



# Investing in Quality Growth

## Strategic Europe Quality Fund

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For Professional Investors Only



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INVESTMENTS

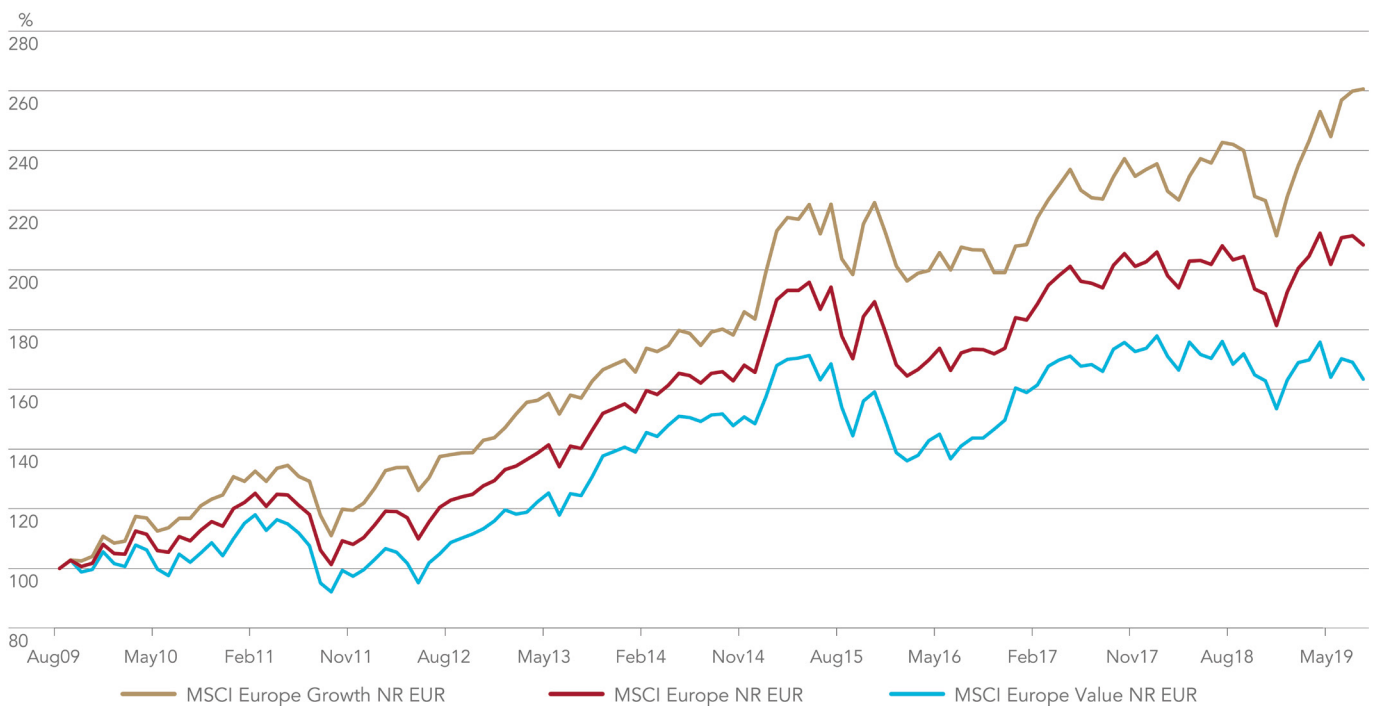
# E.I. Sturdza Strategic Europe Quality Fund

## Quality Growth Investing in Europe

Over the past 10 years, the European equity markets have offered investors a relatively compelling opportunity set, delivering continuous growth, with only momentary periods of correction, returning on an annualised basis circa 8%<sup>1</sup>, double the long-term annualised return of 4%<sup>2</sup>. During this period, investors have seen an increase in the investment opportunities available to them, notably with the growth and penetration of ETFs, systematic factor investing and index trackers, leading to a saturated market place for European equity investors and making it even more challenging to distinguish oneself in a crowded market place.

Whilst an 8% annualised return is a level that most would consider incredibly appealing over any time frame, therefore, to achieve this over a 10-year period is definitely noteworthy. This said, when the returns of the European equity markets are interrogated further, it is possible to note style deviation in terms of returns, which over this time frame are equally noteworthy. Chart 1.1 below illustrates this point, highlighting that there has been a significant disparity in the returns delivered by the MSCI Europe Index's Growth, Value, and holistic variants:

**Chart 1.1: 10 Year Investment Growth of the MSCI Europe Style Index variants**



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

As Chart 1.1 highlights, the MSCI Europe Growth NR EUR Index, has managed to deliver a return over and above the MSCI Europe NR EUR Index and MSCI Europe Value NR EUR Index of circa 50%<sup>1</sup> and 100%<sup>1</sup> respectively over the past 10 years.

