ERIC STURDZA INVESTMENTS

Strategic China Panda Fund

July 2021 Fund Commentary

Chinese stocks suffered on the back of a policy storm last month. Non-stop regulatory clampdowns on sectors triggered a stock market downfall, with the MSCI China Total Return Index falling 13.8%. Among the sectors; Education, Property Management and Internet were the major casualties. In general, high valuation stocks were sold down as investors cut their risk.

The share prices of TAL and EDU, two education bellwethers, lost 70-80% in two days as a result of the new regulations. The government announced a new policy which bans after-school tutoring (AST) on school/public holidays, and requires existing AST institutions to register as "not-for-profit". Under the new policy, AST business models are no longer viable. This sent a very negative signal to the market as investors extrapolated this to other sectors.

The Internet sector was not short of regulatory crackdowns either. Two days after their debut listing on the Nasdaq, Di Di Global was asked by the regulator to remove its apps from mobile stores for violation of the data security law. Heavy fines and even de-listing could follow. The merger of Huya and Douyu, both with Tencent as the largest shareholder, was rejected by the regulator over the anti-trust law. Additionally, Tencent Music was asked to give up their exclusive rights on music IP, while Meituan was asked to protect the interests of its food delivery riders. The regulator also tightened overseas IPO listing rules for firms with over 1m users, based on cybersecurity concerns. The Bio-tech sector was also under regulatory attack for the first time. The Centre for Drug Evaluation published a note to call upon drug companies to spend R & D on innovative drugs instead of "me-too" products.

Concerns surrounding China Evergrande's liquidity risk ballooned as more creditors filed lawsuits against the company for overdue payments. Not only did Evergrande's stock and bond prices deep dive, but the offshore property junk bond market was also paralysed, with many junk bond yields jumping to over 50%. The fall of China Evergrande, if it happens, will impose systematic risk on China. We believe the government will not allow that to happen, some form of rescue/restructuring should be implemented.

Investors were so preoccupied by the implications of regulatory action, that the reserve requirement rate (RRR) cut of 0.5%, the first cut since April 2020, was ignored by the market. The RRR cut was the government's response to slowing GDP growth, and we expect more RRR cuts to come as H2 2021 GDP growth is likely to be impacted by the regulatory overhaul and selective city lockdowns due to the outbreak of the delta variant.

The Fund returned -17.3%*, in July. We cut risk by reducing exposure to high valuation stocks in Internet, Property Management and Biotech sectors while increasing the weighting in Banks for their defensiveness. The Fund's cash level was raised to 11% as of the end of July. We will stay on the sideline for now, planning to take more cues from company guidance in the upcoming interim results.

Lilian Co
Portfolio Manager

Investment Approach

Access to the Chinese growth story through one of the leading Portfolio Managers in the region. Stock selection and net exposure are adjusted to take advantage of an insider's view of the Chinese business cycle. Invested predominantly in China stocks listed in major markets like HK, China (A/B shares) and U.S. (ADRs), offering investors greater liquidity and transparency over other forms of investments in China.

Investment Objective

To achieve long-term capital appreciation in the value of the assets by investing in China-related securities listed in, but not limited to the Greater China region.

A sub-fund of E.I. Sturdza Funds plc.

Registered in Ireland.

Contact

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* A USD Class. For detailed performance information based on complete 12-month periods since inception, please refer to page 2. Past performance does not predict future returns.

Performance Data As at end of July 2021

Annualised Returns % [1]

	1M	3M	1Y	3Y	5Y	10Y	Annualised Inception
A USD Class	-17.34	-11.25	8.36	8.24	14.26	6.65	11.73
Benchmark	-13.84	-13.10	0.28	5.90	12.39	6.20	8.30

Calendar Year Returns % [2]

	YTD 2021	2020	2019	2018	2017	2016	Fund Inception
A USD Class	-6.02	22.78	28.58	-21.37	62.99	-2.43	314.68
Benchmark	-12.26	29.49	23.46	-18.88	54.07	0.90	178.01

Benchmark: MSCI China NR USD.

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 does not predict future returns.

Ratings & Awards

Morningstar Sustainability Rating

Out of 2,003 Greater China Equity funds as of 30/06/2021. Based on 92.32% of AUM. Data is based on long positions only.

See Awards Disclaimer on last page.

Important Information - The views and statements contained herein are those of LBN Advisers Limited in their capacity as Investment Adviser to the Fund as of 11/08/2021 and are based on internal research and modelling.

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The Strategic China Panda Fund received a 5 Globe Morningstar Sustainability Award. Out of 2,003 Greater China Equity funds as of 30/06/2021. Based on 92.32% of AUM. Data is based on long positions only. Historical Sustainability Score as of 31/05/2021. Sustainability Rating as of 30/06/2021. Sustainalytics provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score.

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