (1) an ACA (Affordable Care Act) case in Texas, (2) an overhang associated with the closing of the WellCare Health acquisition, and (3) the loss of their Medicaid contract with Louisiana's Health Department.

(1)The ACA case in Texas highlights the ongoing political battle over portions of the Act. The Investment Adviser believes that the Judgement from the Court of Appeals is not definitive and far from over, for example, it could and probably will be challenged in the Supreme Court. Nonetheless, a complete reversal of the ACA is unlikely and would be much more significant than just removing a portion of the Act (e.g. Individual Mandate). Even if the Act is reversed, it does not remove the need for individual insurance. There is definitely a consensus amongst democratic lawmakers in "blue" states that healthcare should be expanded and protected from the federal government policy disruptions. The recent Medicaid expansion from the Governor of California highlights this point.

(2) The WellCare acquisition should support gradual growth but its delay is keeping Centene's stock price under pressure. Management expects the deal to be finalised in the first half of 2020 and has already received approval from over 25 states.

(3)The loss of their existing contract in Louisiana led to concerns regarding the Company's future growth prospects. However, additional contract wins in other states are a positive in that regard and reinforce the belief that this had nothing to do with a "structural" issue. As such, the Investment Adviser's opinion on the Company's attractive risk/reward profile remains unchanged.

Overall, the depressed valuation, strong quality service metrics, potential for long-term growth, and its counter cyclical nature make this stock very attractive.

UnitedHealth reported its 3rd quarter earnings with a strong beat mainly driven by improved medical costs and strong PBM (Pharmacy Benefit Management) growth (via OptumCare). As for the rest of its peer group, the market is placing significant emphasis on extreme scenario outcomes, such as "Medicare for All", which basically entails an elimination of private insurance. Indeed, in such a scenario these companies could see a large chunk of their business in jeopardy. Nonetheless, the likelihood of such an outcome is feeble at

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.

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best. Other more probable outcomes, in which private insurers have a role in the market, position UnitedHealth's growth profile and current valuation attractively.

E-Trade's sensitivity to the market and interest rates make its underlying growth rate increasingly unviable in the Investment Adviser's opinion. Additionally, the unfavourable outlook for trading commissions only increases the uncertainty around the Company's growth stability. As such, the medium term risk/reward profile of this Company isn't compelling enough, so the positon was closed.

Constellation Brands reported its quarterly earnings on the 3rd October. Overall, results were in line, but longer dating concerns still way on general investor sentiment. However, on a growth adjusted basis Constellation Brands remains one of the most attractive companies within its peer group. The Investment Adviser believes that visibility should improve in the near term mainly due to: (1) The Wine and Spirits business which is on track to improve by year-end as the Company continues to focus on divesting certain brands and pushes premium products forward; (2) The drag from the Company's investment in Canopy Growth should abate over time as the industry matures. There is currently a high focus on profitability, which seems unjustified this early. Gross profit margins continue to improve but are indeed overshadowed by growth in overhead expenses. Yet, Canopy is still the global leader in total cannabis sales and is well placed to capture future growth. The Investment Adviser believes that Constellation Brands' decision to invest in Canopy was not to generate rapid short-term profits but instead position itself in what is expected to be a high growth industry.

OUTLOOK

The Investment Adviser's outlook has not altered significantly since the previous monthly publications and is represented in the Fund's overall asset allocation. The Team believe that the current market expansion stands a good chance to continue, rather than end abruptly in the foreseeable future. Specific risks, such as real imbalances, policy errors and the financial system, seem to be well contained while generic recession risk is increasing as the global slowdown unfolds and inherently makes the global economy more vulnerable to shocks. Nonetheless, as long as central banks continue to support the global economy and political uncertainties slowly abate there is a good chance that the current cycle will continue.

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 16/11/2019 and are based on internal research and modelling.

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