



# Strategic European Silver Stars Fund

December 2020 Fund Commentary

We would like to wish you a happy and healthy 2021 after such a volatile and eventful year in 2020, during which we experienced pretty much every possible scenario in a very short time frame.

December was another strong month for the Strategic European Silver Stars Fund across nearly all positions. The Fund returned +5.94%\*, compared to +2.58% for the benchmark, with 24 out of 27 positions contributing positively. In 2020, the Fund posted a total net return of +28.63%, while the benchmark decreased by 1.99% (30.62% relative outperformance).

In December, the largest contributors to the performance were: Hunter Douglas (+1.77%), Wavestone (+0.73%) and Befesa (+0.72%). There were only three positions that negatively impacted the Fund during December, although the impact was negligible: Iliad (-0.05%), Barco (-0.05%) and Brembo (-0.002%).

Hunter Douglas is a position that was first added to the Fund in June 2020, although it is a name that is familiar to us as we previously held this company in 2007 in another managed vehicle. The company is a world leading manufacturer of interior window coverings, trading under many different brand names, with a 60%+ market share in the US and a 50%+ market share in Europe. Following the Q1 2020 market selloff, the company became interesting again, trading at levels not seen since June 2016. When we entered the position in June 2020, the company was trading at €44.9, whereas our fundamental valuation gave a target price in the 80's; offering nearly 100% upside potential. Based on our experience through an investment in the same industry, Somfy, our view was that COVID would have limited impact on the company and that the market was seriously undervaluing the firm. Q3 results released in early November confirmed our belief with 2020 showing a €10M increase in EBITDA compared to the corresponding nine-month period in 2019.

The future is bright for Hunter Douglas and even if the market still fails to recognise it properly, the founding family do not. On 12th December, Hunter Douglas N.V. and Bergson Holdings B.V., a holding company owned and controlled by Mr. Sonnenberg, who holds 82.7% of the common shares, 99.4% of the preference shares and accordingly over 90% of the total issued capital of Hunter Douglas, announced that Bergson is offering to acquire all of Hunter Douglas' outstanding common shares for €64 in cash per share (cum dividend). The offer price represents a premium of 18.8% over the volume-weighted average price of the prior 30 days and 25.5% over the last closing price of €51.

The position was one of the largest contributors to the Fund in 2020 with the stock rising 43% in the six months since it was added to the portfolio, however the price offered comes at a substantial discount to our fundamental valuation for the company and compared to listed peers. We will wait for the company to unveil the offer document in January before we decide what our next course of action will be, to protect the Fund's interests.

On 1st December, Wavestone published provisional results for H1 2020/21 with an operating margin at 7.7%, higher than the previously indicated level of 7%. The use of furlough measures contributed 2.8 percentage points to this operational profitability. Despite the more uncertain economic climate, the company has been adopting a progressively bullish stance since September. In addition to almost ceasing the use of furlough measures since 1st October, Wavestone has gradually been expanding its recruitment activities into new offices and practices, while ensuring this does not compromise the rising consultant utilisation rate, seen at 72% for the third quarter, higher than the 70% figure previously envisaged, and a significant increase on the 65% recorded in H1.

Befesa posted a strong +18.6% return in December without any special event, other than the company participating in several virtual conferences. We believe that market participants have finally discovered the strong underlying resilience of the business, the growth prospects from 2021 onwards linked to key milestones in expansion initiatives in China and the strong ESG credentials of this major European circular economy player.

On this last point, the company announced in September that it has been admitted to the Global Challenges Index (GCX), which comprises of 50 companies that make pioneering contributions



**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 Funds 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.

to overcoming global challenges such as climate change, the provision of clean drinking water, deforestation, biodiversity, population development, poverty and global governance. The decision of the Global Challenges Board to include Befesa in the GCX is based on the company's strong performance in the ISS ESG Corporate Rating and, in particular, on Befesa's contribution to the attainment of the Sustainable Development Goals, which is reflected in the Sustainable Development Goals Assessment (SDGA).

There is nothing to be reported regarding the detractors this month given their very limited impact on performance.

2021 will hopefully be less eventful than 2020, but just because vaccines are now being rolled out it does not mean it will be plain sailing, as we have seen with the different COVID variants coming to light in the last few weeks. It will take time for the vaccine rollout to reach the levels needed for life to go back to normal. Lockdowns and restrictions are likely to still be a tool that governments utilise to control the spread of COVID. Markets are likely to be jumpy, especially given the large moves that we have seen, but more positively, they are already beginning to return focus back to other issues such as ESG rather than just COVID.

In normal circumstances, as a manager, we should not feel so at ease after such a strong year, posting a 30% outperformance. This time around, the situation is radically different as the recent portfolio rotation has completely reshuffled the cards.

We believe 2021 should remain a favourable investment environment for fundamental management. We are seeing opportunities in Europe today that we have not seen for many years, combining low valuations with sharp earnings growth prospects for at least the next two years. As of today, the Fund's largest positions all trade with a PE below 10x for next year, with free cash flow yields of at least 10%, we believe this will make a powerful cocktail for future performance in the months and years to come.

On the HR front we are pleased to announce that Thomas Corbrion has joined the research team as of 1st January, 2021.

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

## Ratings & Awards



### Morningstar Sustainability Rating

Out of 731 Europe Equity Mid / Small Cap funds as of 31/10/2020. Based on 95.29% of AUM. Data is based on long positions only.

See Awards Disclaimer on last page.

## Performance Data As at end of December 2020

### Cumulative Performance %

|                         | 1M   | 3M    | 1Y    | 2Y    | 3Y    | 5Y    | Fund Inception |
|-------------------------|------|-------|-------|-------|-------|-------|----------------|
| A EUR Class             | 5.94 | 18.33 | 28.63 | 60.03 | 20.24 | 67.67 | 66.47          |
| B EUR Class             | 5.98 | 18.47 | 26.98 | 58.78 | 19.90 | 67.70 | 66.50          |
| STOXX Europe 600 NR EUR | 2.58 | 10.82 | -1.99 | 24.29 | 10.91 | 24.76 | 18.41          |

### Calendar Year Performance %

|                         | YTD 2020 | 2019  | 2018   | 2017  | 2016  | Annualised Inception |
|-------------------------|----------|-------|--------|-------|-------|----------------------|
| A EUR Class             | 28.63    | 24.41 | -24.86 | 22.80 | 13.55 | 9.42                 |
| B EUR Class             | 26.98    | 25.04 | -24.48 | 23.17 | 13.55 | 9.43                 |
| STOXX Europe 600 NR EUR | -1.99    | 26.82 | -10.77 | 10.58 | 1.73  | 3.03                 |

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 04/01/2021 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.

## Warning

The contents of this document have neither been reviewed nor endorsed by the Central Bank of Ireland or any other regulatory authority. If you are in any doubt about any of the content of this document you should obtain independent professional advice.

## Morningstar™ Disclaimer

The Strategic European Silver Stars Fund received a 4-star Overall Morningstar Rating and a 4-star 5-year Morningstar Rating (A EUR Class). Morningstar Ratings™ as of 30/11/2020.

The Strategic European Silver Stars 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 30/09/2020. Sustainability Rating as of 31/10/2020. Sustainability provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score.

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