Strategic European Silver Stars Fund

March 2021 Fund Commentary

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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.

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March was a strong month for the Fund which returned +5.22%*. Similar to February, the vast majority of positions contributed positively, and the short list of negative contributors had limited impact. Year to date the Fund returned +10.73%* compared to +8.20% for the benchmark (2.53% relative outperformance).

During the month, the largest contributors to performance were: Bekaert (+1.58%), Byggmax (+0.51%) and Spie (+0.47%). Conzzeta was the largest detractor during the month (-0.25%), followed by Barco (-0.07%) and Just Eat Takeaway (-0.06%).

Bekaert, which is currently the Fund's second largest position, was up 17% during the month. On 3rd March the company announced exceptionally strong 2020 full year results that were significantly ahead of consensus. Strong cash generation led to a substantial debt reduction, with net debt to EBITDA at 1.3x; compared to above 2x at the end of 2019. In the coming years, Bekaert will continue to optimise its production footprint, focus on higher margin segments, and is likely to increase shareholder remuneration on the back of the improved financial performance in addition to divestments of non-core activities.

Bekaert's capital markets day on 28th May and the Q1 2021 results in early May are likely to be catalysts for further appreciation. New medium-term targets are likely to be disclosed at the capital markets day, as well as additional restructuring measures, and perhaps divestments. The proceeds from these divestments could then also lead to additional shareholder remuneration (special dividends or share buy backs). Bekaert has returned nearly 100% since our initial investment in October 2020, but according to our fundamental analysis, Bekaert remains substantially undervalued, trading at less than 10x 2021 earnings. The sell side analysts appear to be significantly behind the curve on the changes that are already occurring, which should further help the share price as they improve their recommendations.

We initiated a new position in Byggmax during March. The position was up 29% between 12th March, when we first bought, and the end of the month. Byggmax is the number one value retailer in the fragmented Nordic DIY and construction materials market, operating physical stores and digital platforms (direct sales and click and collect). The market experienced record high sales volumes in 2020 due to the "stay-at-home" effect, which is unlikely to be repeated in 2021. At a capital markets day in late March, Byggmax unveiled its intention to generate net sales of approx. SEK10bn in 2025, an increase of around SEK4.5bn from the level it reached in 2019 (or just above SEK3bn compared to the exceptional year of 2020).

These targets may look ambitious given the lacklustre growth in 2016-2019, but during this time Byggmax was dealing with issues inherited from the previous management, which diverted focus away from growth initiatives. The acquisition of Skånska Byggvaror caused many problems (now turned around) and the expansion into Finland was another problem area during these years (now turned around). Given the multiple and sizeable growth opportunities ahead, the 14x PE ratio for 2021 appears very reasonable.

Spie released its 2020 results on 12th March. FY 2020 revenue and EBITDA, and FY 2021 outlook were well flagged and broadly in line with consensus. However, the Net Debt/EBITDA of 2.4x turned out lower than the consensus of 2.9x. The stronger than expected Free Cash Flow generation explains the +10% return during the month.

There were very few detractors during the month; even the largest detractor only had 25bps impact.

Conzzeta's full year results yielded few surprises. The bigger news relates to governance as the conglomerate becomes a pure play. The name change to Bystronic highlights that FY 2021 will mark the end of this multi-year journey with performance improvements and divestments - the sale of Mammut is still outstanding, but is expected to take place in 2021.

We believe that Conzzeta is set to transform into one of the fastest-growing pure-play industrials in Europe, as well as Switzerland's largest machine tool maker. Management has given ambitious, yet realistic, medium-term growth guidance.

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

The 2021 outlook may seem underwhelming and explain the small pull back this month, however, Conzzeta is known for guiding conservatively. It had been previously flagged at the capital markets day in November 2020 that as Bystronic invests in its growth platform they will begin to bear more group overheads. Post Mammut divestiture, net cash on the balance sheet should represent more than 40% of the market capitalisation of the company. This would mean that shareholder remuneration should remain strong (>5% dividend yield in 2021) and create optionality from value accretive build up transactions.

There was no significant news during the month to report on Barco or Just Eat Takeaway apart from the Deliveroo IPO debacle on 31st March. Deliveroo's shares sank 26% on their first day of trading, turning one of the most anticipated IPOs of the year into a flop, with some large fund managers quite rightly publicly criticising the company over its labour practices, showing that the S in ESG should not be underestimated or forgotten.

Just Eat Takeaway's CEO, always said he would rather run his company with staff who get benefits and more workplace protection. It is the model he used at the Takeaway.com part of the business he founded 20 years ago, prior to acquiring Just Eat in 2020. Fortunately, the tide is starting to turn, with courts in Spain and the Netherlands convicting companies for abusing freelance laws. It is worth mentioning that the Spanish government is moving to define all food delivery workers as permanent staff within three months.

As always, we invite investors and prospective investors, to contact us should they wish to understand our views on the current situation and the positions held in the portfolio.

Performance Data As at end of March 2021

Annualised Return% [1]

	1M	3M	1Y	2Y	3Y	5Y	Annualised Inception
A EUR Class	5.22	10.73	92.92	26.15	12.11	13.85	10.91
Benchmark	6.42	8.20	36.95	9.08	7.78	7.77	4.29

Calendar Year Performance % [2]

	YTD 2021	2020	2019	2018	2017	2016	Fund Inception
A EUR Class	10.73	28.63	24.41	-24.86	22.80	13.55	84.33
Benchmark	8.20	-1.99	26.82	-10.77	10.58	1.73	28.12

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.

Ratings & Awards

MORNINGSTAR ★★★★ ™

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Morningstar Sustainability Rating

Out of 732 Europe Equity Mid / Small Cap funds as of 31/01/2021. Based on 88.03% of AUM. Data is based on long positions only.

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2021 TOP PERFORMER
ALLOCATOR INVESTORS CHOICE AWARDS
BEST FUND UNDER $100M - EQUITY
STRATEGIC EUROPEAN SILVER STARS FUND

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