



# Strategic European Silver Stars Fund

May 2021 Fund Commentary



**Bertrand Faure**  
Portfolio Manager

May was another positive month for the Fund, which returned +1.29%\*. Year to date the Fund has returned +15.66%, a +2.20% relative outperformance compared to the benchmark.

Inflation worries shook global stock markets on several occasions last month. In our opinion, the surge in volatility was more reflective of market fatigue and profit-taking, rather than of a “radical” change in fundamentals or panic selling. We remain convinced that the European market offers plenty of opportunities, from value stocks to companies with high pricing power, which may even benefit from further price pressure.

Overall, we believe that as vaccination campaigns advance and reopening prospects improve, any correction should be seen as a “buy the dip” opportunity given the ongoing underlying fundamental support: fiscal stimulus, monetary support, and strong earnings.

The largest contributors to May’s performance were Hunter Douglas (+1.79%), Bekaert (+0.82%) and Einhell (+0.42%). Akwel was the largest detractor (-0.80%) during the month, followed by Just Eat Takeaway (-0.64%) and Indra (-0.60%).

As shown in the monthly list of contributors and detractors, there were sizeable movements in stock prices within the portfolio, with some clear validations/confirmations in some names and pullbacks in others. Our thesis has not moved an inch for the stocks that were penalised during the month. To the contrary, the dips were used as an opportunity to purchase additional shares in order to maintain position sizes, or even upgrade the position weightings as the upside potential increased.

Hunter Douglas (a world leading manufacturer of interior window coverings) was the largest monthly contributor during May, after the offer by Bergson (announced in December 2020) to purchase all of Hunter Douglas’ outstanding common shares was increased by nearly 30% from €64 to €82 and the market reacted accordingly.

While we appreciate the increase in the offer price, we feel it still fails to properly reflect the true value of the underlying business. The offer price as it stands translates into a 5.3x EV / LTM EBITDA, when peers trade over 15x, and comparable transactions in the industry take place at more than 12x.

On 3rd June, the company published the result of the tender offer, which turned out to be a complete failure for the majority shareholder (Hunter Douglas’ Chairman, Mr Sonnenberg) as only 23.5% of minorities tendered, setting a precedent in Europe in terms of low tender rate. We are currently evaluating the options for our next course of action to continue protecting the Fund’s interests in what we feel is a blatant case of corporate governance abuse.

On 12th May, Bekaert provided the market with Q1 trading update. The organic growth was very strong (19%), much better than the implied consensus including both positive volume (+14%) and price/mix changes (+5%), leading to significant earnings upgrades by brokers. This was confirmed at the end of the month during the capital market day when Bekaert raised its FY21 outlook for both revenues and REBIT-margin. In the mid-term, Bekaert targets a REBIT-margin of 8-10% through the cycle. This confirms there is more margin upside on the back of volume growth, product mix improvement and efficiency. Bekaert’s structurally improving margins and returns are far from priced in with a current EV/EBIT < 7x for 2021.

Einhell is a new position for the Fund that was initiated in late January. This €600M market cap German company is a leading provider of power tools and garden equipment for household use. With around 40 subsidiaries, the products are sold globally. From a capital market perspective, it remains an unknown story with, to our knowledge, only one brokerage firm currently covering the stock.

Einhell is well positioned in the fast-growing category of battery-driven products. The Power-X-Change series is one of the leading battery systems in the market. With the roll-out of this system, the group gained market share in the key DACH region. The further expansion of Power-X-Change should underpin Einhell’s position in the market as well as the brand quality. Besides growth with battery-driven products, the group continues to benefit from its international expansion with an established track record in international sales activities across Europe, Australia and South America.

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

## 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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Despite a 54% YTD performance, we feel the current initiatives are not yet fully reflected in the valuation and could support sales and earnings growth for several years.

Akwel was penalised this month post the Q1 report by two brokers downgrades, as the company highlighted in its press release strong tensions on raw materials and electronic components that are reducing the visibility on the evolution of the global automotive market. Experience has taught us how prudent the company is with its communication policy and that they have a habit of always presenting the glass half empty. To the contrary, we were pleased to hear that post a record free cash flow (FCF) generation in 2020, the group was able to generate, through its operating performance, an improvement in working capital and the control of investment budgets, significant FCF amounting to €22.2m in the first quarter of 2021.

May was the month of liar's poker for food delivery companies in Europe. Like UberEats did in the previous month, Doordash and then Delivery Hero announced their intention to launch services in Germany. Should this be considered as a threat or just another attempt to block the Grubhub deal? After saying that they wanted to enter, Delivery Hero's CEO made a 180 degree about turn and hinted on Twitter a few days ago that: "Humbling to hear investors thinking we will challenge Just Eat Takeaway in Germany. But let's be honest, they have 15 year head start and 15m months orders. We have no goal of becoming largest in Germany." As a reminder, Grubhub shareholders are due to vote on this paper deal on 10th June, so any news that can depress Just Eat Takeaway's stock price will reduce the countervalue of the offer and increases the risk of a transaction failure. We continue to see the situation as a win win, no matter what happens on 10th June, and stick to our conviction that Just Eat Takeaway will strongly benefit from the gig economy regulation in Europe before the end of the year.

Finally, Indra's stock price reacted strongly and rightfully so when the Chairman and CEO Fernando Abril-Martorell was revoked on 27th May 2021 at the end of his mandate. The appointment of Marc Murtra as non-executive Chairman of the Board of Directors has been seen as a political move. He was the candidate proposed by the Spanish State-owned holding company SEPI, which is the largest shareholder in Indra with 18.7% of the company. In addition, the Board appointed Cristina Ruiz (Head of the Minsait division) and Ignacio Mataix (Head of the T&D division) jointly and severally as co-CEOs.

This is an odd governance set-up that gives SEPI more leverage on Indra's strategy and management. It may not be the best governance for minority interests, however we believe that it will prove transitory when the strategic plan ends in 2023. Government interference has had a terrible impact in the stock short term. Many articles in the Spanish press are pointing to negotiations to buy a stake in, or all of, ITP. Management however has been clear that Indra was not part of the negotiations on the ITP disposal from Rolls Royce. This confirmation in the coming weeks could prove a powerful catalyst for the stock, alongside H1 results as the business environment is currently much better than anticipated, as well as improving.

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 May 2021

### Annualised Return% <sup>1</sup>

	1M	3M	1Y	2Y	3Y	5Y	Annualised Inception
A EUR Class	1.29	9.90	57.90	28.45	14.22	13.89	11.39
Benchmark	2.59	11.59	30.40	12.46	7.86	7.89	4.98

### Calendar Year Performance % <sup>2</sup>

	YTD 2021	2020	2019	2018	2017	2016	Fund Inception
A EUR Class	15.66	28.63	24.41	-24.86	22.80	13.55	92.54
Benchmark	13.46	-1.99	26.82	-10.77	10.58	1.73	34.34

Source: Morningstar.

<sup>1</sup> Annualised Returns as of the date of the reporting over the defined period. Data less than 1 year is not annualised.

<sup>2</sup> 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 689 Europe Equity Mid / Small Cap funds as of 31/03/2021. Based on 85.15% of AUM. Data is based on long positions only.

See Awards Disclaimer on last page.





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