ERIC STURDZA
INVESTMENTS

Sturdza Family Fund

December 2020 Fund Commentary

Market Development

In December, the MSCI World Index (in USD) increased approximately 4.1%. The Eurostoxx 50 (USD Net Return) and S&P 500 also appreciated by approx. 4.1% and 3.7% respectively. On the other hand, the Dollar Index (DXY Index) depreciated by approx. 2.1% over the period whilst the generic 30Yr Treasury Yield went from approximately 1.56% to 1.64% while the VIX Index closed the year at 22.8.

2020 in review: a year full of records

Without a shadow of a doubt, 2020 will go down in history as a unique year. With more than 1.6m deceased and 76m cases worldwide, the COVID-19 pandemic first and foremost has had an alarming direct human toll. By forcing governments to take drastic confinement measures, few aspects of human life remained unaffected, and with that, the global economy suffered its most significant disruption in recent history.

Contrary to previous exogenous shocks, the global and synchronised nature of the pandemic deprived us from any form of stabilising regional decoupling, and the wide-ranging quarantines spared few sectors from fundamental disruptions, at least initially. With a sluggish economy, high levels of indebtedness and seemingly few weapons left in central banks' respective arsenals, the initial Q1 2020 environment was an especially poor fundamental backdrop to absorb this shock – and a shock it was – global real GDP dropped by a staggering 31% in the second quarter of 2020.

Thankfully, 2020 was also a year of human audacity and ingenuity. Within weeks of markets starting to internalise the very real possibility of economic devastation, governments and central banks courageously introduced stimuli, interventions and guarantees of historic proportions, deftly enabling the financial system to remain afloat while the important medical work to combat the pandemic raged on.

In the medical field, extraordinary advances in vaccines and treatments were achieved in record time, while new and promising technologies such as mRNA were introduced to the wider public. Corporate habits adapted to work-from-home, and the adoption of digital solutions across all demographics accelerated significantly. The undeniable need for fiscal stimulus emboldened governments to finance significant green infrastructure plans, most notably in the EU, enacting challenging decarbonisation ambitions.

All in all, 2020 was a year of records:

- The cost of protecting markets from a further drop in equities via options, as measured by the VIX Index in the US and by the V2X Index in Europe, equalled or even outpaced the most extreme days of 2008;
- The price of WTI Crude oil reached an unimaginable -$37 in April, and remained in the low teens for weeks;
- Some developed market government bonds traded with multiple percentage points of bid / ask spreads;
- The US market saw the quickest 30%+ drawdown, followed by the quickest recovery, in 122 trading days, a sequence unheard of in modern financial history.

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 Funds plc.

Registered in Ireland.

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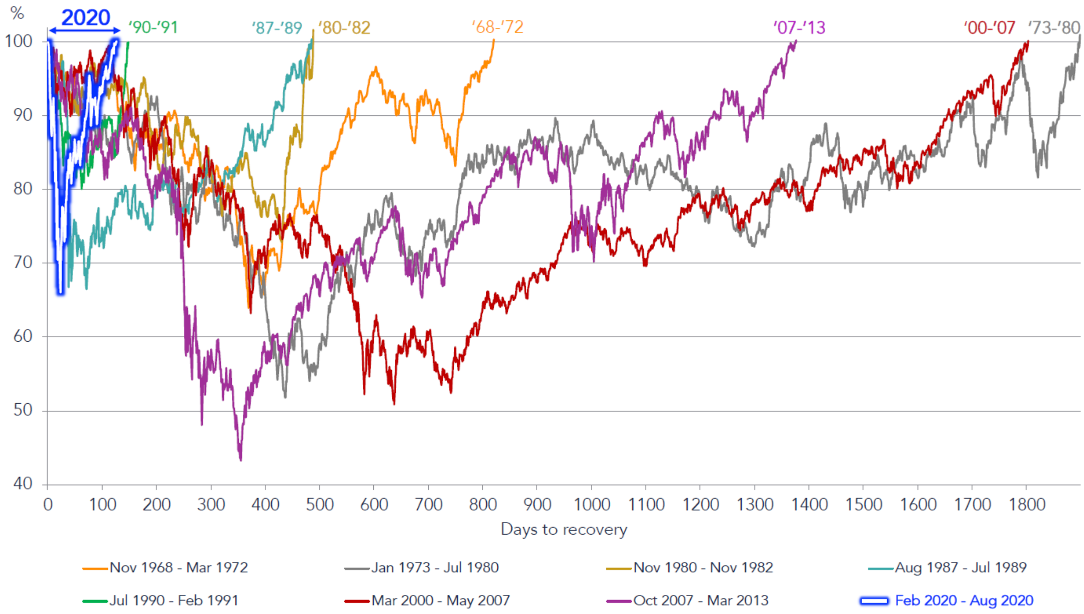
The graph below shows the most significant US bear market periods since 1968.



