



Strategic European Smaller Companies Fund

November 2019 Fund Commentary



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PORTFOLIO MANAGER

The fund gained +3.65% during November, taking the year to date performance to +20.67%. Following a very positive performance the Team exited two positions that had reached their target prices (Alten and Elis). During the month, four new investments were added to the portfolio, one of which is already sizeable and the Investment Adviser will provide more details shortly.

Trigano was the largest monthly performance contributor, followed by Iliad and Akwel. Boozt, Spie and Albioma were the three largest detractors.

For the second consecutive month, Trigano is one of the key contributors. Last month, its presence was explained by positive news flows surrounding Brexit which helped alleviate one of the main concerns regarding this investment. This month, Trigano published better than expected annual results (fiscal year end on 31st August) and the Company issued formal guidance that they were "cautiously optimistic for the remainder of the year due to the end of the destocking phenomena in the dealership networks". This led to a sharp positive reaction for the stock price. Upside potential remains significant as the Company still trades at approx. 11x P/E for Aug 2020.

Iliad is an investment recently initiated by the Fund, entering the portfolio in September 2019, following the sanctioning by the market of H1 results. The market reaction was triggered by heavier than anticipated losses in Italian mobile start-up operations, launched in June 2018. Ironically, those losses are the result of better than anticipated customer acquisition at a time when the operator still doesn't own its mobile network and needs to buy access through third party wholesale agreements. As Iliad rapidly develops its own infrastructure, this should gradually turn losses into profits in the years to come. In conjunction with Q3 results, Xavier Niel, Iliad's founder and majority shareholder, unveiled his willingness to acquire an additional 20% of the capital for €1.4bn at a sizeable premium to the price prior to the announcement (€120.0 vs. €77.7 on September 18th). The tender will take place in January. The Investment Adviser remains undecided whether or not to participate as it agrees with Xavier Niel that the company is worth much more than €120 per share.

During the month, Akwel confirmed its ability to outperform the automotive market with the release of a 6.6% organic growth in Q3. For the first nine months of 2019, organic growth stands at 4.3% while automotive production declined by 7% globally. Akwel achieved this growth without detriment to free cash flow thanks to working capital management and contained capex. The Team find it hard to believe and explain why this stock was trading at 5x P/E in December 2018.

On the detractors' side, there is little to report on Spie and Albioma, Spie reported in-line Q3 results and Albioma is now targeting the upper end of the FY 2019 guidance range provided earlier on the back of solid operating performance, notably on plants recently commissioned.

Boozt reduced its growth expectations for 2019 from >27% to 23-26%. There are several reasons for this as follows: moderately weak consumer confidence in Sweden and Denmark, the basis effect with Black Friday weekend a week later compared to 2018 and the transfer of a customer relationship into a consignment like model. Management conceded it may have slightly underinvested in marketing this year as the focus was primarily on increasing efficiencies in fulfilment and logistics. The Investment Adviser fully approves of the strategy of optimising its fulfilment cost ratio through the renegotiation of a third-party provider of staff contract expiring at the end of next year and increased efficiencies. Since then, Black Friday weekend took place, "the expectations were met or exceeded in all areas of the business" according to a company statement, also adding that the "newly developed robot management system performed flawless and allowed for the 30% increased productivity compared to last year."

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.

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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 November 2019

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	3Y	Fund Inception
EUR	3.65	6.48	14.41	-6.59	18.34	25.53
EUR I	3.69	6.62	14.99	-5.65	19.85	27.12
STOXX Europe 600 NR EUR	2.83	7.74	17.39	11.60	29.57	18.29

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	2017	2016	Annualised Inception
EUR	20.67	-24.86	22.80	13.55	5.10
EUR I	21.23	-24.48	23.17	13.55	5.39
STOXX Europe 600 NR EUR	24.17	-10.77	10.58	1.73	3.74

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 10/12/2019 and are based on internal research and modelling.

Please contact info@eisturdza.com should you wish to have an update call with the investment team.

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