



Strategic European Smaller Companies Fund

May 2020 Fund Commentary



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PORTFOLIO MANAGER

During May, the Fund* was up +11.27%**; strong performance on both an absolute basis and relative to the Fund's benchmark, the EuroStoxx 600 which was up +3.40% during the same period. At the end of May, the Fund has declined -5.78% year to date on an absolute basis, but has significantly outperformed the benchmark (-14.72% year to date) by 8.94%.

The significant outperformance both year to date, and during May, is due to fundamental stock picking and trading decisions that have taken place. The panic and swings in markets during 2020 has allowed outsized gains to be made on the back of the resulting mispricing that has occurred; an environment that the Team expects to continue for the foreseeable future as the economic impacts of coronavirus remain uncertain.

May 2020 marks the fifth anniversary of the Fund, which launched on 5 May 2015. Since inception, the Fund has posted a +21.94% return, compared to +3.03% for the benchmark. On an annualised basis, this translates into +3.99% return for the Fund vs. +0.59% for the benchmark.

The traditional stock market adage "sell in May" was discussed in the market at the beginning of the month, particularly as European equities rallied as much as 30% from their March lows. However, the market proved to be surprisingly resilient, even as earnings estimates and macro indicators tumbled and tensions between China and the US resurfaced. May was another positive month, as was April, but it was far from a straight line performance; the EuroStoxx 600 saw a drawdown of 3.7% mid-month before rallying nearly 10% from the month's low, signalling that investors are still eager to "buy the dips".

Today, there is little room in the market if both macro and future virus data don't match investors' expectations. Investors want to see the glass half full, and there are reasons to support this view.

As an illustration, there were seven key takeaways from a Virtual Mid & Small Caps conference organised by Société Générale in late May, providing comfort to the Fund's positioning towards companies with resilient business models, strong free cash flow features and solid (if not net cash) balance sheets:

1. Business troughed in April-May
2. Clear rebound in business as soon as lockdowns eased
3. Germany is currently doing better than southern Europe
4. Margins have been protected
5. Production capacity is back
6. Debt/liquidity situations do not appear critical
7. M&A is back on the agenda

In May, the largest contributors to performance were: Ipsos (+1.83% contribution), Trigano (+1.60% contribution) and Boozt (+1.22% contribution). Indra was the largest and only detractor (-0.19% contribution) during the month.

Ipsos published a trading update on 26 May, indicating a clear improvement in the trading environment in May compared to April. For the first five months of the year, both the sales and order book were down 10%. At its lows in March, the company had sold off by 45% from 31 December 2019, proving how disconnected market expectations had become from fundamentals. Following the improvement in May; the easing of lockdown measures in most of the company's major markets should lead the way for a gradual upturn in 'face-to-face' studies (30% of sales). In addition, a far-reaching reset of consumption habits post COVID-19 should support the market research sector over the coming quarters and confirm the business resilience of the company, a point well received by the market.

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.

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



The situation is fairly similar for Trigano, which unveiled its H1 results in early May. Short-term visibility is low, but order cancellations have been minimal. The pandemic could act as a trigger for a wider adoption of motorhomes as such products are particularly well suited to the current lifestyle (staycation). Finally, Trigano should end up gaining market share as its strong balance sheet will enable it to acquire competitors, as it very successfully managed to do during the global financial crisis where the company flourished due to its ability to integrate mergers and improve both efficiencies and sales.

In May, Boozt confirmed its preliminary Q1 results which were disclosed in April. As illustrated in the Q1 report, Boozt continues to make the right strategic steps, leveraging off automation, pushing for a firmer return policy and closing down the loss making physical beauty store in Copenhagen. As a true beneficiary of the current crisis, growth has reaccelerated to over 20% to date in Q2 with good margin progression expected. The Investment Team's thesis remains that COVID-19 will accelerate online migration, benefitting Boozt in the longer term.

In the April newsletter, the Investment Team discussed the opposing views on the direction that markets could take from here, and the dichotomy remains today. As also discussed, the probability of volatility in markets remains high as participants flip from one view to the other as facts are presented and situations change. This environment should allow the Fund to produce strong returns on both an absolute and relative basis as large market moves overlook company fundamentals.

As always, the Team invite investors, or prospective investors in the Fund to discuss the opportunities with the Investment Team should they wish to understand the Team's view on the current situation and the positions held in the portfolio.

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.

PERFORMANCE DATA As at end of May 2020

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	3Y	5Y	Fund Inception
EUR	11.27	1.76	4.54	-5.62	-8.64	20.45	21.94
EUR I	10.50	1.08	4.06	-5.58	-8.19	21.12	22.62
STOXX Europe 600 NR EUR	3.40	-5.86	-2.99	-3.77	-2.83	0.21	3.03

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	2018	2017	2016	Annualised Inception
EUR	-5.78	24.41	-24.86	22.80	13.55	3.99
EUR I	-6.49	25.04	-24.48	23.17	13.55	4.10
STOXX Europe 600 NR EUR	-14.72	26.82	-10.77	10.58	1.73	0.59

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 01/06/2020 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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The Strategic European Smaller Companies Fund received a 4-star Overall Morningstar Rating and a 4-star 5-year Morningstar Rating (EUR Class). Morningstar Ratings™ as of 31/05/2020.

The Strategic European Smaller Companies Fund received a 3 Globe Morningstar Sustainability Award. The Morningstar® Sustainability Rating™ is intended to measure how well the issuing companies of the securities within a fund's portfolio holdings are managing their financially material environmental, social and governance, or ESG, risks relative to the fund's Morningstar Global Category peers. 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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