ERIC STURDZA INVESTMENTS

Sturdza Family Fund

April 2020 Fund Commentary

MARKET DEVELOPMENT

The month of April 2020 saw an equity market rebound of historic proportions materialise, ignited by government and central bank interventions on an epic scale. With Covid infections starting to show significant slowdowns in most of the developed world, the focus of the markets has shifted to the reopening of economies. The first quarterly earnings publications post-Covid likely gave investors additional confidence around their fundamental scenarios, and while the impact remains highly heterogeneous, uncertainty over the coming quarters remains high, complete obscurity has been replaced by low visibility, enough for many investors to return to the markets. Financial markets as represented by the MSCI world ended the month up ca. 10.9%, while the fund participated relatively well to the upside, returning +8.3% for the month (USD SI class).

PORTFOLIO DEVELOPMENT

The Fund continued to navigate the challenging market environment well. While credit spreads retraced their highs reached in March and many equities regained some value on the back of massive government stimulus, more distortions were however evident in the oil market, with futures contracts coming to the fore trading at negative rates for delivery of WTI oil in April due in part to the lack of available storage. Although OPEC+ members decided to review their ill-advised capacity increases from March, the steps taken to balance supply and demand remain unsatisfactory given the historic plunge in global economic activity. Even Royal Dutch Shell, arguably one of the strongest oil operations worldwide, drastically reduced its dividend, a first since World War II. More generally, economic activity indicators confirmed the extent of the impact of the quarantine measures, with the IMF and most major economic forecasters reviewing global growth to around -3% for the year 2020, numbers which assume a strong rebound in the second half.

The Fund's asset allocation continued to rebalance slightly in favour of equities, although the speed and extent of the rebound raises the spectre of more consolidation ahead as the significant economic impact on consumer demand becomes clearer, in the Investor Adviser's view.

Earnings publications began in earnest towards the end of April, with the majority of companies withdrawing their guidance and admitting to high degrees of uncertainty with regards to their 2020 expectations. Generally, companies with impacted revenues have responded with capex cuts and adjustments of their cost structures in order to defend margins (furloughs, layoffs, temporary production shutdowns, physical footprint rationalisations, etc), many of which are using this episode to accelerate more sustainable restructurings. In terms of the extent of revenue and earnings decreases, it may be found that many companies in the Fund's "GDP+ compounders" category, which are typically mildly exposed to the cycle but enjoy some quality/competitive advantages, tend to hint at an 8-15% revenue decrease in 2020 in the Investment Advisers view. Each company is impacted in its own way given the specifics of this particular recession, but most of are applying similar playbooks, consisting of balance sheet protection, cost cuts and patience (Constellation Brands, Comcast, Union Pacific, Canadian Pacific, Sherwin Williams, etc). The companies in the Fund's universe with the strongest secular tailwinds to their growth and/or with some anti-cyclical features tend to hint at no or slow growth in revenues and controlled profitability (Iberdrola, S&P Global, Moody's, Intercontinental Exchange, Deutsche Boerse, Keyence, etc) and some seem to adopt more offensive mind-sets towards gaining market share during the downturn when they can afford it (Microsoft, Alphabet, Facebook). While uncertainty remains, the Team were positively surprised by the tone and comments of

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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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various groups of companies for which the impact was starkly debated: Apple, with its consumer-focused, hardware-heavy technology, is benefiting from growth in its "services" division and seems on track to record only slight revenue decrease in 2020 – albeit with a heavy reliance on the new iPhone launch in Q4, a significant uncertainty. Further, insurance brokers (Arthur Gallagher and Aon) posted decent results, and currently seem rather confident in their ability to post only modest decrease in revenues in 2020 if current trends persist, but could emerge with a greater market share. Last but certainly not least, the Fund's payments companies showed impressive resilience, generally helped by the acceleration in card usage compared to cash, even in countries and purchase categories historically dominated by cash, offsetting some of the drop in highly profitable cross-border transactions. It goes without saying that the growth in deliveries and e-commerce generally also helped significantly, and likely bodes well for the future as new habits are formed. All of this supported the networks (Visa, Mastercard) as well as the processors/acquirers (Global Payments and Worldline) held by the Fund. American Express, with an integrated model rendering it cyclical, suffered in relative terms compared to other payment companies as it enters the challenging phase in the credit cycle, this one potentially of greater magnitude than usual. American Express is part of a small group of companies held in the portfolio with higher than average exposure to the Coronavirus and to the confinement measures in place. While all three (Booking, American Express, Royal Caribbean) remain in strong positions relative to their peers, these companies are likely to remain volatile in the coming months given their above average dependency on the re-opening of the economy. The potential of share gains for these likely "survivors" are currently outweighed by the uncertainty around the duration of the Covid restrictions, but as of today we see attractive long-term business and valuation arguments to continue holding these positions as part of the diversified portfolio - especially as valuations of the strong secular growth companies continues to expand in relation to the market. Currently, the weighting of these three companies represents ca. 2.8% of the portfolio.

This month, the tide lifted virtually all boats, especially solid long-term growth businesses which had suffered balance-sheet risk aversion in March. As a result, IQVIA was the largest contributor, up 32% on the month. The FAANG group also contributed strongly, with Facebook (+23% due to slight overweight exposure compared to the benchmark) and Apple (+16) as the second and third largest absolute contributors to the Fund's returns. Only two companies were in negative territory, Service Corp. and Arthur J. Gallagher.

OUTLOOK

In this challenging environment, the Investment Adviser remains focused on strong businesses with the ability to withstand the current economic down cycle and thrive over the longer term, supported by secular tailwinds and competitive strength. With a slight overweight in equities likely to persist for some time, new opportunities for capital deployment will be heavily dependent on individual opportunities. The macroeconomic and societal implications of Covid will also continue to inform the Investment Adviser's outlook for longer term growth potential.

PERFORMANCE DATA As at end of April 2020

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	Fund Inception
USD I	8.22	-3.30	2.36	11.03
USD S I	8.28	-3.19	3.13	13.22
Composite Benchmark	7.03	-5.92	1.06	8.86

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	Annualised Inception
USD I	-3.28	18.02	7.88
USD S I	-3.15	20.16	9.41
Composite Benchmark	-5.79	18.50	6.34

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 08/05/2020 and are based on internal research and modelling.

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