



Investing in Quality Growth

Strategic Europe Quality Fund

Investor Update

October 2019
For Professional Investors Only



ERIC STURDZA
INVESTMENTS

E.I. Sturdza Strategic Europe Quality Fund

Executive Summary

We are pleased to announce the Fund has been renamed to the **Strategic Europe Quality Fund** (the "Fund"), formerly the Strategic Europe Value Fund, in order to better reflect the "Quality Growth" investment style of the portfolio management team.

- The Fund invests in Quality Growth opportunities in the European Equity market.
- Lofoten Asset Management, the portfolio management team, utilise a fundamental bottom up stock picking process while considering ESG factors.
- This results in an active and concentrated portfolio of 30-35 stocks, commonly with a structural bias to high quality sectors such as consumer staples, health care and information technology.
- The Fund has delivered a compelling returns profile since inception on both an absolute and relative basis, returning 170%, compared to 80% for the MSCI Europe TR Index¹.
- The defensive nature of the portfolio has offered notable downside protection during periods of volatility, as evidenced by a down capture ratio of just 63%¹.

The Strategic Europe Quality Fund

Name Change

As was noted in our client communications in July 2019, the name of the Fund has recently been changed from the **Strategic Europe Value Fund** to the **Strategic Europe Quality Fund**. The decision was taken to adjust the name to better align the messaging derived from the Fund name with the strategy and how Willem and his team at Lofoten Asset Management have managed the investment process since the Fund's inception. As our investors will be aware, the team have a clear focus and bias within the portfolio to "Quality"- high quality businesses as per their proprietary research and analysis. For clarity the change in the product name does not indicate any deviation in the management of the portfolio or the team's approach, process or philosophy which all remain consistent.

Fund / Strategy Update

During a client webinar held in late July (31.07.2019), Willem took the opportunity to share the following observations with participants regarding the Fund's performance during 2019 and wider portfolio and market insights:

1. Performance year to date was pleasing, both in absolute and relative terms. The strength of the markets rally in the 1H 2019 had been somewhat surprising; however Willem concluded on reflection that this maybe should not have been the case given the developments in the market during Q4 2018. Reflecting on the portfolio's performance, Willem acknowledged that the Fund's return had been supported by growth stocks moving ahead during the period; however, advised that single stock

¹ Performance stated for the period from inception in October 2010 through to the end of August 2019.

Please note that past performance is not indicative of future returns.

performance had also contributed to the returns delivered. This assessment is supported when conducting attribution analysis for the period, which highlights that the major source of the alpha generated can be attributed to stock selection.

2. Turning to longer term annualised performance, Willem noted that the Fund had delivered annualised returns to investors of 14% (gross) on an absolute basis, which translates to a 7% compounded outperformance of the benchmark since inception in October 2010. Further and equally important, it was highlighted that as a result of the defensive nature of the stock picking process that the Fund has benefited from the majority of the markets upside, whilst offering meaningful downside protection during periods of market correction and volatility, as evidenced by a down capture ratio of only 65.09%².

3. With regards to the portfolios positioning during the 1H 2019, Willem stated that the defensive nature of the portfolio had increased at the margins partially attributable to a reduction in the Fund's UK financial exposure, which had previously been built in selective names based on an assessment that a solution to the Brexit situation would have been finalised and the political situation would have stabilised. The assets that were realised as a result of this reduction were reallocated towards one of the team's favoured sectors, consumer staples and selective names therein.

4. From a geographical perspective, it was noted that UK exposure has decreased (see point 3), whilst a number of new country exposures (Belgium, Sweden and Norway) were introduced during the 1H 2019. The introduction of exposure within these countries was the result of fundamental bottom-up stock analysis and based on single stock assessments, rather than a macro call on any specific market.

5. With regards to the portfolio's market cap exposure, Willem advised that the portfolio had moved up the spectrum slightly, which again is reflective of the defensive nature of the portfolio.

6. Reflecting on the macro environment, Willem noted at the time of the call that he had maintained a defensive outlook for approximately 18 months, which had served the Fund well in 2018 and on a YTD basis. He believed however that his views were now more aligned to the wider market, in that the focus was now on what the authorities were willing and were not willing to do, as core Europe is not growing. Willem highlighted that there was a disconnect between the market and fundamentals, with markets moving based on expectations of further intervention and stimulus, particularly in the US. When looking at long term cycles, the markets behaviour however is in line with how markets have previously behaved before negative news takes over.