Numerous other records were also shattered on the way up. Apple, a unique company if ever there was one, managed to increase its market capitalisation by $1trn while recording little revenue growth. Tesla, a leader in electric vehicles with no accounting profits, added almost $500bn to its market cap, and now weighs more than the nine largest global auto OEMs combined. The rush to invest in such companies, seen as beneficiaries of the acceleration of long-term trends, contributed to record valuation differentials between different cross-sections of the market - a fact only marginally reversed by the post-vaccine "rotation".

Market Outlook

Where to from here then?

As we begin the new year, we believe that key drivers of equity performance remain in place. With base effects supporting 20%+ earnings growth in major equity indices, this dynamic will likely support the view that while rich from a historical and nominal standpoint, equities will normalise to more acceptable levels when considering the low interest rate environment.

Significant fiscal support should remain the norm in Europe and the US as large swaths of the small and mid-cap universe, key to national employment, remain in need of economic assistance. The presumptive US Treasury Secretary, Mrs. Yellen, will likely be a strong ally, supporting expansionary policies given her track record and her well-known desire for direct stimulus to complement an over-burdened monetary policy. Further, some of these Keynesian tendencies seem to be spreading among Europe's ministers, a welcome pro-cyclical bias which seemed out of reach as recently as a year ago.

Additionally, central bankers will probably remain focused on comprehensive monetary accommodation as the only way out of this historical global recession and the only path back to a 2% inflation trend, further aggravating the lack of investment alternatives and pushing valuations of visible returns. Indeed, an argument that was always dismissed as overly theoretical is now objective reality, i.e. that the "fair" or net present value of a stream of future cashflows is sensitive to the discount rate used, itself a function of the risk-free interest rates and a risk premium.

When central banks and governments vow to keep both of these as low as possible by way of trillions in stimulus, not only do financial analysts adjust their models and

Ratings & Awards

Morningstar Sustainability Rating

Out of 1,966 Flexible Allocation funds as of 30/11/2020. Based on 69.29% of AUM. Data is based on long positions only.

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underwrite higher asset prices, pension funds with long-term return requirements are forced, by a very real lack of alternatives, into higher yielding assets. The asset raising prowess of private market firms such as Blackstone and the nature of their conversations with the largest institutional investors attest to this undeniable reality.

On this front, like many other matters, the current COVID crisis has merely been an accelerant, and has intensified a financial context in place since the post 2008 era of quantitative easing. Should a slowly normalising economy remain supported by stimulus of such scale, the door opens for a broadly distributed progression in asset prices, feeding into CapEx plans, consumer confidence, and an accelerating velocity of money, notably from normalising bank balance sheet quality. With large investment plans required to set the basis for a modern, greener, more efficient real economy in the developed world, *could this be the beginning of a new bull market?*

One area of concern is ironically shaping up to be the prevalence of this view, and while that does not in itself constitute a reliable enough contrarian indicator, risks of "frothiness" and the difficulty to find true attractive diversifiers will remain on our minds as we prepare to navigate, hopefully, the post-COVID world. If anything has been learnt in the past year, it is that exogenous shocks and "black swans" do materialize, and while analysis and projections are useful, humility is "de rigueur". As such, the Sturdza Family Fund remains cautiously optimistic for equity markets, and will maintain a neutral to positive exposure to stocks.

Portfolio Development

The Fund entered the year 2020 with a relatively conservative positioning, both from an equity exposure and fixed-income perspective, largely the result of limited strong investment convictions from a bottom-up standpoint, and a rather soft growth and momentum environment.

