



Strategic European Smaller Companies Fund

December 2019 Fund Commentary



Bertrand Faure
PORTFOLIO MANAGER

2019 was a good year for the Fund, finishing up +25.04%* on an absolute basis, climbing +3.15% in December, and +7.87%* in Q4. Since inception (5th May 2015) the Fund's performance was +31.12%* compared to +20.82% for the benchmark index, translating into a 10.3% outperformance for the period.

2018 featured some of the best growth of the entire cycle for the real economy. However, that growth was met with a down year for the stock market and a complete absence of meaningful returns across the entire asset spectrum.

2019 brought many surprises: cyclicals staged a strong comeback and overtook defensives during the second half of the year, boosted by progress in the U.S.-China trade talks; in a complete reversal of 2018's widespread losses, every sector was up; 2019 has also been the year of record negative-yielding debt and renewed monetary stimulus. Despite slower global growth, 2019 played out as one of the highest quality years in the history of financial markets.

The Investment Adviser believes that the "good news" that had driven markets has now been discounted and, at the start of the year, some European companies equity valuations (and even more so in the US) are looking quite full, with central banks' policies unlikely to repeat the positive delta on multiples seen in 2019. The recovery in manufacturing lead indicators through H2 offered some hope that activity is strengthening, but it is unlikely that the improvement is coming in a straight line, which may limit capex spending and growth and pose some lingering risks to 2020 EPS forecasts for some companies.

The Fund's positioning is currently with companies that are trading at levels where the Team feel that the valuations, based on their in-depth fundamental analysis, still leave significant upside. The focus remains on investing in well managed, resilient companies with strong free cash flow generation.

Albioma was the largest monthly contributor to the Fund's performance in December, followed by Befesa and Conzetta.

Albioma rebounded sharply in December following a correction of the previous months price drop. During November the stock price was penalised, in spite of two positive brokers' initiations, but this reversed its course accordingly during December.

Befesa performed very strongly over the second half of the year, increasing by over 40% from mid-August to end the year at 38.0. As mentioned, Befesa was the second strongest performer in December, although there was no specific news during the month. In November, the company announced that it had commenced construction of its new steel dust recycling plant in Xuchang, China. This is the companies' second Chinese site, its first in Changzhou began construction in Spring 2019 with production expected to start in H2 2020. The company also announced in November that it had completed the upgrade of its Barcelona aluminium salt slag plant with higher efficiency furnaces.

Conzetta is a position that was initiated in November 2019. This is a diversified Switzerland based group of companies that has business units in: Sheet Metal Processing, Chemical Specialities and Sporting Goods. The company performed strongly in December on the back of an announcement that the company has decided to refocus on its Bystronic business unit - its global premium sheet metal processing business. This is Conzetta's fastest growing and most profitable business (57% of revenues in 2018 and 90% of the groups operating profit) and as such, the company plans to divest all other businesses within a year, market conditions permitting. On 20th December Conzetta announced the divestment of Schmid Rhyner, the smallest division within Chemical Specialities, to Altana.

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.

CONTACT

E.I. Sturdza Strategic
Management Limited

+44 1481 722 322

info@ericsturdza.com

ericsturdza.com

* For detailed performance information based on complete 12-month periods since inception, please refer to page 2.
* EUR I Class



At the other end of the spectrum, Spie, Trigano and Akwel were the three main detractors with, it is worth noting, limited impact on the monthly performance. Together, the three positions only had a negative impact of 0.23% on the Fund's gross performance. As such, there is little information to be reported.

At the end of November, the Investment Adviser initiated a new position in Beneteau.

Groupe Beneteau is a worldwide market leader for boats, and also a European leader for leisure homes. The company is headquartered in France and has 12 brands in its boat division producing over 200 models covering everything from sailing to motorboating, monohulls and catamarans.

The Investment Adviser initiated the position following a meeting with its newly appointed CEO in June 2019. His mandate is pretty straight forward: improve profitability. A new strategic plan should be unveiled in April involving both short and medium-term actions, notably reducing headquarter and SG&A costs, improving factory productivity, streamlining the product portfolio and reducing capex.

The Investment Adviser believes that EBIT could double in the coming 3 to 5 years compared to operating profit reported in August 2019. The stock was trading at a highly depressed multiple of 8x EV/EBIT on even more depressed profitability metrics. Beneteau is a turnaround candidate with a sizeable margin of safety. There is a significant amount of low hanging fruit that could rapidly increase the operating margin from 6% to 8-9%. After that, more profound productivity and reorganization measures could help the company raise it towards more normalised levels of 10-12%, in line with industry standards.

