Sturdza Family Fund

March 2021 Fund Commentary

Market Development

In March, the MSCI World Index (in USD) saw an increase of 3.33%, the Eurostoxx 50 (EUR Net Return) returned +7.88% whilst the S&P 500 also increased by 4.24%. The Dollar Index (DXY Index) appreciated by 2.59% over the period whilst the generic 30Yr Treasury yield went from approximately 2.15% to 2.41% and the VIX Index declined to 19.40 from 27.95.

Generally speaking, March was an encouraging month as global activity continued its progressive comeback. The main driver was the gradual reduction in movement restrictions, which in turn supported a progressive rebound in global commerce. Prospects for developed economies are seemingly better than those of emerging ones in the coming weeks/months, as vaccination campaigns ramp up. For emerging economies, the trend is less encouraging as vaccination campaigns are less clear cut and they are still wrestling with rebounds of the pandemic (India, Brazil, and Argentina for example).

This gradual normalisation is also expressed via market sentiment indicators. For example, the stock markets implicit volatility has retreated below 20% on the S&P 500 (VIX Index), the lowest level since February 2020.

Taking a step back, the first quarter of 2021 has proven rather eventful for equity markets worldwide. With eyes initially fixed on policy risks emanating from a new US administration, the real action for stock investors proved, as it often does, to lie elsewhere.

Indeed, below the low single digit return of the MSCI World, one could observe an important transition of leadership, likely marking the end of the "Covid Market" and the earnest shift towards a broad based normalisation trade. The early weeks of the first quarter saw a continuation of the equity market trends seen in Q4 2020, but noticeably reinforced by a growing risk appetite on recent IPO stocks and other popular themes, an object of caution at the time in our opinion.

Since the middle of February, leadership has rotated sharply in favour of recovery plays and out of the "hottest" stocks, likely supported by strong momentum on vaccine distribution in the US, coupled with an additional stimulus plan worth close to 10% of GDP. The transition, starting for select subsectors after November's vaccine announcements, is now showing rare intensity as measured by relative performance.

In line with many (though not all) historical examples, value is outperforming in a globally ascending market rather than in the context of a correction, even if more granular analysis shows weakness within some previously "hot" areas of the market. This rotation is noteworthy for investors, not merely for its intensity, but also for its strong cross-asset underpinning: The economic recovery scenario espoused by investors is even clearer in fixed-income markets, where a rebound in US interest rates was first accompanied by normalising inflation expectations, until ascending 10y real rates crystallised this new pro-cyclical positioning taking hold.

Market Outlook

As highlighted in our last report, we believe that the evolving narrative of the market will support an evolution from expanding valuations to a healthier, earnings-growth-led performance in the medium term, and that this calls for a balanced, quality-focused approach to equity markets. Indeed, we view this current market regime as likely to persist,

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.

Contact

E.I. Sturdza Strategic Management Limited

+44 1481 722 322
info@ericsturdza.com
ericsturdza.com

especially in regions where fundamentals support a long-term recovery. In the US, the scale of stimulus combined with the pace of vaccinations argues in favor of the current trend. In Europe, more fiscal uncertainties combined with recent Covid flare-ups could tamper with the trend, potentially providing further entry points. We maintain the view that over the coming quarters, the stock market could become increasingly driven by individual companies' fundamentals, and the impact of a slowly normalising economy on their longer-term profits rather than market-wide macro factors. This in turn should support active managers in their quest for differentiated performance. An area of caution could be the geopolitical landscape and most specifically the Sino-US relationship, which, even under a new US administration continues to show significant signs of strain. With growth expectations having finally, and at great cost, shown signs of life, any disruption emanating from the geopolitical sphere would be a regrettable missed opportunity.

Portfolio Development

In terms of contribution, Facebook (+0.26%), Dollar Tree (+0.22%), and UnitedHealth Group (+0.20%) were the largest positive contributors whilst Worldline (-0.11%), Shiseido (-0.07%), and Alibaba (-0.06%) were the largest detractors.

As underlined in many of our recent reports, we have been on the lookout for new opportunities. The markets saw a period of slightly heightened implied volatility during March which we utilised to initiate a number of positions directly (via underlying shares) and/or indirectly (via put options) depending on the individual situation and appreciation. As such, exposures to Advantest, Baidu, Domino's Pizza, Murata Manufacturing, Nemetschek, Pool, Synopsys and STMicroelectronics were initiated. In some cases, the risk/reward was deemed especially attractive via derivatives (Pool for example) and in others, the immediate stock opportunity appeared more compelling (for example Domino's Pizza). In all cases however, we will be gradually constructing these positions over time as further entry opportunities unfold.

Ratings & Awards

Morningstar Sustainability Rating

Out of 2,245 Flexible Allocation funds as of 28/02/2021. Based on 70.33% of AUM. Data is based on long positions only.

See Awards Disclaimer on last page.

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