To further contextualise the returns that European growth stocks have achieved during the period, the MSCI Europe Growth Index has not only outperformed the other variants during this time, it has also achieved this with lower volatility and a shallower max drawdown, which was recovered more quickly<sup>3</sup>.

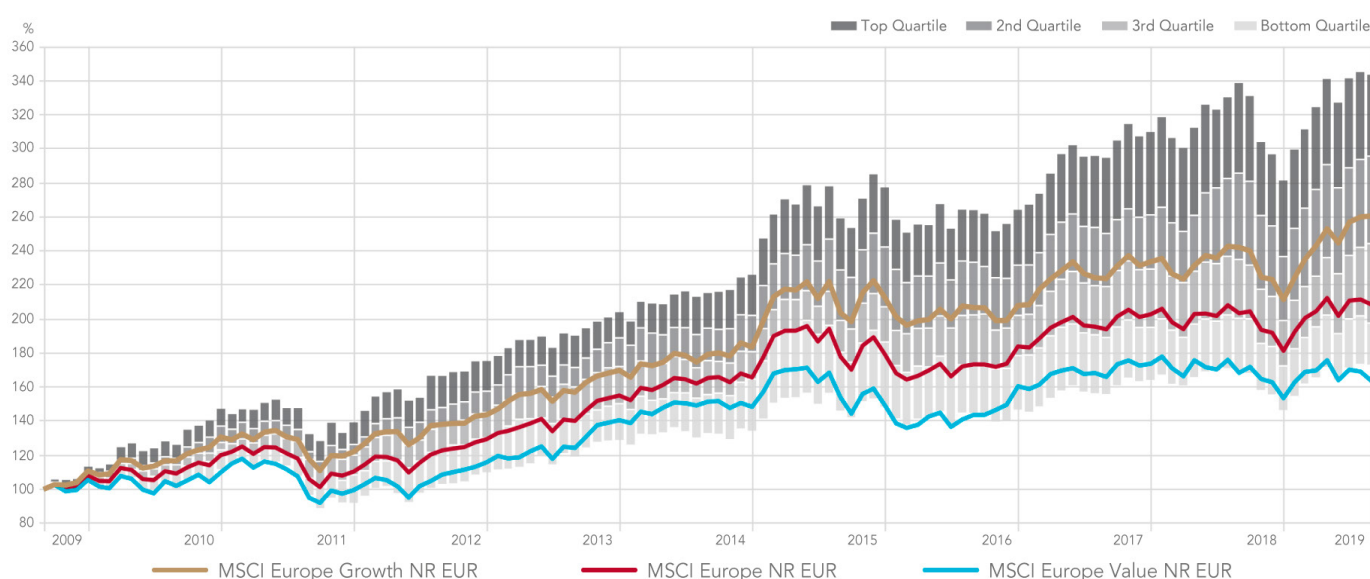


Ultimately we can conclude that for the period under review investors would have been best placed to have a growth bias within their portfolio. This said such conclusions are easily reached with the benefit of hindsight... Further, it would be wrong to conclude that those that have been fortunate to have adopted such positioning during the past 10 years will have been subject to the same success, or even have outperformed value or balanced investors as highlighted by Chart 1.2 (below).

### Chart 1.2: 10 Year Investment Growth of the Europe Large-Cap Growth Equity Peer Group versus the MSCI Europe Style Index variants

Time Period: 01/09/2009 to 31/08/2019. Currency: Euro. Source Data: Total Return.

Peer Group (5-95%): Open End Funds – Europe / Africa / Asia - Europe Large-Cap Growth Equity.



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

The key to success therefore, particularly in times of uncertainty driven by global macro events and external forces which are impossible to control and when looking for returns in excess of a market / index, lies in the ability to identify those individuals and teams that are able to actively guide an investment portfolio through the ever-evolving investment landscape with conviction, skill and the fortitude to look for the longer-term prospects for a stock or portfolio, rather than chasing every market movement.

## The Strategic Europe Quality Fund

One such team that has arguably achieved this is the team at Lofoten Asset Management (the "Investment Adviser"), under the management of Portfolio Manager **Willem Vinke**. Willem and his team have succeeded in developing and implementing a robust and demonstrable investment process, which whilst focussed on delivering long term capital growth to investors through investment primarily in large-cap European equities, is managed with risk management central to the collective mindset of the investment team, seeking to ensure the team and investors are able to "sleep at night".

