Sturdza Family Fund

August 2020 Fund Commentary

MARKET DEVELOPMENT

Despite the uptick in the number of declared cases in certain regions, COVID-19 related news has generally been encouraging throughout the summer period. Certain issues, such as hospital capacity, have progressively abated whilst governments and regulators continuously reiterated their intent to facilitate any procedure required to produce a vaccine as soon as possible.

Positive economic data, which continues to point to an ongoing recovery, also supported these developments. As such, the global equity market rallied by approx. +6.5% in August, as indicated by the MSCI World net return Index. During the same period, the US dollar depreciated further against other major currencies (approx. -1.3% for the DXY Index) whilst longer dated US Treasury yields increased (UST 10yr up to approx. 0.70 from 0.53, US 30y to approx. 1.47 from 1.19). Lingering uncertainties should have kept longer dated yields capped but inflation fears resurfaced around the end of August, pushing the 30-year inflation breakeven higher.

MARKET OUTLOOK

Our outlook has not changed since the July publication and as such, the same forward-looking comment has been included:

Financial markets have been supported by trillions in additional liquidity provided by central banks, and trillions more is expected in support from government programs to citizens and businesses. The absence of risk-free investments yielding positive real returns will, in our view, likely support global equity markets in general, and high quality companies in particular over the short to medium term, as they become the natural destination for excess cash.

Looking at fundamentals, political and geopolitical risks are also arguably on the rise as the US prepares for a contested election and relations between the U.S. and China continue to deteriorate. The ultimate reaction of the market vis-à-vis these fundamental sources of uncertainty is hard to anticipate given the preponderance of supply/demand vs classic fundamentals in the current markets; although they have contributed to the slow increase in caution that we have adopted. 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 premia for US equities versus 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 smoke surrounding the economic damage caused by COVID-19 clears.

Geopolitical risks arising from the far-east are more challenging to quantify. The dependence of many key US companies on that market – whether it's from a supply or a demand standpoint, and the significance of these companies inside US equity indices, does contribute to the risks in our view.

On balance, and given the objectives and philosophy of the Sturdza Family Fund, we have decided to adopt a slightly more defensive positioning heading into the latter part of 2020 and remain on the lookout for strong, specific opportunities in quality growth companies.

PORTFOLIO DEVELOPMENT

During August, the Fund returned +3% (SI class). In total return terms, the equity book appreciated by approx. +5.7% whilst the Fixed Income book declined approx. -0.5% during the period.

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.

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In terms of contributions, Apple was the largest positive contributor (ca. +0.5%), followed by Facebook (ca. +0.33%) and Royal Caribbean Cruises (ca. +0.29%). In contrast, the largest negative contributor was Becton Dickinson (ca. -0.23%), followed by Centene (ca. -0.1%) and Nitori (ca. -0.08%). In the Fixed Income book, the longer dated treasuries were the largest detractors whilst shorter dated instruments remained more or less flat over the period.

The Fund's overall asset allocation, which became slightly more conservative in July, remained the same throughout August, as the outlook iterated in July's report has not changed. As such, the Fund's equity exposure remains close to 60% whilst proceeds are kept on the sidelines to seize opportunities when they present themselves.

By the end of August, nearly all of the companies held in the Fund had published their quarterly figures - most of which were very resilient. Generally speaking, management teams were reluctant to provide detailed forward-looking estimates as the current situation still renders the exercise practically impossible depending on the sector etc. This said, as the situation progresses and the number of potential outcomes consolidates, the ability of companies to provide guidance will most certainly be a strong performance driver in the near term.

Becton Dickinson, the world's largest manufacturer and distributor of medical and surgical products, reported its quarterly results at the beginning of August. The mixed results were somewhat expected as the pandemic affects the company's Medical and Life Sciences segment, but is partially offset by upside in their Interventional segment via diagnostic testing and an increase in procedure volume due to COVID-19. This said, according to the company's report, total gross headwinds in Q3 amounted to approx. $800m with tailwinds of approx. $200m resulting in a $600m net headwind for the quarter, underperforming expectations. The announcement caused the stock price to depreciate by approx. 8%. A couple of weeks later, Abbott and Roche received COVID-19 testing approvals which undermined Becton Dickinson's offering as it is expected be substantially cheaper, thereby putting the company's stock price under further pressure. However, demand still far outweighs supply for COVID-19 testing and Becton Dickinson's product, Veritor, should be perceived as a higher quality test given the superior robustness it demonstrated during trials and the fact that it is primarily used in doctor's surgeries. Even though the pandemic has caused interim headwinds, the longer-term opportunity is still present. The company remains well-positioned to generate stable single digit organic growth coupled with double-digit EPS growth and strong free-cash-flow generation over the coming years. As such, any significant stock price retreat will be used either as an outright opportunity or through the use of derivatives.

PERFORMANCE DATA As at end of August 2020

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	Fund Inception
B USD Class	2.59	7.16	12.36	24.16
SI USD Class	3.00	8.21	14.19	27.91
Composite Benchmark	3.73	9.08	12.67	22.55

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	Annualised Inception
B USD Class	8.16	18.02	13.44
SI USD Class	9.43	20.16	15.42
Composite Benchmark	5.90	18.67	12.57

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 14/09/2020 and are based on internal research and modelling.

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