Sturdza Family Fund

June 2020 Fund Commentary

MARKET DEVELOPMENT

As evidenced by the MSCI World TR Index, the global equity market comeback still had legs over the course of June (+2.65%). In short, extraordinary central bank intervention coupled with positive pandemic news flow, improved macro data and lack of alternatives seem to be the main drivers behind this continued recovery. After all, the Federal Reserve announcing its intent to purchase corporate credit, in yet another step toward injecting liquidity, has artificially removed many risks. For example, in traditional circumstances, given the debt markets' level of fragility entering the crisis, it would have been logical to expect the Covid crisis to spark a historical uptick in default rates. Yet, while certain bankruptcies were impossible to avoid, a default cycle has not truly occurred. Arguably, Central Banks had little choice and extending QE and buying credit helped alleviate the overall societal impact. The strong bullish response of markets gave points to the decision's effectiveness but also increased the perceived disconnect between markets and the economy. Today, the market seems to respond to daily news flow as it normally does but the starting point is more concerning as valuations have become elevated according to almost all traditional metrics. This unique combination raises fundamental questions regarding the role of capital allocation down the road. Unless the Federal Reserve intervenes indefinitely, the challenging economic realities should eventually filter through to corporate results. For this reason, it is paramount to stay disciplined and forego short-term temptations.

PORTFOLIO DEVELOPMENT

During the month of June 2020, the Fund returned approx. +0.73% (SI class). In total return terms, the equity book appreciated (+0.87%), with the Fixed Income book also positively contributing during the period (approx. +0.18%).

Unsurprisingly, in contributions terms, Apple was the largest positive contributor (ca. +0.28%), followed by Worldline (ca. +0.26%) and Microsoft (ca. +0.18%). On the other hand, the most notable detractor was Ulta Beauty (ca. -0.22%), followed by Medtronic (ca. -0.10%) and Takeda (ca. -0.08%). For the Fixed Income book, the 30 year US TIPS was the largest contributor over the period while other maturity instruments remained largely flat to positive in terms of contribution. Indeed, at the beginning of June the US Treasury curve experienced a bearish steepening as investor appetite was geared toward equities and high risk fixed income instruments. By month end however, fears of a second wave of the epidemic led to a stabilisation of the US Treasury yields – all the while inflation expectations steadily rose.

The Fund's overall asset allocation remained largely stable during the period with equity exposure hovering around 65% and the remainder in treasuries. Given that implied volatility priced by the market remains elevated, the Team continues to focus on the use of derivatives within existing positions and in some cases, to try and initiate new positions.

Only two companies reported their quarterly results in June; Accenture and Nitori. Both demonstrated more resilience than expected and are well positioned for further growth.

Nitori was able to substantially increase its online offering/presence and thereby mitigate the impact of their direct in-store sales decline. An impressive achievement given that the state had declared a state of emergency in April that caused many stores to close. Management noted that some store sales were strong in June, boosted by stay-at-home spending. Nitori attributes this to: (1) their decision to stay open whilst other competitors closed which lead to a rise in new customers; (2) their nationwide store presence and compelling price/quality offerings which has led their brand to a primary destination for

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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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consumers and (3) increased consumption thanks to government aid.

For Accenture and its peers, concerns remain around the cyclicality of their business. Debate over the strategic importance of certain key IT projects in today's digital world compared to the past downturns supports the thesis for a relatively more resilient revenue trajectory, although consensus does nevertheless expect budget cuts for non-essential projects. Against this backdrop, Accenture's results were a strong indicator that its significant competitive edge might indeed provide a more robust revenue outlook. Furthermore, there are signs indicating that this crisis could well accelerate the ongoing shift toward cloud, digital and security related services.

OUTLOOK

The Team remains focused on strong businesses with the ability to withstand the current economic downcycle and thrive in the longer term, supported by secular tailwinds and competitive strength. Global monetary policies have supported equities and should continue as long as data and news flow improves. Obviously, this position is one of cautious optimism and aside from widespread market movements, new opportunities for capital deployment will be heavily dependent on individual opportunities as they arise. The macroeconomic and societal implications of the Covid pandemic will also continue to inform the Investment Adviser's appreciation of longer-term growth potential. Nonetheless, the speed, extent and indiscriminate nature of the rebound still raises the specter of more consolidation ahead, alongside eventual individual surprises. Thus, the derivative strategy mentioned in the previous report is still in place in order to capture the opportunities provided by the sustained high level of volatility until further developments can give more confidence on the directionality of the market going forward.

PERFORMANCE DATA As at end of June 2020

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	Fund Inception
USD I Class	0.69	13.71	6.21	16.67
USD S I Class	0.73	13.88	6.98	19.07
Composite Benchmark	1.83	12.29	4.94	14.21

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	Annualised Inception
USD I Class	1.63	18.02	10.48
USD S I Class	1.86	20.16	11.94
Composite Benchmark	-1.16	18.50	8.97

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 09/07/2020 and are based on internal research and modelling.

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