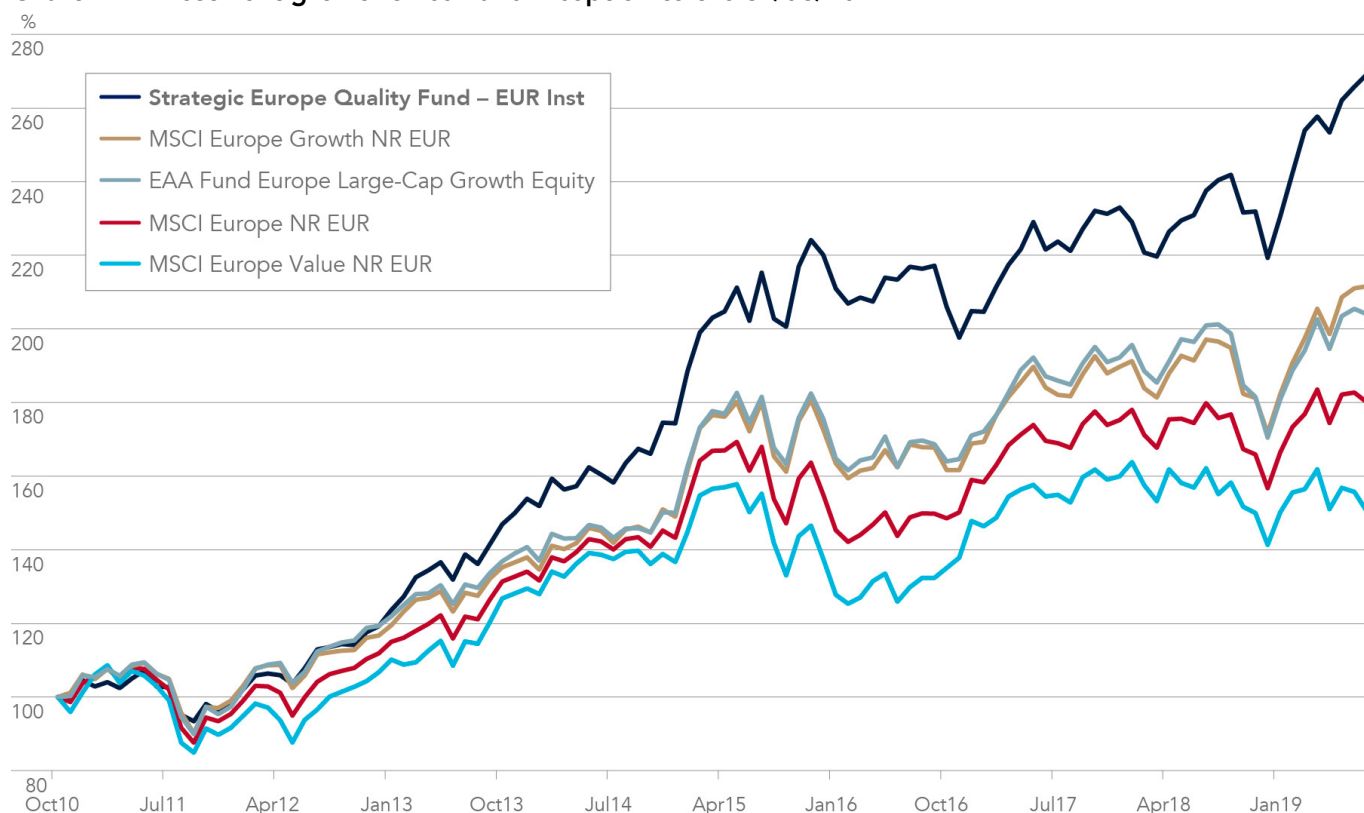
The team have been appointed as the Investment Adviser to the **Morningstar 5-Star Rated Strategic Europe Quality Fund** (the "Fund"), since its launch in October 2010, maintaining a concentrated portfolio, derived from a fundamental, bottom-up stock picking process which seeks to participate in the majority of the market's upside movement, but maybe more importantly mitigating downside risk.



The team has arguably achieved this, as evidenced by a downside capture ratio of 63.48%<sup>4</sup> since inception, whilst still participating in the majority of the markets upwards trajectory during this time, with an associated up capture ratio of 95.52%<sup>4</sup>.

As Chart 2.1 (below) highlights, the defensive, risk-conscious approach has been successful, delivering strong absolute and relative performance, when compared to each variant of the benchmark index since its inception in October 2010, as well as its wider peer group as represented by the Morningstar Europe Large-Cap Growth Equity peer group.