PERFORMANCE DATA As at end of December 2019

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	3Y	Fund Inception
EUR	3.10	7.74	24.41	-6.52	14.80	29.42
EUR I	3.15	7.87	25.04	-5.57	16.31	31.12
STOXX Europe 600 NR EUR	2.13	6.12	26.82	13.16	25.13	20.82

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	2017	2016	Annualised Inception
EUR	24.41	-24.86	22.80	13.55	5.69
EUR I	25.04	-24.48	23.17	13.55	5.99
STOXX Europe 600 NR EUR	26.82	-10.77	10.58	1.73	4.14

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 07/01/2020 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.

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.

MORNINGSTAR DISCLAIMER

© 2020 Morningstar: All Rights Reserved. The information contained herein where relative to Morningstar: (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. Past performance is no guarantee of future results.

BLOOMBERG DISCLAIMER

Data presented herein is obtained via Bloomberg PORT where stated. Any such data is subject to change from the date of production of this document. Such changes may impact upon comparative data between the investment and benchmark presented. Such information therefore is provided for reference purposes only, is subject to change and should not be relied upon for an investment decision.

STOXX DISCLAIMER

STOXX Limited ("STOXX") is the source of STOXX Europe 600 NR EUR and the data comprised therein. STOXX has not been involved in any way in the creation of any reported information and does not give any warranty and excludes any liability whatsoever (whether in negligence or otherwise) – including without limitation for the accuracy, adequateness, correctness, completeness, timeliness, and fitness for any purpose – with respect to any reported information or in relation to any errors, omissions or interruptions in STOXX Europe 600 NR EUR or its data. Any dissemination or further distribution of any such information pertaining to STOXX is prohibited.

GENERAL DISCLAIMER - APPLICABLE TO UK DOMICILED RECIPIENTS

This communication is issued in Guernsey by E.I. Sturdza Strategic Management Limited which is regulated by the Guernsey Financial Services Commission. Any investments or investment services mentioned in this communication are not intended for retail customers. Consequently, this communication is only made available to professional investors and eligible counterparties and should not be relied upon by any person that does not possess professional experience in relation to investments. If you are in any doubt as to whether you possess suitable experience in relation to investments please consult your financial adviser. Past performance is no guarantee of future results. Under no circumstances should this

document be forwarded to anyone in the United Kingdom who is not a professional client or eligible counterparty as defined by the Financial Conduct Authority. For the purpose of distribution in the United Kingdom this material has been issued 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. Further this communication is not an offer or an invitation to purchase financial instruments but intended as information. The information contained in this communication does not represent a research report. E.I. Sturdza Strategic Management Limited has not considered the suitability of investment against your individual needs and risk tolerance. Shares in the Fund should only be purchased by persons with professional experience and investors should refer to the Fund Prospectus and/or KIID for detailed information about potential risks involved in investing in financial instruments as well as the latest half yearly report and unaudited accounts and/or annual report and audited accounts. The information contained herein is estimated, unaudited, may be subject to change and reflects the performance of the relevant fund offered by E.I. Sturdza Strategic Management Limited during the period indicated. Any opinions or estimates expressed herein are at the date of preparation and are subject to change without notice; however no such opinions or estimates constitute legal, investment, tax, or other advice. Individual performance of the Fund may vary and historical data is not an indication of future results. The value of the Fund and the income which may be generated from it can go down as well as up and therefore investors must be able to bear the risk of a substantial impairment or loss of their entire investment. 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 Fund. E.I. Sturdza Strategic Management Limited, 3rd Floor, Frances House, Sir William Place, St Peter Port, Guernsey GY1 1GX. Part of the Eric Sturdza Banking Group. Company Registration Number: 35985.

DISCLAIMER - SWISS DOMICILED RECIPIENTS

E.I. Sturdza Funds Plc and its sub-funds are Irish funds authorized by the Irish Central Bank. They 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. Investors should refer to the fund prospectus and/or KIIDs for detailed information about potential risks associated with investments in financial instruments as well as the latest half yearly report and unaudited accounts and/or annual report and audited accounts. The prospectus, KIIDs, Articles of association, semi-annual and annual reports of E.I. Sturdza Funds Plc can be obtained, free of charge, at the seat of the Swiss representative, Banque Eric Sturdza SA. The information contained herein is estimated, unaudited, may be subject to change and reflect the performance of the relevant funds during the period indicated. Any opinions or estimates expressed herein are at the date of preparation and are subject to change without notice. No such opinions or estimates constitute legal, investment, tax or other advice. Individual performance of the funds may vary and historical data is not an indication of future results. The value of the funds and the income which may be generated from it 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. Performance data do not take into consideration commissions and costs charged at the time of issuance and/or redemption of the shares. 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.