ERIC STURDZA INVESTMENTS

Sturdza Family Fund

July 2020 Fund Commentary

MARKET DEVELOPMENT

Throughout July, the global equity market continued its upward rally (approximately 4.8% for the MSCI World net return Index) erasing most of the losses incurred since the pandemic began. During this period, the US dollar lost traction (approximately -4.15% for the DXY Index) alongside lower US Treasury yields, with the US 10y yield down to 0.53 from 0.66, and the US 30y yield moving from 1.41 to 1.19. Given these developments, and taking into account the current global economy and political agenda going forward, it would not be surprising to see the risk versus return trade-off deteriorate for many assets, as volatility and asset class correlation remains elevated or has the potential to increase.

As mentioned in previous commentaries, this unique combination could be detrimental in the longer term. As the number of diversifying alternatives decreases, while equities and bonds continue to appreciate, investors are left with little choice but to increase overall risk to achieve comparable returns. This said, should the Federal Reserve decide to intervene indefinitely and valuations become redundant, economic realities should start to filter through eventually. Therefore, it is critical to stay disciplined, avoid short-term temptations and be prepared for any significant opportunities that the markets provide.

PORTFOLIO DEVELOPMENT

During July, the Fund returned approximately +4.30% (SI class). In total return terms, both the Equity and Fixed Income books appreciated (approximately +6.6% and +1.0% respectively). Apple was the largest positive contributor to return again this month (+0.35%), followed by HCA Healthcare (+0.30%) and Alibaba (+0.27%). On the other hand, the largest negative contributor was VMware (-0.15%), followed by Shiseido (-0.08%) and Asahi (-0.07%). For the Fixed Income book, the 30-year US TIPS was again the largest contributor over the period.

The Fund's overall asset allocation was slightly altered during the month following the Allocation Committee's decision to reduce the Fund's equity exposure. As such, equity exposure was reduced from approximately 65% to 63%, and the proceeds remain available to seize opportunities as they arise, rather than reinvest these funds at the current elevated pricing levels in either asset class. Additionally, as the implied volatility priced by the market is still high, we will continue to focus on the use of derivatives, as mentioned in previous commentaries. By the end of July, more than half of the companies held in the Fund had reported their earnings - most of which equalled or exceeded their EPS estimates. One company that has received special attention during the crisis is Tractor Supply. The company's results have surpassed many, if not all, expectations in terms of resilience.

One of the main reasons identified is the recent uptake in DIY home improvements and interest in what Tractor Supply calls American "rural" life; there is also much to suggest that the crisis has highlighted the importance of leading a more "self-sustainable" lifestyle to consumers. This trend is reflected in the company's most recent results, which illustrate +35% YoY net revenue increase alongside a better than expected gross margin expansion and EPS, with virtually all product categories and regions experiencing double digit growth. Combined with a strong e-commerce platform which saw triple digit growth over the period, Tractor Supply managed to achieve one of its best growth quarters seen in its recent history. We already had a strong belief in the company's long-term potential, but underestimated the impact of the pandemic on underlying trends supporting the bull thesis.

Tractor Supply saw a lot of demand during the second quarter through the clear shift in consumer behaviour as people spent more time and care on their land and homes

Eric I. Sturdza
PORTFOLIO MANAGER

Constantin Sturdza
PORTFOLIO MANAGER

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.

CONTACT

E.I. Sturdza Strategic Management Limited

+44 1481 722 322

info@ericsturdza.com

ericsturdza.com

throughout the pandemic - a trend that we anticipate will continue as long as COVID-19 fears remain in place with people working from; and spending more time at home. Quite how much the market was willing to push valuations was underestimated given the unprecedented market conditions, but in the case of Tractor Supply, the Investment Team feels that the resiliency versus quality argument warrants this higher multiple. We note that since the lows experienced in March, the company's stock price has moved from below $70 to around $148 recently. Around current levels, profits were via outright sales or through options.

Finally, three existing positions were closed during July - A.O. Smith, Booking Holdings and NetApp, while two new positions were initiated in Teleperformance and Air Liquide.

OUTLOOK

Throughout the COVID-19 pandemic, financial markets have been supported by trillions of dollars of additional liquidity from central banks, and trillions more in expected support from government programmes to citizens and businesses. In our view, the absence of risk-free investments yielding positive real returns will likely support global equity markets in general. This will be particularly noticeable in the short-to-medium term for high quality companies, as they become the natural destination of excess cash.

Looking at fundamentals, political and geopolitical risks are also arguably on the rise as the US prepares for its Presidential election in November, and relations between the U.S. and China continue to deteriorate. Anticipating the market's reaction to these fundamental sources of uncertainty is difficult given the pressures on supply and demand versus classic fundamentals, under current market conditions; however, the Team is slowly adopting an increasingly cautious approach on the back of this.

The significance of Mr. Trump's tax cuts on US earnings-per-share was a catalyst for performance in 2017-2018, and this higher profitability justified significant valuation premiums for US equities compared to other regions. A partial reversal of this windfall could pressure the S&P earnings per share by as much as 8% according to some experts, an additional headwind to digest once the extent of the economic impact of COVID-19 becomes clear. Geopolitical risks arising from Asian markets are more challenging to quantify, although the dependence of many key US companies on that market – be it from a supply or a demand standpoint, and the significance of these companies inside US equity indices - does contribute to risks from our perspective.

On balance, and given the objectives and philosophy of the Sturdza Family Fund, the Investment Team has decided to adopt a slightly more defensive position heading into the second half of 2020 and is remaining on the lookout for specific, strong opportunities in quality growth companies.

PERFORMANCE DATA As at end of July 2020

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	Fund Inception
B USD Class	3.73	9.00	9.68	21.03
SI USD Class	4.30	9.69	11.05	24.19
Composite Benchmark	3.27	8.35	8.06	18.14

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	Annualised Inception
B USD Class	5.42	18.02	12.41
SI USD Class	6.24	20.16	14.20
Composite Benchmark	2.09	18.67	10.76

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 12/08/2020 and are based on internal research and modelling.

WARNING

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