Sturdza Family Fund

March 2020 Fund Commentary

MARKET DEVELOPMENT

March 2020 proved to be a month for the history books. As the parabolic reality of the Covid-19 pandemic set-in, financial markets worldwide entered into a correction in record-setting fashion, pushing, at its worst, developed market equities indices down by ca. 20-25% for the month, ca. 23-35% for the year, depending on the region. Realised volatility on the US market was the highest ever recorded. On the back of extraordinary global government intervention, financial markets stabilised to end the month down ca. 10 to 15%, depending on the index. In this difficult context, the fund held-up well, returning -6.55% for the month (USD SI class).

PORTFOLIO DEVELOPMENT

The sharp repricing of risk in financial markets initiated in February continued and accelerated in March, as both the inevitability of the spread and the massive economic consequences of containment became clear. With no historical templates and profound uncertainty around the second-order effects on the economy, financial assets plunged with few exceptions. In a startling turn of events, dissention among OPEC+ members led Russia and Saudi Arabia to increase oil production at a time of significant demand contraction, pushing oil prices down to levels last seen in the early 2000s. Given the high levels of indebtedness and already fragile business conditions, markets were faced with another financial shock, contributing to a state of emergency seemingly only to be matched by war-like government and central bank interventionism. With trillions in pledged support and open market purchases, indices stabilised and initiated a rebound from their troughs towards the end of the month.

Against this challenging backdrop, the fund performed well, benefiting from a more resilient equity basket and from a fixed-income basket exclusively composed of Treasuries with medium overall duration (approx. 5.2 on average during the month). Given the collapsing inflation expectations, the fund's exposure to inflation-protected Treasuries underperformed their nominal counterparts yet rallied strongly in the second part of the month on the back of government intervention.

The range of possible scenarios, the inherent uncertainty around the economic consequences and the speed of the market correction contributed to making the month of March unique. On individual equity contributors, further momentum from Joe Biden helped the managed care sector, making Centene our top equity contributor, returning 12% for the month. VMware, having led the correction in February, returned 0.5% in March yet experienced volatility which enabled the fund to reinforce the position on weakness. On the other side of the ledger, the fund suffered from further corrections in Royal Caribbean and IQVIA. While the former is clearly the fund's most directly challenged company, we view the latter's performance as temporary, and a function of its balance sheet still carrying debt from the 2016 IMS acquisition.

Eric I. Sturdza
PORTFOLIO MANAGER

Constantin Sturdza
PORTFOLIO MANAGER

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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Staying true to the fund's philosophy amid the tumult, the Portfolio Management Team slowly increased the allocation to equities by reinforcing existing positions principally in companies with both the robustness and the valuation opportunity to make them particularly attractive. The fund also initiated new positions in a handful of companies with these attributes, with an emphasis on the ability to weather an economic storm of unclear proportion and characteristics. In certain specific situations and given the unique context of volatility, the fund opted for the sale of put options as an avenue to increase the potential exposure to specific names with an additional margin of safety. On a sensitivity, or delta-adjusted basis, the portfolio moved from an equity exposure of 56.7% on 28 February, to 62.6% at the end of March.

OUTLOOK

Looking ahead, while the motivation and means of governments and central banks are no longer in doubt, the economic repercussions of confinements and nosediving global trade in a highly indebted world remain the central uncertainties with which all investors will need to cope. The corporate earnings season starting in mid-April will likely give some additional colour around companies' plans to weather the current storm, and investors will likely reward those with financial resilience and important, inescapable products or services coming out of the downturn.

PERFORMANCE DATA As at end of March 2020

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	Fund Inception
USD I	-6.58	-10.62	-3.26	2.60
USD S I	-6.55	-10.55	-2.25	4.56
Composite Benchmark	-7.76	-11.98	-3.54	1.71

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	Annualised Inception
USD I	-10.62	18.02	2.00
USD S I	-10.55	20.16	3.50
Composite Benchmark	-11.98	18.50	1.31

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 17/04/2020 and are based on internal research and modelling.

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