Strategic European Silver Stars Fund

April 2021 Fund Commentary

April was a good month, largely driven by company quarterly earnings announcements. The Fund returned +3.13% in April vs. +2.21% for the benchmark in another month where stocks geared towards economic growth outperformed defensive stocks. Year to date the Fund has returned +14.19% compared to +10.60% for the benchmark (+3.59% relative outperformance).

The largest contributors to April's performance were: Ipsos (+0.76%), Akwel (+0.62%) and Just Eat Takeaway (+0.44%). Iliad was the largest detractor during the month (-0.39%), followed by Albioma (-0.34%) and Trigano (-0.13%).

Ipsos' Q1 revenues saw a huge beat on organic growth (14%), which was more broad-based than in recent quarters, although public sector programmes (partly Covid programmes) remained the stand-out sector (+49%). In view of the excellent Q1 sales and a robust order backlog, the company is now targeting 2021 sales above the 2019 level, after adjusting for forex and scope impacts – the previous target was 2021 sales similar to 2019. Despite a solid rebound in recent months, Ipsos is still trading on low valuation multiples (c.11x PE 2021), which we believe is a significant underestimation of Ipsos's fundamentals, mid-term growth profile (c.10% EPS growth pa) and Free Cash Flow (FCF) generation. As a result, Ipsos is the second largest position in the Fund with over 9% exposure.

In February, Akwel indicated that its operating income and FCF would be over €100M in 2020, significantly more than in 2019, a very solid achievement for an auto supplier in a year that saw global automotive production fall by 16.2%. The reality unveiled in early April was even better; with €114M operating income and €128M FCF (15% yield based on €837M market capitalisation pre-release). Akwel is forecasting an increase in activity over FY2021, and its solid balance sheet (net cash position) puts the group in a strong position to seize external growth opportunities to either extend its product range beyond combustion engines or to improve its geographical position.

With a stable performance in March, Just Eat Takeaway rebounded this month following its Q1 2021 trading update with orders growing by 79% to €200M, the fourth consecutive quarter of acceleration. An article on Reuters suggested that the Biden administration is showing its cards on the Gig economy. "A lot of gig workers in the United States should be classified as "employees" who deserve work benefits", President Biden's labour secretary said, suggesting a shift in policy that is likely to raise costs for companies that depend on contractors such as Doordash, Uber and Lyft. As mentioned in the recent monthly commentaries, similar regulatory frameworks are currently being introduced or studied in Europe. Note that Just Eat Takeaway is the only company acting properly in this industry by employing its couriers. In our opinion, the Gig economy response "our drivers want flexibility" is not correct, as Just Eat Takeaway proves that both can be achieved at scale.

The three largest detractors have something in common this month, apart from the absence of any news justifying the price decline in April, they can all be classified as potential Covid winners. Regular readers of our letters will have often seen these three names in the top contributors throughout 2020. The position sizes in these three were scaled back sizably during the material rotation we went through in September and October last year, on the back of the reduced upside potential between our fundamental valuation and the market price. Currently, these stocks are out of favour for, what we consider, are the wrong reasons, as the pandemic and its consequences have either substantially enlarged or modified the addressable market. We have been using the current weakness to increase our position sizes again, materially in some cases.

To echo our previous comment regarding the monthly detractors, our fundamental analysis suggests that, following their strongest outperformance on record, many cyclical stocks started to show signs of overheating towards month end, raising questions over whether market valuations may have become stretched following such a rally. Although cyclicals have provided the bulk of earnings growth in the earnings season so far, with an unprecedented number raising annual guidance even before their Q1 release, some stock price reactions might imply that a lot of the good news is already priced in, at least for now.

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.

There are several potential "red flags", including:

- An extreme risk appetite for cyclicals,
- Valuations standing near all-time highs for non-financials,
- "Very high" PMI expectations being discounted consistent with a 5.5% growth in Europe's GDP.

These could further test the trajectory of the recovery over the summer earnings season, but until then we believe vaccine rollouts and economic reopening will be the main triggers for a further upside leg in the markets.

As mentioned in the past, we do not want to be categorised as either value or growth investors. We are agnostic to these categories when looking at investment opportunities. We have and will continue to invest in value, growth or neither categories at various times. We strongly believe that our all-weather approach and our ability to invest with contrarian views largely enables us to benefit rather than suffer during market volatility, explaining the notable outperformance of the Fund since its launch in May 2015.

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 April 2021

Annualised Return% [1]

	1M	3M	1Y	2Y	3Y	5Y	Annualised Inception
A EUR Class	3.13	14.47	73.46	23.60	13.01	14.49	11.32
Benchmark	2.21	11.43	31.43	8.26	6.99	7.87	4.61

Calendar Year Performance % [2]

	YTD 2021	2020	2019	2018	2017	2016	Fund Inception
A EUR Class	14.19	28.63	24.41	-24.86	22.80	13.55	90.09
Benchmark	10.60	-1.99	26.82	-10.77	10.58	1.73	30.96

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 Sustainability Rating

Out of 701 Europe Equity Mid / Small Cap funds as of 28/02/2021. Based on 87.53% of AUM. Data is based on long positions only.

See Awards Disclaimer on last page.

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

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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 31/01/2021. Sustainability Rating as of 28/02/2021. Sustainalytics provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score.

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