Sturdza Family Fund

September 2020 Fund Commentary

MARKET DEVELOPMENT

Global equity markets consolidated in September, the first negative month since March 2020. All told, this consolidation comes after an unusual acceleration in equities over the summer, a two-month long, quasi-uninterrupted period of steadily increasing prices, especially with regards to technology companies. The consolidation, initiated by the same large U.S. tech stocks on 2nd September, was initially attributed to an exhaustion of the heavy speculative flows, some of which apparently came from Masayoshi Son's Softbank derivatives bet, which had until then reliably pushed the market upwards.

At the same time, US Treasury yields jumped, the dollar slipped before regaining traction and oil fell below $40 a barrel to reach its lowest level since late June. Nonetheless, the negative move lasted for about 2 weeks until renewed signs of progress for a vaccine coupled with a flurry of deal activity reinvigorated positive general sentiment. As a result, global equity markets recouped a portion of the lost ground by the end of September.

MARKET OUTLOOK

Our outlook has not drastically changed. Therefore, the below forward-looking statement is similar to last months:

Financial markets have been supported by trillions of additional liquidity provided by central banks, and trillions more in expected 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, in the short to medium term, 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 prepare 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 are hard to anticipate given the preponderance of supply/demand vs classic fundamentals in the current markets; although, they do contribute to a slow increase in the adoption of a cautious approach.

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 would pressure the S&P earnings per share by as much as 8% according to some experts, an additional headwind to digest once the smoke of the Covid's economic damage clears. Geopolitical risks arising from the far-east 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 as we see it. Furthermore, we believe that long term investors may especially be challenged over the coming months. The combination of many large-cap stocks trading at significantly overvalued levels coupled with the broader market not providing much margin of safety yields an overall profile prone to sharp risk-off corrections especially given the amount of potential catalysts going forward.

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

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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PORTFOLIO DEVELOPMENT

During the month of September 2020, the Fund returned approx. -1% (SI class). In total return terms, the equity book fell by approx. -2.47% whilst the fixed income portfolio was flat, returning +0.05% during the period.

In terms of contribution, Keyence was the largest positive contributor (ca. +0.15%), followed by Nidec (ca. +0.13%) and Avery Dennison (ca. +0.10%). On the other hand, the largest detractor was Worldline (-0.21%), followed by Facebook, (ca. -0.13%) and Apple (ca. -0.12%). Within the fixed income portfolio, positions remained largely flat over that period. The long-dated inflation-linked Treasury (30yr TIPS) position was the only negative detractor (-0.1% contribution).

Renewed and elevated expectations for a market recovery carried both Keyence's and Nidec's stock prices higher in September-outperforming both their peers and the broader Japanese equity market. In our opinion, other reasons stand behind their respective ascent: Keyence, stands out for its competitive products, resilience amid downturns thanks to its "fabless" structure and likelihood of further expansion in underpenetrated overseas markets. The company exhibits leading margins and is seemingly poised to continue to outgrow Japanese and U.S. rivals going forward. In other words, Keyence is a company whose leadership enables market share gains and as such warrants a premium to its peers.

Nidec, although a very different company, shares certain attributes as a leading global supplier of electric motors. Thanks to their superior efficiency, the majority of demand for such motors comes from IT applications, for which Nidec has established top share in various applications such as hard disk drive motors and fan motors amongst others. Therefore, Nidec is well positioned to capture demand from new applications and industries. After all, half of the electricity generated globally is consumed by motors and the need for efficiency will be a necessity in order to meet the evolving environmental standards going forward. This kind of setup coupled with more resilient earning results during the epidemic has warranted a portion of the multiple expansion. Nonetheless, current levels warrant caution as implied growth expectations have continued to rise. As such, both positions are currently under review.

The Fund's overall asset allocation held steady through September, as the outlook has not significantly changed. Therefore, the Fund's equity exposure remains close to 60% whilst a portion of the assets are kept on the sidelines to seize opportunities should they present themselves.

PERFORMANCE DATA As at end of September 2020

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	Fund Inception
B USD Class	-0.85	5.52	11.48	23.11
SI USD Class	-1.02	6.33	13.07	26.61
Composite Benchmark	-2.05	4.92	9.08	20.03

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	Annualised Inception
B USD Class	7.24	18.02	12.25
SI USD Class	8.31	20.16	14.01
Composite Benchmark	3.72	18.67	10.68

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 09/10/2020 and are based on internal research and modelling.

WARNING

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