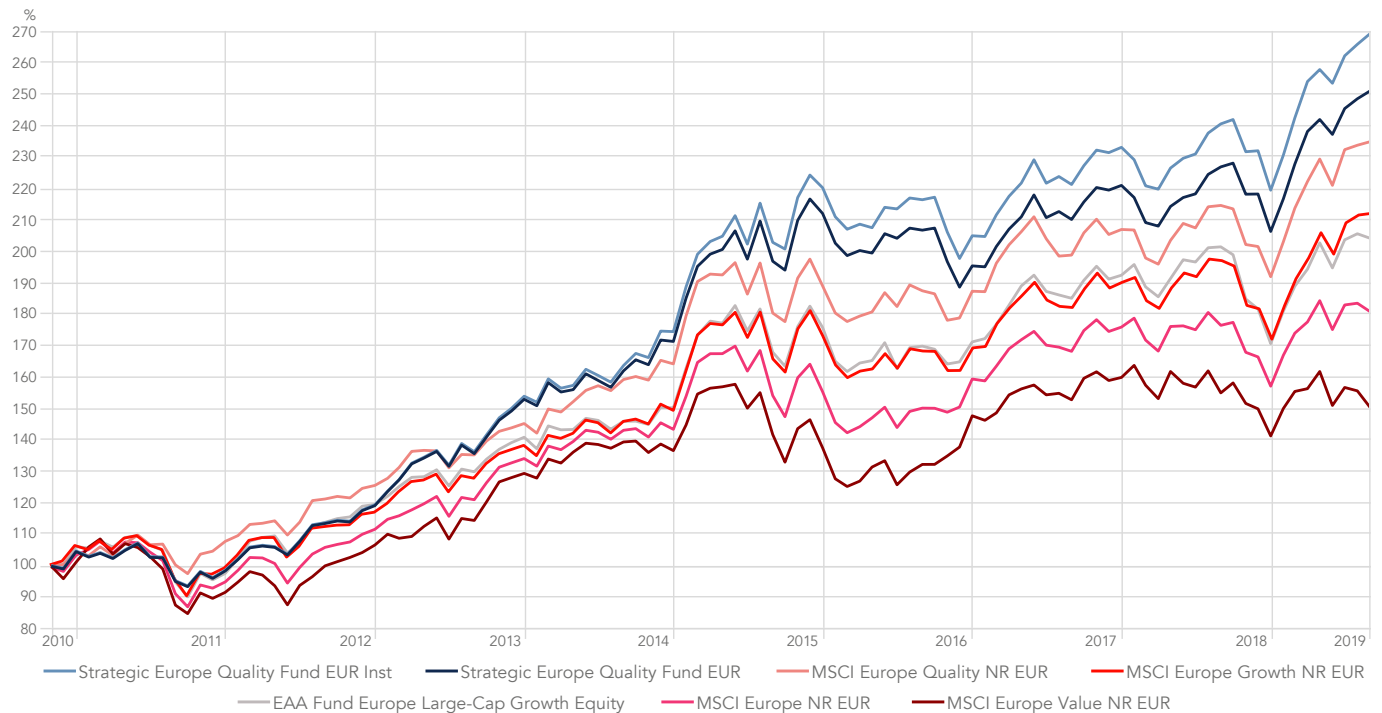
7. To conclude Willem stated that he believed that markets are expensive and, unless rates go to zero (which he believed would be negative for the markets at a fundamental level) valuations are high. As such he did not believe that it was the time to be taking a lot of macro risk into the portfolio, as such the portfolio would retain its defensive positioning. He and the team would stay cautious for the time being and focus on quality growth opportunities, seeking to identifying structural growth stories that are less cyclical in nature that are attractively priced.

If you were unable to attend Willem's webinar and would like to access the listen back function or associated presentation, please contact info@ericsturdza.com.

Historic Performance & Risk / Reward Profile

The below provides an overview of the Fund's performance track record versus its benchmark, as well as style variants thereof, as well as its Morningstar defined peer group. Time periods applicable to each chart / table are stated below:

Chart 1: Investment Growth – Performance in EUR terms, on a total return basis for the period from 01/11/2010 to 31/08/2019.



Source: Morningstar Direct. **Past performance is not indicative of future returns.**

As Chart 1 highlights, the Fund on a net of fees basis has since inception delivered significant absolute and relative outperformance compared to its benchmark and peer group, but also style variants of the MSCI Europe Index, including the value, growth and quality indices. More notably, as Table 1 below illustrates the above returns profile has been achieved, with less volatility and offering greater downside protection than each MSCI variant being considered and the peer group:

Table 1: Performance in EUR terms, on a total return basis for the period from 01/11/2010 to 31/08/2019. The calculation basis being the MSCI Europe NR EUR Index.

