Strategic Bond Opportunities Fund

November 2019 Fund Commentary

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MARKET DEVELOPMENT

In November, the US fixed income market stayed broadly stable, despite higher intra-month volatility. During the month, some good news led to a decrease of systemic risk fears. Firstly, hopes of a trade deal between the US and China rose (despite the Hong Kong bill ratified by Donald Trump). Secondly, Brexit uncertainties diminished as Boris Johnson became the favourite for the 12th December elections. In addition, some signs of stabilisation of the European economy emerged and it seemed clear the Fed would opt for a pause (until June or even during the whole year 2020) after the third rate cut voted on 31st October.

On another hand, it appears that the Fed did not fix the problems in the repo market and some economic weakness was still present in the Eurozone (Eurozone PMI, German IFO or GDP). The behaviour of the long end of the US curve stayed the same during the whole month: fixed income markets do not believe that the Fed can afford a pause in its monetary policy.

PORTFOLIO STRATEGY

During November, the Investment Adviser actively managed the duration of the portfolio, trading exclusively in US Treasuries. The main strategic decision of the month was to sharply decrease the duration of the portfolio on November 12th (selling 10y and 30y, buying 18 months and 2y) due to the risk of a mini crash pushing long bonds at higher yields. On the 14th November, fears of a bear market receded and the Investment Adviser bought back some 10y and 30y, selling 1y Treasuries.

MARKET OUTLOOK

The Investment Adviser's outlook remains tied to two major behaviours, the macroeconomic situation (including growth and inflation) and the behaviour of the Central Banks. Inflation risk remains subdued in the US and substantially below the ECB's target in the Eurozone. Growth is lower (mainly in China and Germany, possibly in the UK depending on Brexit consequences), except in the US for the time being, where the domestic economy remains robust. However, the markets and central banks are aware that this safe haven position is temporary. The Team believe that yields curves may flatten, increasing fears of a significant global growth slowdown spreading into the domestic economy. In the short term, the US yield curve could steepen due to the Fed's purchases in the short term US bills and notes markets in order to increase the size of its balance sheet and fix the turmoil in the repo market.

In the US market, the Investment Adviser believes that long term US Treasuries are still attractive and may increase duration against escalating global trade tensions, recession fears and the implementation of the QE4. Considering inflation expectations, the Team will maintain the significant exposure to US inflation protection securities initiated throughout August and September. According to the Investment Adviser, a flatter US curve slope can still not be ruled out in the middle term, with markets being concerned that the Fed may stay behind the curve. The Team is of the opinion that the best strategy today is to invest in a timely manner, maintaining a selection of short term high quality corporate bonds and investment grade emerging markets bonds, combined with a barbell strategy on the US

INVESTMENT APPROACH

The Fund is a diversified bond fund, investing in bonds predominantly denominated in USD, including Sovereigns, Supranationals and Agencies (together SSAs), corporate bonds across all sectors and financials. A strong conviction portfolio of 30-60 issuers, seeking exposure to all continents (including developed as well as emerging markets), all types of ratings from AAA/Aaa to BB/Ba2 (Standard & Poor's/Moody's) and non-rated bonds (10% maximum), senior or subordinated debt (hybrid corporates and Tier II bank debt) with either fixed or floating coupon rates.

INVESTMENT OBJECTIVE

To achieve a total return through a combination of capital growth and income by investing in a globally diversified portfolio of fixed income securities.

A sub-fund of E.I. Sturdza plc. Registered in Ireland.

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Treasury yield curve, with an overweight of 1-2y combined with long dated US Treasuries (both nominal and real yields). The Fed has delivered its first three rate cuts since the financial crisis and the FOMC may be forced to implement more should global growth continue to weaken, trade tensions remain and the strength of the dollar persist. In this context, the Investment Adviser believes that the Fed, after a probable pause during the first quarter of 2020, will continue to ease monetary policy in the coming months and increase its QE4 at some point if needed.

In Europe, the Investment Adviser believes that current macro conditions and Brexit uncertainties support the recent accommodation measures from the ECB. After the decisions taken in September, the Team believes that monetary policy should be less aggressive, with central bankers asking some major governments to implement a common fiscal stimulus policy. The first mission for Christine Lagarde will be to provide the German Government with enough convincing evidence. In the Investment Adviser's view, the ultra-accommodative monetary policy (negative rates in particular) has probably reached its limits.

With regards to Emerging Markets, the Investment Adviser will continue to closely monitor the spread patterns (both governments and corporates) and Emerging Markets countries ability to absorb trade shocks in the context of weak FX and a broad commodity market, which is under pressure.

In conclusion, the Team still believe that the best performing asset class is a mix of high quality short term Investment Grade bonds (USD denominated corporates and emerging markets) combined with long term US Treasuries. This said, and given the current environment of a global spread widening risk, the Investment Adviser may continue to increase the weight of US Treasuries, whilst reducing exposure to the three other pillars (corporate spreads in dollars, emerging markets in dollars and corporate spreads in Euro). The Team believe that a mix of High Grade corporate carry and US Treasuries will present an opportunity to deliver a robust performance in the coming months; despite a very low yield environment and an already strong performance delivered by the Fund since inception.

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 13/12/2019 and are based on internal research and modelling.

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