# Strategic European Smaller Companies Fund

## March 2020 Fund Commentary

March turned out to be not only eventful, but also particularly harsh in the stock markets, with a liquidity crunch appearing in almost every asset class. During March, the Europe small & mid-cap indices dropped around 7% more than large cap indices, a clear signal that the search for liquidity was a key feature during the month.

In this context, the Fund* declined 20.26%** during March with important discrepancies amongst the portfolio constituents. The main detractors to the performance were: Spie (-3.63% impact with a 47% drop during the month), Ipsos (-2.28% impact with a 32% drop during the month) and Boozt (-1.47% with a 24% drop during the month).

It is totally unprecedented to see a health, economic and financial crisis strike the entire world almost simultaneously - examples from the past are possibly not as relevant this time. The impact is likely to be temporary, and its ultimate depth depends predominantly on the ability of countries to absorb the cost of the crisis while waiting for a restart in Q2 (possibly) or Q3 (more likely).

The responses from Central Banks and governments in Asia, Europe and the Americas are unprecedented and remarkably similar, if not coordinated. Nevertheless, it is difficult to imagine a return to normal in the short term. The recovery will be partial, in stages and the after-effects will be numerous. The longer the shock lasts, the greater the potential impact.

As Fitch Rating mentioned in a report in early April, "The spread of the pandemic and the actions necessary to control it mean that we now have to incorporate full-scale lockdowns across Europe and the US (and many other countries) in our baseline forecasts. There are many moving parts, but we now judge that lockdowns could reduce GDP across the EU and US by 7% to 8%, or 28% to 30% annualised, in 2Q20. This is an unprecedented peacetime one-quarter fall in GDP and is similar to what we now estimate occurred in China in 1Q20."

Similar to the global financial crisis in 2008, the key questions in March centred on the ability of the portfolio's investments to cope with a prolonged lockdown, and face a potentially important cash burn resulting from a long period of inactivity. Cash available on the balance sheet, undrawn credit lines and the potential upcoming debt repayment schedules were scrutinised by the Investment Adviser for each individual investment and the companies that the Team perceived as potentially at risk were fully divested during the month.

The Investment Adviser also used the opportunity to sizeably increase some positions where individual stock price evolution was totally de-correlated from potential earnings risk for this year and the next. The main monthly detractors are perfect illustrations for such moves.

Spie detracted from the monthly performance heavily in March. It traded at €19.5 on 21st February, and went as low as €8 on 23rd March. In the Investment Adviser's opinion the 58.7% drop from peak to trough appears totally disconnected from the potential earnings risk this year, hence it was decided to substantially increase position size.

At the time of writing, Spie is trading at €12.25, rebounding by more than 50% from the lows. The position was increased by 25% during the month with an average acquisition price of €8.66. It is the Fund's third largest position and accounts for 6.97% of the Fund's assets as at month end. Spie's activities are not tourism. What has gone will come back. Reopening work offices after weeks of shutdown will require maintenance. €1.4Bn of liquidity at the end of 2019 gives substantial comfort, so even in an extreme scenario, the group should not need any cash injections, or to draw on any credit lines. Also, it should be remembered that revenues dropped by 3% organically in 2009, and the EBIT margin increased, demonstrating how resilient the group can be in turbulent times. As of today, Spie trades on 10x 2020 earnings.

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

**Bertrand Faure**
PORTFOLIO MANAGER

INVESTMENT APPROACH

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.

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The same reasoning also applies for Ipsos where the position size was also increased by 17% from 16th March onwards, which resulted in Ipsos representing 8.44% of the Fund's assets at month end, the Fund's second largest position. Similar to Spie, the organic decline in 2009 was a mere 3.8%, with an increase in operating margin. In addition, the group has ample liquidity to cope with a potential slowdown of business, mainly coming from studies requiring face to face contacts (a third of group revenues). The group is working with clients to understand if it can change the way they engage with people and collect information in these circumstances. Ipsos did this very successfully in China during the early months of the year and it is expected that it can also make these changes in other regions. As of today, Ipsos trades on 9.4x 2020 earnings.

As we all know, predictions are risky. We are in turbulent times, however the Team believe that one should not lose sight of fundamentals.

There is a lot of debate about the shape of the recovery. A market drop at around 30% appears to be pricing in a 25% hit to earnings 5 years out, which in the Investment Adviser's view seems extreme considering the large fiscal and monetary stimulus measures introduced. The rebound from the recent low point touched between 18 and 23 March for markets in general is a demonstration that the drop was unfounded. It can however, be even more extreme on a stock by stock basis and provide a fantastic, once in a lifetime opportunity to deploy capital in companies with resilient business models at heavily discounted prices, as demonstrated by the above examples.

## PERFORMANCE DATA As at end of March 2020

### CUMULATIVE PERFORMANCE %

| | 1M | 3M | 1Y | 2Y | 3Y | Fund Inception |
|---|---|---|---|---|---|---|
| EUR | -20.26 | -26.17 | -17.49 | -26.96 | -23.34 | -4.45 |
| EUR I | -20.03 | -26.02 | -17.00 | -26.16 | -22.18 | -2.99 |
| STOXX Europe 600 NR EUR | -14.51 | -22.57 | -13.11 | -8.57 | -8.71 | -6.45 |

### CALENDAR YEAR PERFORMANCE %

| | YTD 2020 | 2019 | 2018 | 2017 | 2016 | Annualised Inception |
|---|---|---|---|---|---|---|
| EUR | -26.17 | 24.41 | -24.86 | 22.80 | 13.55 | -0.92 |
| EUR I | -26.02 | 25.04 | -24.48 | 23.17 | 13.55 | -0.62 |
| STOXX Europe 600 NR EUR | -22.57 | 26.82 | -10.77 | 10.58 | 1.73 | -1.35 |

Source: Morningstar.

**Past performance is not an indicator of future performance.**

## 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 14/04/2020 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.

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