



Strategic Bond Opportunities Fund

May 2020 Fund Commentary



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PORTFOLIO MANAGER

MARKET DEVELOPMENT

In May, equity markets rallied dramatically led by a boiling Wall Street. As a result, corporate spreads tightened significantly whilst long-dated Treasury yields and inflation break-evens increased slightly, leading to an outperformance of TIPS (inflation-linked Treasuries) against nominal yield Treasuries. Investment Grade spreads continued to perform due to the V-shape recovery of equities and central bank purchases. Against all odds, the switch from depression fears to a risk-on market took less than two months. In this context, a mix of TIPS duration and credit spreads (hybrids in particular) was a relevant strategy during the month.

PORTFOLIO STRATEGY

In May, the Investment Adviser slightly decreased the credit risk of the portfolio, taking profit on some hybrid bonds which rallied strongly: the German Deutsche Bahn and the French La Poste; and reinvesting the proceeds into two new Investment Grade issues; United Health and Mamoura (formerly Mubadala, an Abu Dhabi government-owned investment company).

MARKET OUTLOOK

The Investment Adviser's outlook remains focused on the macroeconomic situation (including growth and inflation), Central Banks' behaviour and the evolution of equity markets. Inflation risk is likely to remain very low in the US and in Europe and global growth is expected to contract dramatically in the coming months as Asia, Europe and the US may face a significant slowdown and most likely a recession. In the short term, the US yield curve could continue to steepen slightly, but Fed purchases and strong demand for safe haven assets should stabilise long term yields at low levels.

In this context, the Investment Adviser believes that long term US Treasuries are still attractive, but considering long-term inflation expectations, the Team will maintain a significant exposure to US inflation protection securities (30y TIPS), with 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 believes that current macro conditions, Brexit uncertainties and the recent coronavirus outbreak support the recent accommodation measures from the ECB.

As for Emerging Markets, the Investment Adviser is currently avoiding investing but continues to closely monitor the spreads' patterns (both governments and corporates) in order to seize opportunities in the near future (probably sooner rather than later), once spreads have widened sufficiently. At this stage, any significant increase of the weight of Emerging Markets is still premature, but this strategy could be implemented in the coming weeks instead of in the coming months.

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).

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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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 04/06/2020 and are based on internal research and modelling.

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