Strategic European Smaller Companies Fund

June 2020 Fund Commentary

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PORTFOLIO MANAGER

June was another good month for the Fund*, returning +5.29%**, compared to +3.06% for the benchmark. Year to date, the Fund has posted a total net return of -0.79%, while the benchmark declined by 12.12% (+11.33% relative outperformance), highlighting the clear benefits of fundamental and active management during a time of great uncertainty.

The Fund was launched on 5 May, 2015 and since inception has delivered returns of +28.40%** (+4.97% annualised) through to the end of Q2 2020, comparing favourably versus its benchmark, which reported performance of +6.18% (+1.17% annualised), translating into a 22.22% outperformance over 62 months (+3.80% annualised).

H1 has been a roller-coaster ride for European stocks. Investors remain torn between an unprecedented type of crisis, and an unprecedented stimulus response. Mounting risks lie ahead and may limit the immediate upside and warrant selectivity, but the recovery has started to materialise.

European stocks are entering the second half of the year on a strong footing. Even after three months of gains, a growing number of strategists are turning bullish on the region's equities. Sentiment is supported by reports pointing to an economic bounce, stimulus measures and optimism that easing lockdown measures won't lead to a second wave of coronavirus infections. A case is building for European equities to continue to outperform their peers in the US, where infections are still on the rise in several states.

Positive PMI data trends are validating early investor optimism about an economic recovery, with Euro-area figures for June beating forecasts, and France is even returning to expansion territory.

In June, the largest contributors to the performance were: Boozt (+1.96%), Albioma (+1.52%) and Trigano (+0.80%). Spie was the largest detractor (-0.25%) during the month, followed by Just Eat Takeaway (-0.18%) and Akwel (-0.17%).

Boozt issued a positive profit warning on 23 June, forecasting double the expected sales growth (35-40%) and adjusted EBIT margin (above 10%) vs. market consensus for Q2. For 2020, Boozt forecasts 20-25% sales growth and adjusted EBIT margin of 3-4% (vs. previous forecasts of 10-20% growth and 1-3% margin). The blowout Q2 numbers, supported by a leap in online apparel penetration related to COVID-19, suggests a step-change in online consumption. Management said a strong inflow of new customers were partly behind the strong growth, particularly in men's wear, sports, kids and beauty, where return rates are much lower than woman's wear. Brokers had to materially adjust their estimates and the stock price reacted strongly. The stock was up +32% in June and +73% year to date.

There is no significant news for Albioma this month. The only minor company news was that Albioma won 2.9MWp of solar projects in mainland France and the fact that the company entered the SBF 120 Index on 15 June . Resilience, growth and limited COVID-19 impact pushed the stock price up 41% during H1.

As anticipated, Trigano released weak Q3 (March – May) sales on 29 June. Production was stopped for many weeks during the quarter and most of its distribution networks had to cease all activity at the peak of the season. Management attributed one-third of the decline in sales to the poor performance in the UK, where the group also operates a distribution network that recorded sales declines of more than 80%. Encouragingly, despite revenues halving in its core motorhome segment, EBIT remained positive during the quarter. Management made it clear that it expects some pent-up demand that went unsatisfied in Q3 to materialise in Q4 and that, over the longer term, an increasing trend for holidays that avoid shared accommodation and catering would help the recreational vehicle industry. Consensus expectations implied a continued decline in revenues in Q4, a scenario that the Team feel will not materialise, and thus, market estimates are very likely to be adjusted upwards for both sales and EBIT.

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

There is little to be reported about the minor losses from the three detractors, except that Grubhub announced on 10 June that it has entered into an agreement with Just Eat Takeaway.com to be acquired in an all-stock transaction valuing the company at $7.3bn, creating arbitrage pressure on Just Eat Takeaway.com's stock price.

This announcement follows previous media reports suggesting Grubhub and Uber Eats were recently in discussions over a potential merger at a modestly lower valuation. The envisaged merger between Grubhub and Just Eat Takeaway.com would create the largest food delivery player in developed markets, present in the 4 important markets (UK, Germany, Holland and the US). The portfolio would benefit from execution/tech sharing and an impressive leadership. In early July, Uber Eats is reported to be in talks with Postmates, a relatively small player in the US food delivery market with an 8% market share, about a potential merger. The long awaited consolidation of the US food delivery market seems on track and should benefit all players, resulting in less marketing spend in the space/more rational behaviour.

As always we invite investors, or prospective investors, in the Fund to discuss the opportunities with the investment team if they would like to understand the Team's views 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 June 2020

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	3Y	5Y	Fund Inception
EUR Class	5.29	34.38	5.07	0.47	-3.18	30.86	28.40
EUR I Class	5.12	32.87	4.37	0.31	-2.91	31.37	28.89
STOXX Europe 600 NR EUR	3.06	13.49	-4.30	-0.20	2.74	8.12	6.18

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	2018	2017	2016	Annualised Inception
EUR Class	-0.79	24.41	-24.86	22.80	13.55	4.97
EUR I Class	-1.70	25.04	-24.48	23.17	13.55	5.05
STOXX Europe 600 NR EUR	-12.12	26.82	-10.77	10.58	1.73	1.17

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 02/07/2020 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

The contents of this document have neither been reviewed nor endorsed by the Central Bank of Ireland or any other regulatory authority. If you are in any doubt about any of the content of this document you should obtain independent professional advice.

MORNINGSTAR DISCLAIMER

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. Sustainalytics provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score.

BLOOMBERG DISCLAIMER

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