



Strategic Bond Opportunities Fund

July 2020 Fund Commentary



Eric Vanraes
PORTFOLIO MANAGER

MARKET DEVELOPMENT

The June unemployment figures unveiled on 2 July were strong: 4.8 million jobs were created, with unemployment down from 13.3% to 11.1%. This positive news was offset by concerns of the COVID-19 pandemic expanding in the US, as well as heightened tensions between the US and China following the adoption of the new security law in Hong Kong.

Joe Biden continued to justify his position as favourite in various polls ahead of the US Presidential election in November. The Federal Open Market Committee (FOMC) confirmed that the Fed will maintain a dovish stance given the considerable threat that COVID-19 poses to the economy. Asset purchases will continue at the same pace or potentially faster.

As inflation fears began to increase (as seen through gold prices and TIPS negative yields in particular), deflation fears appeared to be over; although a V-shape recovery seems unlikely.

PORTFOLIO STRATEGY

In July, our Investment Team increased the duration risk of the portfolio slightly, adding to the existing 10-year US Treasury position.

MARKET OUTLOOK

Our outlook remains focused on the macroeconomic situation (including growth and inflation), the behaviour of Central Banks and the evolution of equity markets. We believe inflation risk will remain low in the US and Europe in the months ahead, but inflation fears could continue to increase gradually.

Global growth is expected to stabilise over the coming months in Asia, Europe and the US. 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, we believe that long-term US Treasuries are still attractive. This said, considering long-term inflation expectations, we will maintain a significant exposure to US inflation protection securities (30-year TIPS), anticipating higher breakeven expectations during the second half of the year.

We are of the opinion 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 1-2 year combined with long-dated US Treasuries (both nominal and real yields).

In Europe, we believe that current macro conditions, Brexit uncertainties and the coronavirus outbreak support the recent accommodation measures from the European Central Bank (ECB).

We continue to avoid investing in Emerging Markets but will closely monitor spreads' patterns (in both government and corporate bonds) in order to seize future opportunities (probably sooner rather than later), once spreads have widened sufficiently. At this stage, any significant increase of exposure to Emerging Markets would be premature, but opportunities could appear and be acted on in the coming weeks.

In conclusion, and given the current environment, the Team believes that 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) and short-dated investment grade investments.

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.

CONTACT

E.I. Sturdza Strategic Management Limited
+44 1481 722 322
info@ericsturdza.com
ericsturdza.com



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 17/08/2020 and are based on internal research and modelling.

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.

BLOOMBERG DISCLAIMER

Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

Data presented herein is obtained via Bloomberg PORT where stated. Any such data is subject to change from the date of production of this document. Such changes may impact upon comparative data between the investment and benchmark presented. Such information therefore is provided for reference purposes only, is subject to change and should not be relied upon for an investment decision.

GENERAL DISCLAIMER - APPLICABLE TO UK DOMICILED RECIPIENTS

This communication is issued in Guernsey by E.I. Sturdza Strategic Management Limited which is regulated by the Guernsey Financial Services Commission. Any investments or investment services mentioned in this communication are not intended for retail customers. Consequently, this communication is only made available to professional investors and eligible counterparties and should not be relied upon by any person that does not possess professional experience in relation to investments. If you are in any doubt as to whether you possess suitable experience in relation to investments please consult your financial adviser. Past performance is no guarantee of future results. Under no circumstances should this document be forwarded to anyone in the United Kingdom who is not a professional client or eligible counterparty as defined by the Financial Conduct Authority. For the purpose of distribution in the United Kingdom this material has been issued by E.I. Sturdza Investments Limited, Claridge House, 32 Davies Street, London, W1K 4ND which is an appointed representative of Mirabella Advisers LLP which is authorised and regulated

by the Financial Conduct Authority. Further this communication is not an offer or an invitation to purchase financial instruments but intended as information. The information contained in this communication does not represent a research report. E.I. Sturdza Strategic Management Limited has not considered the suitability of investment against your individual needs and risk tolerance. Shares in the Fund should only be purchased by persons with professional experience and investors should refer to the Fund Prospectus and/or KIID for detailed information about potential risks involved in investing in financial instruments as well as the latest half yearly report and unaudited accounts and/or annual report and audited accounts. The information contained herein is estimated, unaudited, may be subject to change and reflects the performance of the relevant fund offered by E.I. Sturdza Strategic Management Limited during the period indicated. Any opinions or estimates expressed herein are at the date of preparation and are subject to change without notice; however no such opinions or estimates constitute legal, investment, tax, or other advice. Individual performance of the Fund may vary and historical data is not an indication of future results. The value of the Fund and the income which may be generated from it can go down as well as up and therefore investors must be able to bear the risk of a substantial impairment or loss of their entire investment. This document is intended for information purposes only and is not intended as an offer or recommendation to buy, sell or otherwise apply for shares in the Fund. E.I. Sturdza Strategic Management Limited, 3rd Floor, Frances House, Sir William Place, St Peter Port, Guernsey GY1 1GX. Part of the Eric Sturdza Banking Group. Company Registration Number: 35985.

DISCLAIMER - SWISS DOMICILED RECIPIENTS

E.I. Sturdza Funds Plc and its sub-funds are Irish funds authorized by the Irish Central Bank. They are approved for distribution in Switzerland by FINMA. The Swiss representative and paying agent is Banque Eric Sturdza SA, rue du Rhône 112, 1204 Geneva / Switzerland. Investors should refer to the fund prospectus and/or KIIDs for detailed information about potential risks associated with investments in financial instruments as well as the latest half yearly report and unaudited accounts and/or annual report and audited accounts. The prospectus, KIIDs, Articles of association, semi-annual and annual reports of E.I. Sturdza Funds Plc can be obtained, free of charge, at the seat of the Swiss representative, Banque Eric Sturdza SA. The information contained herein is estimated, unaudited, may be subject to change and reflect the performance of the relevant funds during the period indicated. Any opinions or estimates expressed herein are at the date of preparation and are subject to change without notice. No such opinions or estimates constitute legal, investment, tax or other advice. Individual performance of the funds may vary and historical data is not an indication of future results. The value of the funds and the income which may be generated from it can go down as well as up and therefore investors must be able to bear the risks of a substantial impairment or loss of their entire investments. Past performance is no guarantee of future results. Performance data do not take into consideration commissions and costs charged at the time of issuance and/or redemption of the shares. This document is intended for information purposes only and is not intended as an offer or recommendation to buy, sell, or otherwise apply for shares in the funds.