



Strategic European Smaller Companies Fund

April 2020 Fund Commentary



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In April, the Fund* returned 14.7%***, an outperformance of 8.2% versus the benchmark (+6.5%).

In a gravity-defying move, the stock market partially rebounded in April following the sharpest fall in history during March. The bounce has been labelled “the most hated rally in history” as the stock markets climbed in the midst of a devastating health and economic crisis.

Some investors have remained stranded on the side-lines, watching as stocks climb higher without them. The investors’ rhetoric is well documented: equity markets are too complacent, stocks are already becoming too expensive at current levels and the possibility of a recovery through 2021 is potentially weaker than expected.

To counter those points, one may argue that the stock market is not the economy. It is a tool for pricing in the future and, as such, has already discounted what’s happening right now. Stock markets are also heavily influenced by the central banks’ monumental stimulus globally. The jury is likely to remain out for some time between the printing of large amounts of money and the uncertainty surrounding the viability of a large range of businesses, and will likely spur volatility for the months to come.

The Investment Team remain aware of the risks of both sides of the argument, and in this uncertain environment, they accept that it is their responsibility to deploy capital in a portfolio capable of coping with all potential outcomes.

Volatility will undoubtedly create opportunities, and this explains why the Investment Adviser has decided to keep an 11% cash exposure for now. Within the other 89%, 29% of the Fund is invested in companies the Investment Adviser believes are either positively affected, or unaffected by the pandemic. All constituents of this pocket are up by more than 20% year to date. An additional 33% of the Fund is invested in companies sitting on a net cash position at the end of 2019. These companies will survive no matter what and have the ability to emerge from the crisis on a stronger footing. Such resilience is not always reflected in those companies’ stock price today.

In April, the largest contributors to the performance were: Spie (+3.35% contribution), Boozt (+3.12% contribution) and Just Eat Takeaway (+1.39% contribution). Ipsos was the largest detractor (-0.60% contribution). The second largest detractor, Beneteau, only impacted the Fund’s performance by -0.04%.

As mentioned in the March newsletter, Spie hit a low of €8.075 on 23 March. Since then, it has recovered sharply and ended April at a price of €13.78, 70.7% higher than 23 March, and 50.5% higher than 31 March. The position was increased by 25% in March with an average acquisition price of €8.66. At the end of April, Spie is now the Fund’s second largest position. Q1 EBITA, posted on 29 April, was 5% ahead of market consensus, driven by organic growth and margins that have been more resilient than expectations. While Q2 is likely to be impacted by more lockdowns, resilience in Germany and the Netherlands should continue, and the Investment Adviser does not expect the analysts’ consensus opinion to change.

With preliminary Q1 figures already announced (revenue growth of 7-9% in Q1), Boozt has managed the crisis better than expected to date. The focus ahead should be on how well it can manage the elevated level of promotional activity in the market throughout Q2. The Team believe that Booztlet, the leading online off-price player in the Nordics, can alleviate much of this pressure and safeguard profitability simultaneously.

Boozt, alongside Just Eat Takeaway, clearly fall into the category of companies that, in the short term, see an increased level of activity due to the pandemic with lockdowns triggering physical store and restaurant closures and, in the midterm, will benefit from customers speeding up the transition into digital e-commerce and services.

INVESTMENT APPROACH

We believe 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

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

** EUR Class

Operationally, the Team have had no issues throughout the lockdowns. Companies and brokers have adapted well to the new environment, with remote working and virtual meetings allowing the Team to continue the fundamental research and processes as per normal.

PERFORMANCE DATA As at end of April 2020

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	3Y	Fund Inception
EUR	14.70	-13.35	-11.90	-16.80	-15.64	9.59
EUR I	14.39	-13.44	-11.65	-16.14	-14.60	10.97
STOXX Europe 600 NR EUR	6.50	-16.55	-10.82	-6.81	-4.66	-0.36

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	2018	2017	2016	Annualised Inception
EUR	-15.32	24.41	-24.86	22.80	13.55	1.85
EUR I	-15.37	25.04	-24.48	23.17	13.55	2.11
STOXX Europe 600 NR EUR	-17.53	26.82	-10.77	10.58	1.73	-0.07

Source: Morningstar.

Past performance is not an indicator of future performance.

AWARDS



Morningstar Sustainability Rating

Out of 723 Europe Equity Mid/Small Cap funds as of 31/03/2020. Based on 95% of AUM. Data is based on long positions only.

See Awards Disclaimer on last page.

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 12/05/2020 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

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MORNINGSTAR DISCLAIMER

The Strategic European Smaller Companies fund received a 3 Globe Morningstar Sustainability Award. Out of 723 Europe Equity Mid/Small Cap funds as of 31/03/2020. Based on 94.66% of AUM. Data is based on long positions only.

Historical Sustainability Score as of 31/03/2020. Sustainability Rating as of 31/03/2020. Sustainability provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score.

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