As the virus spread in the western world and the inevitability of strict confinement measures became clear, markets began a sharp correction phase of historic proportions. As communicated at the time to our investors, the unique nature of the crisis and the uncertainty around what the path to contain it would entail economically, conspired with extraordinary bravado from OPEC to stress financial markets to levels not seen since 2008.

The Fund, designed in part to respond opportunistically to these rare "end of the world" moments adopted a policy of gradual rebalancing and increasing the portfolio's equity allocation starting in early March. Given the tremendous level of uncertainty and the potential for a devastating chain reaction of corporate failures, had it not been for decisive interventions from monetary authorities, the Fund adopted a cautious, methodical rebalancing. Maximum equity risk exposure was never reached; however, the rebalancing of the portfolio ensured the Fund was exposed to the extraordinarily strong and virtually uninterrupted ensuing recovery.

Like many other market participants, such a recovery in equity indices was not our base case, and would have been a wholly unreasonable bet for any student of history. Nevertheless, the Fund's focus on well-managed, world-class companies with compelling development prospects in the future once more proved its value, enhancing our ability to embrace a longer-term view. It also enabled us to seize the opportunity of initiating investments in new companies. Accenture, Air Liquide, Roche, Merck, Teleperformance and Berkshire Hathaway were all new investments initiated during the drawdown, with Blackstone joining in the second half of the year.

Most importantly however, the drawdown gave us an opportunity to reinforce existing positions at attractive prices and thus enabling the Fund to turn even mediocre performers into positive ones: VMware ended the year a positive contributor to Fund performance while the stock declined 7.6% during the year.

The extreme market conditions experienced in 2020 also provided us with the opportunity to deploy capital in equities on a conditional manner through the use of options. Indeed, extraordinary levels of volatility and uncertainty translated into significant premiums on options, enabling the Fund to be paid handsomely in exchange for agreeing to buy certain stocks at specific, below market prices.

In effect, this strategy aligned with the Fund's strategy of reinvesting in equities at lower valuations while collecting a significant additional premium to do so. For example, in mid-March, three month put options on speciality gas giant Air Liquide were sold at a strike 10% below the then-current stock price – an already damaged level in our view – for a 8.5% premium, in effect giving the Fund the chance to collect a tremendous 38% annualized return in exchange for entering a premier and stable industrial company at a highly compelling valuation should the correction continue.

Amid the significant uncertainty of where the market bottom would eventually materialise, looking to options to execute part of its natural rebalancing strategy enabled us to enhance the Fund's risk / reward profile on attractive terms, and at all times with strict worst-case scenario risk management. As markets rebounded but volatility persisted, this strategy was rolled when deemed compelling. Simultaneously, the Fund also utilised call option selling to collect significant premiums on extreme upward movements in our technology universe. Call options on Apple, Facebook, Alphabet and Microsoft were sold towards the end of August and early September as the group's upward trajectory became parabolic and valuations became questionable, enabling a conditional sale of these positions while providing a significant performance cushion to be generated. While done with parsimony, these unique conditions enabled the Fund to adapt to market conditions, execute on its philosophy while generating a contribution approaching 1% at year end.

Performance Data As at end of December 2020

Cumulative Performance %

	1M	3M	1Y	2Y	Fund Inception
B USD Class	1.96	5.68	13.33	33.75	30.10
SI USD Class	2.26	6.57	15.43	38.70	34.93
Benchmark Composite	2.55	8.41	12.45	33.44	30.13

Calendar Year Performance %

	YTD 2020	2019	Annualised Inception
B USD Class	13.33	18.02	13.69
SI USD Class	15.43	20.16	15.73
Benchmark Composite	12.45	18.67	13.70

Source: Morningstar.

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 15/01/2021 and are based on internal research and modelling.

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The Sturdza Family Fund received a 5 Globe Morningstar Sustainability Award. Out of 1,966 Flexible Allocation funds as of 30/11/2020. Based on 69.29% of AUM. Data is based on long positions only. Historical Sustainability Score as of 31/10/2020. Sustainability Rating as of 30/11/2020. Sustainalytics provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score.

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