ERIC STURDZA INVESTMENTS

Strategic Bond Opportunities Fund

March 2020 Fund Commentary

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PORTFOLIO MANAGER

MARKET DEVELOPMENT

In March, safe haven government bond yields continued to decrease sharply, despite unprecedented volatility, as fears of a deep recession emerged due to the Coronavirus pandemic. All major central banks unveiled new ultra-accommodative policies, using new sets of tools, in order to stop the bleeding in both the financial markets and real economy. Governments also tried to implement new measures to mitigate the deep impact the crisis has had on trade, unemployment and growth. As a result, corporate spreads almost doubled during the month, following the decrease of equity markets.

PORTFOLIO STRATEGY

The Investment Adviser has been assessing the importance of the crisis since 22 January, progressively increasing the duration of the Fund. This strategy was maintained in early March. However, from 9 March, some opportunities appeared in the credit market as spreads widened dramatically. The Investment Adviser believed that it was time to start decreasing the duration risk in favor of credit spreads. During the first week of March, some Treasuries maturing in 2020 were sold in order to increase the position in Treasuries maturing in 2050. From 9 March, Treasuries maturing in 2030, 2049 and 2050 and 30y TIPS were partially sold in order to build positions in hybrid bonds issued by European corporates: Orange, Volkswagen, Telefonica and Vodafone.

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 dramatically in the coming months as Asia, Europe and the US may face a significant slowdown, and more likely a deep recession. In the short term, the US yield curve could continue to flatten due to strong demand for safe haven assets, particularly US Treasuries.

In this context, the Investment Adviser believes that long term US Treasuries are still attractive and may increase duration against escalating global recession fears due to the Coronavirus crisis. Considering inflation expectations, the Team will maintain a significant exposure to US inflation protection securities (30y TIPS), expecting higher breakeven expectations during the second half of the year. 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).

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

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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As for Emerging Markets, the Investment Adviser will avoid investing temporarily, but will monitor the spreads' patterns closely (both governments and corporates) in order to seize opportunities in the near future, once spreads have widened sufficiently. At this stage, any significant increase of the weight of Emerging Markets is premature.

In conclusion, the Team believe 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).

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 16/04/2020 and are based on internal research and modelling.

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