ERIC STURDZA INVESTMENTS

# Sturdza Family Fund

## January 2021 Fund Commentary

### Market Development

In January, the MSCI World Index (in USD) saw a decrease of 1.05%, the Eurostoxx 50 (EUR Net Return) depreciated by 2.00% whilst the S&P 500 also depreciated by 1.11%. The Dollar index (DXY Index) appreciated by 0.72% over the period whilst the generic 30Yr Treasury yield went from approximately 1.65% to 1.83% and the VIX Index moved up to 33.09 from 22.75.

In hopes of a rapid return to normality, the race for vaccinations kicked off with the US and UK leading the G7 whilst a number of European countries, alongside Canada were off to a slower start. The pressure for inoculation continued to escalate as outbreaks intensified in many regions. With healthcare systems already heavily burdened, governments had no choice but to implement another round of harsh lockdowns. New, faster-spreading strains also began to emerge and increased the potential setback in certain regions, especially the UK with its already lagging economic recovery and the potential knock-on effects this new strain could have on the Eurozone.

On the political front, 2021 has already brought some significant changes. Doubts surrounding Brexit abated when both governments finally agreed to a trade deal that will allow quota and tariff-free goods trade, thereby preventing a plethora of potential issues and long-lasting tensions. On the other side of the pond, the US Presidential transition encountered unprecedented riots in Washington, which thankfully abated with Congress's certification of the Electoral College vote alongside a mandatory "call for calm" by Trump. Additionally, democrat wins in two Senate runoffs strengthened President Biden's hand, though a narrow split (50-50) could still put a lid on the most ambitious goals of the new administration's agenda. In turn, the higher probability of more fiscal stimulus and larger deficits prompted the selloff in US Treasuries in December, with 10-year yields rising above 1% for the first time since spring of last year. Rising oil prices (aided by Saudi Arabia's unilateral supply cut) contributed to the uptick in market based inflation expectations, which rose above 2% for the first time in approximately 2 years.

A month into the New Year and vaccine rollouts remain in focus with the UK and US still leading other major economies in terms of distribution while Europe continues to lag due to technical issues (shipment delays). That said, vaccine distribution is finally making a turn and running hotter than was expected just a couple of months ago. While the vaccine rollout will without a doubt have a direct and positive effect on economic activity, there is seldom a fully transparent road ahead.

Central banks remain fully committed to supporting the recovery, though some have already began flirting with the idea of exit strategies. For example, Fed Chair Powell pushed back against his colleagues' taper talk, saying any conversation regarding QE reductions is still premature. That said, the current base case points to a strong recovery over the course of 2021, and if it were to materialise, discussions surrounding tapering will most definitely intensify by year-end.

As such, caution is the name of the game as renewed waves and/or new variants could stall the current consensus outlook and provide compelling entry opportunities.

**Eric I. Sturdza**
Portfolio Manager

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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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## Market Outlook

As discussed in the December report, the COVID crisis and the global fiscal and monetary response have ironically brought about a unique set of powerful drivers for equity markets. Negative rates, substantial credit market interventions, record levels of fiscal stimuli, the accelerated adoption of modern technologies, the prospect of a vaccine… all of these forces have conspired to launch equities – traditionally considered "risky assets" – on a seemingly risk-free upwards trajectory. A mere month later, localised signs of excesses are increasing, symptomatic of a growing euphoria. In a surprising twist, January saw the most heavily shorted stocks flare up above 30% year to date, emulating to some extent the index of non-profitable technology stocks compiled by Goldman Sachs. Many, if not most, institutional positioning and sentiment surveys show historically high bullishness and low cash reserves. US single stock Put/Call ratios, an insightful indicator of risk appetite derived from derivatives markets, also joins the narrative by reaching 20y record levels. Retail investor participation, fuelled by platforms such as Robinhood, have gone parabolic, fuelling new trading behaviours such as decentralised short squeezes - the now infamous Gamestop saga. While some of this remains in the realm of the anecdotal, a clear picture of enthusiasm is emerging, a cause for additional discrimination in long-term equity investing going forward in our view.

On a positive front, we view such behaviour as rather localised, the warning signs flashing mostly in certain categories of stocks and geographies. Simplistically, the phenomenon seems mostly relevant to US listed companies with enticing, disruptive narratives in popular themes, where "hot" retail trading is heavily involved. Even inside the so-called "technology" world, there exists in our eyes a significant difference between proven, profitable and growing companies like Microsoft or Alphabet, and some of the smaller momentum names. Further, the world outside of the US seems much more sensibly priced, and can offer attractive individual opportunities across various industries. As long-term investors, the current behaviour of some pockets of the equity markets are attracting our attention, and we will look to navigate these waters with a healthy dose of selectivity while using any significant pullback as an opportunity.

## Portfolio Development

As mentioned in the December report, one key area of concern is ironically shaping up to be the prevalence of the bull consensus, 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 mind 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 materialise, and while analysis and projections are useful, humility is "de rigueur". As such, the Sturdza Family Fund remains cautiously optimistic for equity markets, and maintains a neutral to positive exposure to stocks. In other words, we held an average equity weighting of approx. 64% and 24% in fixed income instruments whilst the reminder was kept in cash and equivalents over the course of January. The main objective is to not only be well positioned to mitigate short-term equity market volatility risk, but also to capture any opportunities that may rise.

In terms of contribution, Thermo Fischer (+0.11%), Nidec (+0.10%), and Alibaba (+0.09%) were the largest positive contributors whilst Global Payments (-0.33%), Wordline (-0.22%), and Visa (-0.12%) were the largest detractors.

## Ratings & Awards

**Morningstar Sustainability Rating**

Out of 2,073 Flexible Allocation funds as of 31/12/2020. Based on 69.29% of AUM. Data is based on long positions only.

See Awards Disclaimer on last page.

## Performance Data As at end of January 2021

### Annualised Returns % [1]

| | 1M | 3M | 1Y | 2Y | Annualised Inception |
|---|---|---|---|---|---|
| B USD Class | -1.85 | 6.74 | 11.21 | 11.34 | 12.14 |
| SI USD Class | -2.14 | 7.30 | 12.92 | 12.98 | 13.92 |
| Benchmark | -0.79 | 9.69 | 11.41 | 12.33 | 13.22 |

### Calendar Year Returns % [2]

| | YTD 2021 | 2020 | 2019 | Fund Inception |
|---|---|---|---|---|
| B USD Class | -1.85 | 13.33 | 18.02 | 27.69 |
| SI USD Class | -2.14 | 15.43 | 20.16 | 32.04 |
| Benchmark | -0.79 | 12.45 | 18.67 | 30.32 |

Benchmark: MSCI World Net Dividends Index (60%) + Bloomberg-Barclays US Aggregate Gov/Credit Total eturn Value Unhedged USD (20%) + SOFR (20%)

Source: Morningstar.

[1] Annualised Returns as of the date of the reporting over the defined period. Data less than 1 year is not annualised.

[2] Calendar Year Returns: Annual Performance for the stated calendar year.

**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 16/02/2021 and are based on internal research and modelling.

## 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.

## Awards Disclaimer

The Sturdza Family Fund received a 5 Globe Morningstar Sustainability Award. Out of 2,073 Flexible Allocation funds as of 31/12/2020. Based on 69.29% of AUM. Data is based on long positions only. Historical Sustainability Score as of 30/11/2020. Sustainability Rating as of 31/12/2020. Sustainalytics provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score.

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