



# Strategic European Smaller Companies Fund

September 2020 Fund Commentary



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PORTFOLIO MANAGER

In September the Eurostoxx 600 returned -1.41% after trading sideways in the third quarter, returning only +0.64% for Q3 2020, with notable dispersion between companies, sectors and countries. This dispersion has been extremely favourable for active investors and in particular fundamental investors, who have been well placed to understand the impacts of the current environment on companies' earnings.

The Fund has continued to perform well returning +3.49%\* in September, +9.57% in Q3, and +8.70% year to date, representing a 20.26% outperformance against its benchmark, which has fallen by -11.56% year to date.

During September, the largest contributors to the Fund's performance were: Trigano (+1.33%), Wavestone (+0.88%) and Akwel (+0.78%). Iliad was the largest detractor (-0.55%) during the month, followed by Ipsos (-0.28%) and Aubay (-0.24%).

As explained in the August newsletter, Trigano and the entire recreational vehicles industry are key beneficiaries of the staycation trend in Europe. The latest market data in both France and Germany, by far the two largest European markets, are clear illustrations of the phenomenon. The Company published its full year revenues on the 23rd September with a -6.2% decline. Q4 revenues (June to August) were +34.1% and enabled the group to almost recoup all sales lost during the lockdown, when its factories and dealerships were closed.

The outlook for the new season was also very encouraging, as noted by Laure Al Hassi, the IR contact at Trigano: *"Inventories are at an abnormally low level because productions lost in the third quarter could not be fully caught up and distribution must satisfy a new customer base. This situation resulted in a sharply increasing order portfolio and the need for Trigano to rapidly and significantly increase production capacities which are saturated today"*. For these reasons, the Fund remains invested in Trigano as growth opportunities for the coming years appear underestimated today, even after the stock price tripled since March 2020.

On the 4th September, Wavestone issued an update on its business activity for Q2 2020/21 (1st July to the 30th September 2020), stating that:

- 1) Q2 business activity is stronger than anticipated
- 2) The Company is progressively resuming recruitment

Wavestone is seeing the first fruits of the measures it implemented in Q1 to revitalise business activity. In parallel, project delays and cancellations arising from cost-saving plans being implemented by clients are proving less severe than anticipated. The Company also expects to record better than projected levels of order intakes for Q2. In particular, *"order intake for September is likely to be buoyant"* as noted in Wavestone's Q2 summary. Consequently, Wavestone's stock price was up 25% in September, following several brokers' upgrades.

Finally, Akwel's share price reacted very favourably to the announcement of its H1 results on the 25th September, rising by 21% during the month. Prior to the announcement, consensus expectations for the FY 2020 operating income stood at €28.9M. Akwel reported €24.3M for H1 only, an impressive 6.3% operating margin over the semester (8.3% for H1 19), incorporating the severe impact of the lockdowns in Q2 (revenues down 58.5% that quarter). As a comparison, pretty much every other auto supplier we follow recorded operating losses in H1.

Consensus expectations for 2020 will have to at least double to reflect H1 performance, given that, the 20% return during the month fails to reflect the resilience of the Company's margins and its ability to deliver substantial free cash flow (€51M for H1 alone vs. €455M market capitalisation post September return).

## 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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\* A EUR Class; for detailed performance information based on complete 12-month periods since inception, please refer to page 2



On the detractor side, Iliad was penalised in September for three main reasons:

- 1) The upcoming 5G licences auction process has resulted in stress in the sector,
- 2) Iliad lowered guidance for 2020 and 2021. Operating free cash flow (OpFCF) in France by c. €100M, a key focus of the investment case,
- 3) Iliad surprised the market on the 21st September when it unveiled its intention to acquire Play in Poland for €3.5B EV.

None of the three points contradict our thesis. To the contrary, seeing Iliad posting Q2 results, better than consensus expectations on most metrics and evidence of very robust commercial performance and operating trends in France and Italy proved extremely reassuring. Additionally, guidance reduction for 2020/21 OpFCF in France is only the consequence of higher than planned capex to allow more fibre to the home (FTTH) take-up (higher targets). We believe that management is right to pursue an ambitious growth strategy in a market where price inflation/FTTH volume growth are still ahead, coupled with opportunistic and value creative entry into new territories. The Fund's position in Iliad was increased during September.

There is no significant news to be reported about Ipsos and Aubay at this time.

As has been the case throughout 2020, the macro picture remains uncertain. In addition to the continued Coronavirus situation, investors also need to weigh up the U.S. elections news flow. The portfolio continues to hold strong companies with significant upside potential that are well positioned to deal with these issues.

As always, we invite investors and prospective investors, to discuss the Fund with us if they would like to understand our views on the current situation and the positions held in the portfolio.

## AWARDS



Morningstar Sustainability Rating

Out of 730 Europe Equity Mid/ Small Cap funds as of 31/07/2020. Based on 96.48% of AUM. Data is based on long positions only.

See Awards Disclaimer on last page.

## PERFORMANCE DATA As at end of September 2020

|                         | 1M    | 3M   | 1Y    | 2Y    | 3Y   | 5Y    | Fund Inception |
|-------------------------|-------|------|-------|-------|------|-------|----------------|
| A EUR Class             | 3.49  | 9.57 | 17.11 | 13.78 | 2.42 | 53.29 | 40.68          |
| B EUR Class             | 3.29  | 9.04 | 15.62 | 12.91 | 2.11 | 53.14 | 40.55          |
| STOXX Europe 600 NR EUR | -1.41 | 0.64 | -6.15 | -0.81 | 0.66 | 18.82 | 6.85           |

## CALENDAR YEAR PERFORMANCE %

|                         | YTD 2020 | 2019  | 2018   | 2017  | 2016  | Annualised Inception |
|-------------------------|----------|-------|--------|-------|-------|----------------------|
| A EUR Class             | 8.70     | 24.41 | -24.86 | 22.80 | 13.55 | 6.52                 |
| B EUR Class             | 7.18     | 25.04 | -24.48 | 23.17 | 13.55 | 6.50                 |
| STOXX Europe 600 NR EUR | -11.56   | 26.82 | -10.77 | 10.58 | 1.73  | 1.23                 |

Source: Morningstar.

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



## 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 01/10/2020 and are based on internal research and modelling.

Please contact [info@ericsturdza.com](mailto:info@ericsturdza.com) should you wish to have an update call with the investment team.

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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 31/08/2020.

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 30/06/2020. Sustainability Rating as of 31/07/2020. Sustainability provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score.

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