Strategic Bond Opportunities Fund

February 2020 Fund Commentary

ERIC STURDZA INVESTMENTS

MARKET DEVELOPMENT

In February, safe haven government bonds continued to rally as fears over a coronavirus pandemic escalated. US long bonds, both nominal and real (TIPS), reached record lows as concern increased among investors, waiting for prompt action from the central banks. As a result, many institutions revised down their growth and inflation projections for 2020, but risky asset classes, such as equities and high yield, did not really measure the huge impact of this black swan. Despite a significant correction from Wall Street at month end, high-quality bonds and equities did not tell the same story.

PORTFOLIO STRATEGY

The Investment Adviser has been assessing the importance of the crisis since 22 January, progressively increasing the duration of the Fund. In February, the Team bought US Treasuries maturing in 2029 and 2049 against the sale of US Treasury 2023 and a few days later, this strategy was increased, buying US Treasuries maturing in 2030 and 2050 against a US Treasury maturing in 2020. This strategy was to favour duration risk to the detriment of credit risk. However, the opportunity was taken to build positions in the euro hybrid corporate market, buying EDF 4% perpetual (call July 2024) and America Movil 6.375% 2073 (call September 2023) against the sale of Mondelez 2027, whose spread tightened dramatically.

MARKET OUTLOOK

The Investment Adviser's outlook remains focused on two major situations; the macroeconomic situation (including growth and inflation) and Central Banks' behaviour. Inflation risk remains contained in the US and substantially below the ECB's target in the Eurozone. Global growth is expected to contract in the coming months as China, Europe and eventually the US may face a significant slowdown and probably a recession. For now, markets anticipate the situation to be temporary and central banks remain proactive in order to avoid any financial crisis. In the short term, the US yield curve could continue to flatten due to strong demand for safe haven assets, particularly US Treasuries, with the Fed's purchases in the short term US bills and notes markets continuing in order to increase the size of its balance sheet and fix the turmoil in the repo market.

In this context, the Investment Adviser believes that long term US Treasuries are still attractive and may increase duration against escalating global trade tensions and recession fears, as a precaution against the virus having a more severe impact on global growth. As falling breakeven expectations have been limited for now, the Team will maintain a significant exposure to US inflation protection securities (30y TIPS). The Team believe that the best strategy today is to invest in a timely manner, maintaining a selection of high quality corporate bonds, combined with a barbell strategy on the US Treasury yield curve, with an overweight of 1-2y combined with long dated US Treasuries (both nominal and real yields). Facing potential risks on growth and global trade, the probability of rate cuts remain high. In this context, the Investment Adviser believes that the Fed will act promptly, before the next FOMC due on 18 March. The Fed is likely to continue to ease monetary policy in the coming months and increase its QE4 at some point if needed.

In Europe, the Investment Adviser is of the opinion that current macro conditions, Brexit uncertainties and the recent coronavirus outbreak support the recent accommodation measures from the ECB. In the Investment Adviser's view, the ultra-accommodative monetary

Eric Vanraes
PORTFOLIO MANAGER

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.

CONTACT

E.I. Sturdza Strategic Management Limited
+44 1481 722 322
info@ericsturdza.com
ericsturdza.com

policy (negative rates in particular) has probably reached its limits and implementation by some major governments of a common fiscal policy may kick in sooner rather than later. Moreover, in the current ECB policy review, environmental sustainability goals could have an impact on its Corporate Sector Purchase Programme (CSPP).

As for Emerging Markets, the Investment Adviser will avoid investing temporarily, but will closely monitor the spreads' patterns (both governments and corporates) in order to seize opportunities in the near future, once spreads have widened sufficiently.

In conclusion, the Team believes that in the current environment, the best performing portfolio is a mix of hybrid bonds issued by high quality corporates combined with long term US Treasuries, both nominal and real (TIPS). In the near future, the Investment Adviser may continue to increase the weight of US Treasuries, whilst reducing exposure to the three other pillars.

PERFORMANCE DATA As at end of February 2020

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	Fund Inception
USD I	1.03	2.13	8.37	10.46
Composite Benchmark	1.08	2.28	7.28	8.61

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	Annualised Inception
USD I	2.30	7.47	8.55
Composite Benchmark	2.33	5.57	7.04

Past performance is not an indicator of future performance.

IMPORTANT INFORMATION

The views and statements contained herein are those of Banque Eric Sturdza SA in their capacity as Investment Advisers to the Funds as of 12/03/2020 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.

BLOOMBERG DISCLAIMER

Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

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.

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.