**Chart 2.1: Investment growth since Fund inception to the 31/08/2019**



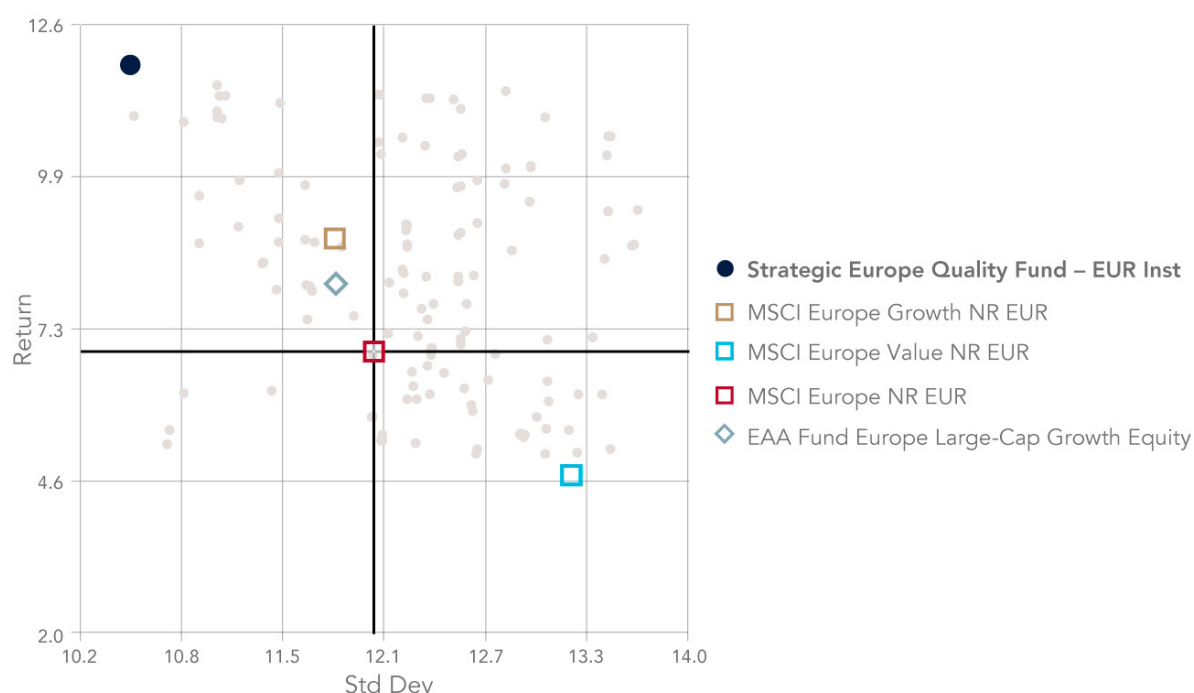
Source: Morningstar Direct. **Past performance is not indicative of future returns.**

Chart 2.2 (below), further contextualises the team's achievement; highlighting the Fund's risk / reward profile, versus the index and peer group since inception and clearly depicts the fact that the Fund's excess return has been delivered with less volatility when compared with both the wider market and peer group.

### Chart 2.2: Risk / Reward Profile of the Fund since inception to the 31/08/2019

Time Period: 01/11/2010 to 31/08/2019. Currency: Euro. Source Data: Total, Monthly Return.

Calculation Benchmark: MSCI Europe NR EUR.



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

To better understand how the team has achieved this, consideration needs to be given to the investment approach that they adopt. The team are fundamental bottom-up stock pickers, building a portfolio that reflects their assessment of the investment potential of individual stocks, which satisfy their in-house investment criteria.

To this end, the Investment Adviser's proprietary modelling and analysis focuses on corporate values based on cash flow (operating cash flow, free cash flow, and earnings before interest and tax depreciation and amortization "EBITDA"), and the quality of the companies' business models and management. This "Quality Value" is then analysed with regard to how attractively a stock is priced. This commonly leads to a bias towards consumer, healthcare and IT-related stocks, whilst generally avoiding the high cost of capital sectors such as insurers, utilities, and the oil and gas majors.

Whilst the investment process focuses on financial fundamentals, the team also seek to take account of Environmental, Social and Governance (“ESG”) issues in terms of both the stock analysis and selection process, as well as into their own ownership policies and procedures. The Investment Adviser believes that companies that have a strong culture of good corporate governance and take environmental and social issues seriously will outperform over the long term. They also believe that it is part of their duty as investors to encourage more sustainable practices of the Fund across the corporate and financial world. As such, the Investment Adviser has signed up to the UN-supported Principles for Responsible Investment (“PRI”), which guides them in incorporating ESG issues into their investment process.

