ERIC STURDZA INVESTMENTS

Sturdza Family Fund

May 2021 Fund Commentary

Market Development

In May, the MSCI World Index (net returns in USD) progressed 1.44%, the Eurostoxx 50 (net returns in EUR) returned +2.30% whilst the S&P 500 also increased by 0.55%. The Dollar Index (DXY Index) fell by 1.59% over the period whilst the generic 30Yr Treasury yield decreased slightly, from 2.30% to 2.28% and the VIX fluctuated - nearly reaching 28 before closing the month back down around 17.

The earnings season, backed by constructive economic data releases, has continued to support equity markets at large, despite their historically elevated valuations and the prospect of corporate margin contraction. Indeed, the environment for aggregate corporate margins, or in other words the corporate profit share of GDP, has been extremely favourable for support and expansion over recent years. That said, it seems increasingly likely that this trend will not continue forever as the wealth gap, social tensions and input price inflation increase.

Therefore, in our opinion, it is a necessity that policy makers begin to favour labour market dynamics / participants ahead of big corporations and their shareholders. In turn, this should materialise itself in the form of an impact on corporate margins which could leave market participants in a peculiar situation. A landscape where:

(1) there are very few if any, investment alternatives to equities;

(2) inflation, how it evolves and how central banks will manage it, remains a big question;

(3) and relatively elevated valuations.

All of this seems to impact the outlook for equities. That said, there are also other dynamics that support holding equities; first of all, yields - valuations are not that high when accounting for this; then, the overall household allocation to equities is at a high, but still has room to grow; and finally given that central banks have a clear agenda which underlines a base case for inflation to rise, but real rates remain low, it should be supportive for equities. Generally speaking, this should lead investors toward real assets (which equities are arguably a part of as revenues are linked to inflation) and more specifically toward "clean" earnings growth, which tends to be positive in real terms. Selecting the right companies, with pricing power and resilient business models, will be key.

Market Outlook

In our view, the current cycle remains on an ascending phase globally, supported by accommodative fiscal policies and fluid financial conditions across the globe, while interest rates continue to be sharply negative in real terms across developed markets. These conditions remain favourable for equities generally, especially as they benefit from positive valuation differentials compared to other asset classes. Although the US market continues to set the tone, regional disparities are emerging more clearly.

As the US progresses, so will the likelihood of a transition to mid-cycle positioning, i.e. more balanced between styles. We remain cognisant of the potential for aggregate corporate margin peaks, and believe company selection will be key. Nonetheless, being very selective on the quality of growth whilst maintaining a comfortable level of firepower on the side lines is as relevant as ever in our opinion.

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.

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Portfolio Development

In terms of contribution, Centene (+0.30%), Asahi Group (+0.13%) and HCA Healthcare (+0.10%) were the largest positive contributors, whilst Dollar Tree (-0.22%), Global Payments (-0.17%) and Alibaba (-0.08%) were the largest detractors.

Ratings & Awards

Morningstar Sustainability Rating

Out of 2,460 Flexible Allocation funds as of 30/04/2021. Based on 73.25% of AUM. Data is based on long positions only.

See Awards Disclaimer on last page.

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