ERIC STURDZA INVESTMENTS

Sturdza Family Fund

June 2021 Fund Commentary

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Market Development

In June, the MSCI World Index (net returns in USD) progressed 4.64%, the Eurostoxx 50 (net returns in EUR) returned +0.61% whilst the S&P 500 also increased by 5.37%. The Dollar Index (DXY Index) strengthened by 2.90% over the period whilst the generic 30Yr Treasury yield decreased from 2.28% to 2.09% and the VIX continued its descent, down to 13.36 from 13.74 a month ago.

The key developments were centered around the Federal Reserve's first, serious post-COVID attempt to officially prepare the market for a monetary policy normalisation - a delicate exercise aiming to communicate long-term confidence without depleting the level of support/confidence. With the "dot plots" now showing that certain Fed members are expecting rate hikes by 2023, and others as early as 2022, Jay Powell's delicately worded press conference deserves praise as interest rates on 10 and 30Yr Treasuries came down, supporting renewed strength, particularly in growth equities. This carefully prepared message supports our opinion that the goals of central bankers, independent of the recent noise, are quite clear:

Firstly, to support employment which has been structurally battered for years by significant technological breakthroughs, and now cyclically by the pandemic. A delicate exercise if one takes into account the recent IMF study, which supports the highly instinctive thesis that economic disruptions, such as the one introduced by COVID, tend to accelerate the adoption of technology. A fact which should not surprise Japanese industrial robot manufacturers as they register record orders in 2021.

Secondly, to bring inflation dynamics back to a more familiar equilibrium, around 2% on a permanent basis. In turn, this would enable interest rates to retain their roles, notably as a macro policy tool, but also in building savings.

The 2009-2020 period has clearly shown how difficult it was to fulfill these two goals. It is worth noting nonetheless, that the FED came very close to reaching this "El Dorado" in 2018 against the backdrop of significant fiscal stimulus under President Trump. A situation that was abruptly interrupted by the turmoil in financial markets, which perceived Mr. Powell's rate hike as "too fast".

This has lead central bankers to benefit from a common experience: that of the financial systemic risk of 2008-2009, and of the structural deflationary winds (i.e. technological) post-2009. This experience yielded a set of historic measures to battle against COVID in March and April 2020, and in our opinion, will be the source of a very slow and very measured exit from this special regime, without great danger for equities. Recent communications from Mr. Powell, not to mention Ms. Lagarde, continue to support this view.

Market Outlook

As we enter the second half of 2021, we remain positive for equity markets yet consider three sources of relevant uncertainty:

The first and most obvious, the virus and its mutations: the "delta" variant. Responsible for 90% of new infections in the United Kingdom, and it could soon reach the status of the dominant variant in the US. Preliminary results seem to demonstrate the effectiveness of current vaccines, and the vaccination rollout in developed countries could avoid a resurgence of infections – but the risks remain. On the other hand, India and some South

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.

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American countries, which suffer from a cruel lack of vaccine doses and whose economies are still burdened, will certainly be slow to find respite, and the consequences could be felt not only in human terms, but also in the long run in economic and social terms.

Second, could the US's recent moves on the tax front with the drafting of a minimal global tax, in addition to the concentration of economic power of digital champions, lead to a wait-and-see attitude in equity markets? After all, these markets are increasingly reliant on continued earnings growth and results have been supported for years by the combination of lower taxes and accretive acquisitions. The example of the merger between Aon and Willis Tower, recently opposed by the US government, suggests that even in the unexciting space of insurance brokerage, tolerance for oligopolies is diminishing with the new Biden administration. Not to mention its expressed willingness to reverse Donald Trump's tax cuts.

Finally politics, which has been the catalyst for increased visibility in recent months with a US election that was deemed economically and geopolitically satisfactory, could resurface with major tensions continuing between the developed world and China, with the economic challenges linked to COVID bogging down entire regions with as yet unknown consequences – again, South America and India in particular come to mind.

Equity markets are particularly sensitive to the financial conditions provided by central banks, the outlook for earnings growth and general uncertainty. It seems to us that after the first half-year confirming the transition to a "post-COVID" world, strong results posted by listed companies and clear messages from central bankers, investors have demonstrated their serenity on the prospects of these first two points. We remain constructive on the equity asset class in general, particularly in view of its relative value, but we will remain vigilant – especially as our optimism, albeit measured, is now widely shared by the market.

If these well-known uncertainties were to weigh more heavily on the market, entry points for long-term investment opportunities could arise, which is why we are maintaining a more balanced allocation today.

Portfolio Development

In terms of contribution, Microsoft (+0.16%), Apple (+0.14%), Moody's (+0.11%) and Merck (+0.11%) were the largest positive contributors, whilst Iberdrola (-0.10%), Aon (-0.10%) and Arthur Gallagher (-0.06%) were the largest detractors.

Style rotation in favour of growth broadly supported certain companies held in the Fund, the mega cap technology companies and other "high quality" businesses in sectors such as professional services for example. The surprising FDA approval of Biogen's Alzheimer's drug was also a likely reason behind the increased interest in the sector. On the detractors' side, government opposition to the merger between Aon and Willis Tower pressured Insurance Broker stocks, whilst legislative initiatives in Spain, which could reduce compensation to past renewables projects, impacted Iberdrola's share price.

The Fund slightly reduced its net exposure to equities following profit taking on strongly performing positions and reduced its put selling exposure, also on profit taking, given the positive underlying performance and lower volatilities eroding some of the perceived risk/reward.

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.

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