The team incorporates a risk overlay within their process, which considers the macro outlook and intrinsic positioning of the fund. The overall result of this approach is a high conviction, benchmark agnostic concentrated portfolio within a universe of large-cap liquid stocks of European companies, constructed free from benchmark weighting constraints.

Since inception, the Fund’s portfolio has maintained a “growth” bias<sup>5</sup>, which has been successful given the movement of the wider market. It should be noted however that the portfolio’s shape, positioning and style bias is a reflection of the team’s fundamental, bottom-up stock picking process. Accordingly, the team does monitor the wider universe and retain the flexibility to deploy assets to “value” plays as and when the business case makes it compelling to do so. Should the markets change over the coming months or years, there is every possibility that the overall style or positioning at a sector, country or stock level will deviate from current or historic levels. The important factor for the team is to find investment opportunities that satisfy their investment criteria in terms of financial metrics and “quality”. Arguably disciplined but flexible investment approaches with a clear philosophy are going to be essential in the ever-evolving, more connected and fast-paced investment environment portfolio managers find themselves in today.

The Fund is managed by E.I. Sturdza Strategic Management Limited (“Eric Sturdza Investments”), the Investment Manager, with Lofoten Asset Management appointed as the Investment Adviser. The portfolio teams who manage Eric Sturdza Investments’ range of investment strategies are not employees; they maintain their full independence in a tight partnership which puts investors at the centre of decisions. Eric Sturdza Investments want the portfolio teams they work with to focus exclusively on managing money, with Eric Sturdza Investments applying independent institutional-quality risk, portfolio and operational oversight, whilst reducing the administrative, legal and marketing “distractions”.

Eric Sturdza Investments believes this business model allows the portfolio teams to manage their portfolios totally independently, free from any constraining “house view” on economics and market conditions, whilst benefiting from a robust UCITS compliant structure, providing access to European markets with speed and ease.

## Further Information

For further information regarding the **Strategic Europe Quality Fund** or any of the other strategies managed by Eric Sturdza Investments please get in touch or visit [ericsturdza.com](http://ericsturdza.com).

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## Disclaimer

**IMPORTANT: For professional investors only with the exception of Switzerland where the fund is approved for Qualified and non-Qualified investors. Investment involves risk. The value of investments, the funds and the income which may be generated from them can go down as well as up and therefore investors must be able to bear the risks of a substantial impairment or loss of their entire investments. Past performance is no guarantee of future results.** This communication is issued in Guernsey by E.I. Sturdza Strategic Management Limited which is regulated by the Guernsey Financial Services Commission. E.I. Sturdza Funds plc and its sub-funds are Irish funds authorised by the Central Bank of Ireland. The funds are approved for distribution in Switzerland by Finma. The Swiss representative and paying agent is Banque Eric Sturdza SA, rue du Rhône 112, 1204 Geneva, Switzerland. They are also approved for distribution in the United Kingdom. This article is approved for issue in the United Kingdom to professional investors by E.I. Sturdza Investments Limited, Claridge House, 32 Davies Street, London, W1K 4ND which is an appointed representative of Mirabella Advisers LLP which is authorised and regulated by the Financial Conduct Authority. The prospectus, KIIDs, Articles of association, semi-annual and annual reports of E.I. Sturdza Funds Plc can be obtained, free of charges, at the seat of the Swiss representative. The information contained herein is estimated, unaudited and may be subject to change. This document is intended for information purposes only and is not intended as an offer or recommendation to buy, sell, or otherwise apply for shares in the funds. © 2019 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. The Strategic Europe Quality Fund – EUR SP share class is 5 Star rated Overall and 5 Star rated over 5 Years as of 30/09/2019. The Strategic Europe Quality Fund – EUR Inst share class is 4 Star rated Overall and 5 Star rated over 5 Years as of 30/09/2019.

### Sources & References

<sup>1</sup> Source: Morningstar Direct – performance stated for the MSCI Europe NR EUR Index for 10 years to the 31/08/2019. <sup>2</sup> Source: Morningstar Direct – performance stated for the MSCI Europe NR EUR Index from its inception as per Morningstar on 31/12/1998 to the 31/08/2019.

<sup>3</sup> Source: Morningstar Direct – Max drawdown and recovery periods for the MSCI Europe NR EUR Index, MSCI Europe Growth NR EUR Index and MSCI Europe Value NR EUR Index referenced for the 10 years to the 31/08/2019. <sup>4</sup> Source: Morningstar Direct – ratios provided in relation to the Strategic Europe Quality Fund EUR Institutional Class from 01/11/2010 through to the 31/08/2019. <sup>5</sup> Source: Morningstar Direct – based on holdings based style trail analysis for the period 30/09/2014 – 31/08/2019.

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