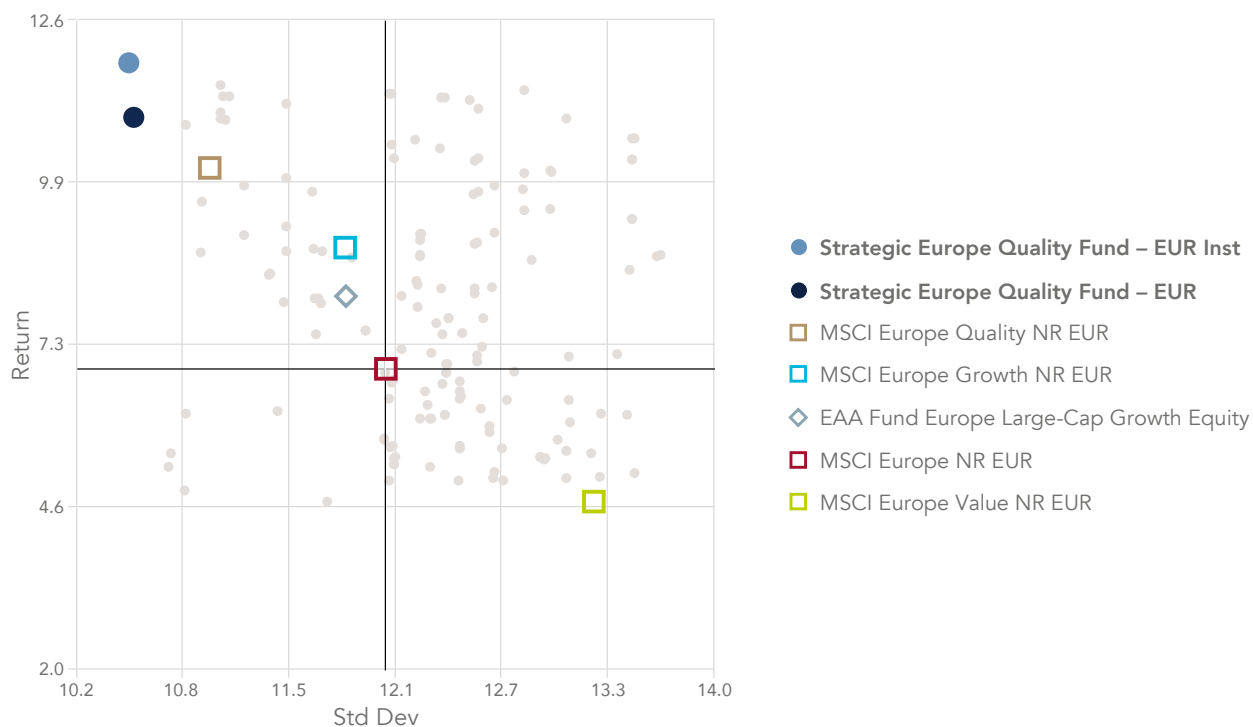
	Alpha	Beta	Standard Deviation	Up Capture Ratio	Down Capture Ratio
Strategic Europe Quality – EUR Inst	5.12	0.91	10.54	95.52	60.12
Strategic Europe Quality – EUR	4.31	0.82	10.56	93.88	63.48
MSCI Europe Growth NR EUR	2.07	0.93	11.80	99.19	85.51
MSCI Europe Value NR EUR	-2.17	1.07	13.26	100.53	115.57
MSCI Europe Quality NR EUR	3.51	0.84	11.01	94.82	70.48
MSCI Europe NR EUR	0.00	1.00	12.04	100.00	100.00
EAA Fund Europe Large-Cap Growth Equity	1.32	0.94	11.80	97.47	88.29

Source: Morningstar Direct. **Past performance is not indicative of future returns.**

Risk Return Profile

To contextualise the above, the Fund’s risk / return profile is depicted below, again with reference to the various index variants and peer group, highlighting that the Fund has since inception delivered higher returns, with less volatility when compared to each:

Chart 2: Performance in EUR terms, on a total return basis for the period from 01/11/2010 to 31/08/2019.



Source: Morningstar Direct. **Past performance is not indicative of future returns.**

Citywire Best Group – Equity-Europe

We are delighted to take this opportunity to advise that E.I. Sturdza Investments Funds has been nominated in the Citywire Spain Awards 2019 for the Best Group in the Equity – Europe class. The Citywire group awards are based on the group ratings methodology, which seek to identify the top performing groups within each sector, evaluating performance of up to 7 years. For the awards in Spain, Citywire nominate the top performing groups over the last 7 years, that have at least one of their funds within that sector registered for sale in Spain.



Further Information

For further information regarding the **Strategic Europe Quality Fund**, its positioning, performance or associated terms, or any of the other strategies managed by Eric Sturdza Investments please get in touch or visit ericsturdza.com.

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Sources & References

¹ Performance stated for the period from Inception in October 2010 through to the end of August 2019.

² Up capture ratio. Source: Morningstar Direct, applicable as at the date of the webinar and relevant for the period from 30/10/2010 to the end of June 2019.

Chart 1 – Source: Morningstar Direct. Performance in EUR terms, on a total return basis for the period from 01/11/2010 to 31/08/2019.

Chart 2 – Source: Morningstar Direct. Performance in EUR terms, on a total, monthly return basis for the period from 01/11/2010 to 31/08/2019.

Table 1 – Source: Morningstar Direct. Performance in EUR terms, on a total return basis for the period from 01/11/2010 to 31/08/2019. The calculation basis being the MSCI Europe NR EUR Index.

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