



Sturdza Family Fund

February 2020 Fund Commentary



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PORTFOLIO MANAGER



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MARKET DEVELOPMENT

Equity markets began a sharp correction in February. Coronavirus is the first unexpected scenario to hit the headlines and impact the global economic landscape in decades. As such, the MSCI World Net Total Return Index declined by approximately 8.5%, in line with US equities (approximately -8.4%) whilst the Dollar increased 0.8% (DXY Index). During the month, volatility skyrocketed at index level as investors had to digest a much larger range of possible short to medium term outcomes.

PORTFOLIO DEVELOPMENT

The Fund's performance was mainly driven by the fixed income book this month. The Fund's positioning in terms of equity allocation, fixed-income positioning and liquidity preferences, proved to be a strong contributing factor to value as a whole, as markets launched into an equity drawdown of historical proportions.

In the equity book, Worldline SA and Allergan Plc were the leading contributors whilst Royal Caribbean Cruises and Asahi Holdings were the largest detractors to return.

In light of these developments, it was not surprising to see Royal Caribbean suffer and the bear thesis take hold. Concerns over an elongated period of disruption to travel and leisure, and the significant fixed-cost of the business were all legitimate fears which drove investors to move to safety. The move in share price was rapid and significant, to a point where the Team believe highly adverse scenarios are now priced in given that traded shares exceeded the company's book value by roughly 30% as at the end of February. Barriers to entry remain in place and Royal's brands will likely continue to generate repeat business, as the innovation and product quality improvements remain first class, while offering a compelling customer proposition. Fundamentally, the Investment Adviser still believes that key long term drivers remain in place, although the current situation will test the company like never before.

Generally, Asahi reported good results, with the exception of their domestic beer segment and outlook which came in slightly lower than anticipated. 2020 was expected to be an opportunistic year for the company as it would reap the benefits from the Olympic Games and a three-stage beer tax cut plan. However, given recent developments, these net positives have turned into net negatives, or at least questionable outcomes. The Olympics might be cancelled and the tax cut plan is now a potential buffer against already shrinking domestic beer volumes, rather than the net positive it would have been.

Overseas, the operating environment in Europe and Australia seem stable, but on the other hand, a decline in China is to be expected given the impact of the virus on trade and demand. Moreover, the political situation between Japan and South Korea should continue to weigh on Super Dry exports, even though the volumes are marginal.

OUTLOOK

As mentioned in previous publications the Investment Adviser's outlook was of cautious optimism heading into 2020, with a view that expansion, whilst mild and fragile, stood a good chance to last over the foreseeable future as long as no external or exogenous shocks appeared.

INVESTMENT APPROACH

An active and flexible investment process, managing a mixed asset investment portfolio predominantly comprised of equities and fixed income investments. Investing directly or indirectly, between 51-81% in global equities or equity related instruments and between 20-49% in fixed income instruments. Focusing on strong growth companies that the Investment Adviser deem to be underappreciated by the market, whilst fixed income investments will be selected based on global macro economic analysis and evaluation of central banks' policies.

INVESTMENT OBJECTIVE

To achieve capital appreciation over the long term.

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

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In light of this, the Investment Adviser kept the Fund's equity exposure below 60%, whilst slightly modifying the overall duration. However, as equity markets adjust significantly lower and the risk/reward gradually resets, the Fund's allocation will increase steadily to attain its main goal of using adverse scenarios as an opportunity to reinvest in companies at significantly depressed levels. Furthermore, as long as the range of potential scenarios remains uncertain and disables any fundamentals-based discretionary approach, the Fund's gradual allocation changes will encompass not only value, but the wider indicators of risk and market sentiment.

Finally, the Fund's investments in highly liquid assets, such as treasuries and large cap quality stocks, continue to be the highest priority in these difficult times.

PERFORMANCE DATA As at end of February 2020

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	Fund Inception
USD I	-4.34	-3.37	5.34	9.83
USD S I	-4.32	-3.21	6.66	11.88
Composite Benchmark	-4.70	-2.88	5.88	10.26

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	Annualised Inception
USD I	-4.32	18.02	8.04
USD S I	-4.28	20.16	9.70
Composite Benchmark	-4.57	18.50	8.39

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 17/03/2020 and are based on internal research and modelling.

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