# Strategic European Smaller Companies Fund

## July 2020 Fund Commentary

As seen every month since April this year, July was another good month for the Fund, with a performance of +0.75%, compared to -0.95% for the benchmark.

Year to date, the Fund has posted a total net return of -0.04%, while the benchmark decreased by 12.96% (+12.92% relative outperformance), highlighting the clear benefits of fundamental and active management during a time of great uncertainty, especially for those with a strong focus on capital preservation.

During July, the largest contributors to performance were: Aubay (+0.37%), Somfy (+0.35%) and Albioma (+0.26%). Barco was the largest detractor (-0.47%) during the month, followed by Akwel (-0.15%) and Hunter Douglas (-0.10%).

At €103M, Aubay's Q2 sales exceeded the company's estimate of €97M which was issued during the Q1 sales release. The YoY organic decline was limited to 3%. The main indicators of performance were: a) the number of requests for proposals received in France from clients returned to growth YoY in June (following - 65% in April and -15% in May); b) the consultant utilisation rate, excluding the partial unemployment scheme, was up by almost 1pp YoY in France and Italy for Q2. This strong operating performance led to stock price appreciation and broker upgrades.

Somfy's Q2 sales were even more impressive at €278M, down 16.4%, and 15.7% organically for the quarter. Consensus expectations for Q2 stood around the €200M mark. A sharp rebound in June sales was the main reason sales exceeded the original estimate. They rose 20% organically following a decline of 45% in April and 20% in May. The pick-up in June was generally across the board geographically: +32% in Germany, +24% in France and +15% in North America, with Latin America (1% of sales) being the only exception. According to Somfy's management, July is also looking strong, leading them to believe that Q3 will also be an excellent quarter.

While sales were down 7.5% in H1 as a whole, the company stated that at this stage, it would expect to see a decrease in underlying operating profit that is "slightly higher" than the decrease in sales, which in our view points to excellent cost control in a challenging environment, particularly for a company that decided not to use the furlough scheme or apply for the various French government subsidies, such as the deferral of tax and social security payments or secured loans. Here as well, the release led to earnings and recommendation upgrades.

Albioma's H1 report confirmed its resilience in the current environment with an EBITDA growth of 19%, despite the negative impact of a €2M drop in Brazilian Real and the additional costs related to Covid-19. The company also reiterated its full year projection announced before the eruption of the pandemic. The visibility on future growth is excellent, coming from the conversion of coal-fired power stations to renewable fuels and the development of new solar projects and Brazil. In spite of a +40% performance this year, the stock still trades at a significant discount to other players in the buoyant renewable energy sector.

Barco's H1 report highlighted the impact of COVID-19, with sales down 18% and adjusted EBITDA down 40%. Order intake was down 25% YoY, giving way to a book-to-bill of less than one. The company's full year guidance remains qualitative, stating that Q2 should have been the worst quarter.

Due to its cinema exposure, Barco is one of the few companies in the portfolio that would be operationally impacted during H2 should a second wave trigger the reintroduction of lockdowns on a large scale to counter the spread of the virus. Despite the disappointment of H1, which will likely continue for the remainder of 2020, Barco has stuck to its long-term targets (14-17% EBITDA margin), which could be supported by the optionality of its balance sheet with a net cash position representing approximately 25% of its market capitalisation.

**Bertrand Faure**
PORTFOLIO MANAGER

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.
** A EUR Class

Similar to every other auto supplier, Akwel had to endure the impact of its factories' closure in Q2. With production down 31% in H1, the firm outperformed its market with global production falling by 34% and 40% in Europe and North America.

Successfully adapting their financial management to this crisis situation enabled Akwel to reduce the net financial debt by €42M over the half-year in spite of a €5M dividend payment. The €47M free cash flow puts the company in a very strong position with a positive net cash position of €17.5M at the end of June. It is also worth mentioning that the €47M free cash flow compares to a market capitalisation of €370M, translating into a yield over 12.5% for a six month period.

As always, we invite investors, or prospective investors to discuss the opportunities with the investment team should they would wish to understand our view on the current situation and the positions held in the portfolio.

## PERFORMANCE DATA As at end of July 2020

### CUMULATIVE PERFORMANCE %

| | 1M | 3M | 1Y | 2Y | 3Y | 5Y | Fund Inception |
|---|---|---|---|---|---|---|---|
| A EUR Class | 0.75 | 18.04 | 6.97 | 2.19 | -2.48 | 27.63 | 29.36 |
| B EUR Class | 0.62 | 16.87 | 6.06 | 1.83 | -2.36 | 27.95 | 29.69 |
| STOXX Europe 600 NR EUR | -0.95 | 5.55 | -5.51 | -4.16 | 2.11 | 2.96 | 5.16 |

### CALENDAR YEAR PERFORMANCE %

| | YTD 2020 | 2019 | 2018 | 2017 | 2016 | Annualised Inception |
|---|---|---|---|---|---|---|
| A EUR Class | -0.04 | 24.41 | -24.86 | 22.80 | 13.55 | 5.04 |
| B EUR Class | -1.10 | 25.04 | -24.48 | 23.17 | 13.55 | 5.09 |
| STOXX Europe 600 NR EUR | -12.96 | 26.82 | -10.77 | 10.58 | 1.73 | 0.97 |

Source: Morningstar.

**Past performance is not an indicator of future performance.**

## AWARDS

Morningstar Sustainability Rating

Out of 731 Europe Equity Mid/Small Cap funds as of 30/06/2020. Based on 94.82% of AUM. Data is based on long positions only.

See Awards Disclaimer on last page.

## 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 10/08/2020 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

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## MORNINGSTAR DISCLAIMER

The Strategic European Smaller Companies Fund received a 4-star Overall Morningstar Rating and a 4-star 5-year Morningstar Rating (A EUR Class). Morningstar Ratings™ as of 31/07/2020.

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 31/05/2020. Sustainability Rating as of 30/06/2020. Sustainalytics provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score.



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