



Strategic Europe Quality Fund

Strategic Global Quality Fund

December 2019 Fund Commentary



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PORTFOLIO MANAGER

The Europe Quality Fund returned -0.09%* in December underperforming its index by 2.15%, giving 2019 calendar year performance of 27.57%, outperforming the benchmark by 1.52%. The largest detractor to alpha in December was the health care sector primarily due to Qiagen's share price sell-off at the end of the month following the company announcement that a strategic review had ended with a decision not to break up or sell the business. The consumer staples sector was also a detractor over the month. The best performing sectors for the index over the month were utilities, financials and materials; while communication services, consumer staples and industrials were the worst performing sectors.

At a single stock level the best performing stock for the European Fund was SBM Offshore, and as mentioned above, the main detractor was Qiagen.

The Global Quality Fund returned 1.28% in December underperforming its index by 1.72%, giving 2019 calendar year performance of 23.59%, underperforming the benchmark by 4.08%. The largest detractors to alpha in December were the materials sector, due to stock selection, and the information technology sector, also due to stock selection. The best performing sectors for the index over the month were energy, information technology and materials; while industrials, real estate, and communication services were the worst performing sectors.

At a single stock level the best performing stock for the Global Fund was Kao Corp, while the worst performing stock was IFF.

MARKET OUTLOOK

2019 was somewhat extra-ordinary as more or less all asset classes climbed with good returns. The outlook for the world equity markets in 2020 is rather more clouded in the Investment Adviser's view. There is little concern for valuations, top line is all that matters and true earnings seem irrelevant. Corporate gearing is at an all-time high while monetary conditions are loose. There is a complete disconnect between the stock market and the economy. Looking forward, it is clear that the United States and United Kingdom have understood that the fiscal side of the equation needs to be engaged more, leading to a fusion of monetary and fiscal policy. The labour share of profits needs to be improved in order not to have revolutions in the street – this trend has started but it has much further to go in the Investment Adviser's opinion. This combined with the fact that the world economic system is fragmenting around the Americas and China blocks means that profitability margins will come under pressure given there is little pricing power especially in things which are not consumer related. The strategic positioning of Europe is unclear given that Brexit is now a reality. The US presidential election will need following closely, in the event that the Democrats win we are likely to see increased volatility. The Investment Adviser suspects that 2020 will see much more volatility than we have seen in recent years, particularly in the second half.

INVESTMENT APPROACH

A valuation driven investment approach aiming to buy high-quality businesses at discounted prices. Quality being defined as companies which are market leaders, benefit from long-term structural growth, have high margins and low capital intensity. The Fund has a structural bias towards consumer, healthcare, IT and generally avoids high cost of capital sectors such as insurers, utilities and the oil and gas majors.

INVESTMENT OBJECTIVE

To achieve long term capital growth.

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

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* EUR Instl Class. For detailed performance information based on complete 12-month periods since inception, please refer to page 2. Past performance is not an indicator of future performance.

** USD Inst Class. For detailed performance information based on complete 12-month periods since inception, please refer to page 2. Past performance is not an indicator of future performance.

PERFORMANCE DATA As at end of December 2019

Strategic Europe Quality Fund

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	3Y	5Y	Fund Inception ¹
EUR	-0.11	4.06	26.60	18.21	33.68	52.43	161.43
EUR I	-0.09	4.22	27.57	20.10	36.60	60.49	179.84
MSCI Europe NR EUR	2.06	5.71	26.05	12.73	24.27	37.96	97.59

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	2017	2016	2015	2014	Annualised Inception ¹
EUR	26.60	-6.63	13.09	-7.85	23.74	12.02	11.05
EUR I	27.57	-5.86	13.73	-6.94	26.25	13.36	11.87
MSCI Europe NR EUR	26.05	-10.57	10.24	2.58	8.22	6.84	7.71

Strategic Global Quality Fund

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	3Y	5Y	Fund Inception
USD I	1.28	1.81	23.59	15.89	50.35	64.52	63.12
MSCI World NR USD	3.00	8.56	27.67	16.55	42.66	52.03	50.11

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	2017	2016	2015	Annualised Inception
USD I	23.59	-6.24	29.74	-5.30	15.54	10.27
MSCI World NR USD	27.67	-8.71	22.40	7.51	-0.87	8.45

Source: Morningstar. Past performance is not an indicator of future performance.

AWARDS



See Awards Disclaimer on last page.

¹ EUR Instl Share Class performance includes an extended track from Fund inception on 29 October 2010.



IMPORTANT INFORMATION

The views and statements contained herein are those of Lofoten Asset Management in their capacity as Investment Adviser to the funds as of 15/01/2020 and are based on internal research and modelling.

WARNING

The contents of this document have neither been reviewed nor endorsed by the Central Bank of Ireland or any other regulatory authority. If you are in any doubt about any of the content of this document you should obtain independent professional advice.

AWARDS DISCLAIMER

The Strategic Europe Quality Fund (EUR I Class) received a 4-star Overall Morningstar Rating™ and a 4-star 5-Year Morningstar Rating™. The Strategic Global Quality Fund (USD I Class) received a 4-star Overall Morningstar Rating™ and a 4-star 5-Year Morningstar Rating™. Morningstar Ratings as of 31/12/19.

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