



Strategic European Silver Stars Fund

July 2021 Fund Commentary



Bertrand Faure
Portfolio Manager

July turned out to be a stunning month for the Fund, which returned +5.26%*. Year to date the Fund's performance now stands at +23.00%* compared to the benchmark's +17.52% return (+5.48% relative outperformance).

The H1 2021 company reporting season began in July. Thanks to the cyclical recovery and an extremely low Q2 2020 basis effect, most European stocks are having a tremendous earnings season, with "beat and raise" being the norm. By contrast, any earnings disappointment is being severely punished. Some stocks which were favoured after the pandemic hit, such as Asos, Zalando, Logitech and HelloFresh, have paid a heavy price recently, indicating that investors are less willing to buy growth at any cost. We view this as a positive as it appears that the market is starting to discriminate again, which will benefit fundamental stock investors.

The largest contributors to July's performance were Iliad (+3.68%), Ipsos (+1.21%) and Bekaert (+0.63%). Once again, the largest positions in the Fund contributed the greatest performance. Barco was the largest detractor during the month (-0.26%), followed by Teamviewer (-0.26%) and Byggmax (-0.21%).

Those of you who regularly read our letters will not have missed our investment case on Iliad, although it did take slightly longer than expected: Iliad was even the largest detractor to the Fund performance in H1 2021 with -1.63% impact. A significant portion of the losses in H1 were attributable to the decision in May 2021 to put the €900m operational FCF target for France for the year under review, which created significant confusion in the market. The change in guidance, that resulted in heavy pressure on the stock price, was greatly misunderstood in our opinion. It neither invalidated the investment case, nor did it reduce the fundamental value of the business. However, the share price continued to drift lower and lower.

We were not alone in thinking Iliad was severely undervalued. On 30th July, Iliad's founder Xavier Niel (71% shareholder of the group) announced an offer for 100% of Iliad shares at €182 per share, a 61% premium over the previous closing price and 52% over last month's average price. In the conference call, Iliad's management argued that institutional investors are focused on short-term cash flow generation, while Xavier Niel has a long-term view on value creation, creating a substantial valuation gap and share price volatility.

This investment is a fantastic testimony to our fundamental, contrarian investment philosophy, avoiding any kind of style drift as the Fund has been buying shares every week since May, taking the position size from 5.5% at the end of April to 7.1% on 29th July (a significant increase on the 4% position held at the end of December 2020) the day before the tender announcement. As things currently stand, it is our intention to participate in this offer in September. This is contrary to the January 2020 partial tender at €120 per share (enabling Xavier Niel to raise his holding from 50% to 70%) to which we did not tender any shares.

Ipsos was the second largest contributor in July. Two important pieces of information boosted Ipsos' stock price:

- Firstly, the long-awaited announcement of Nathalie Ross as CEO following a selection process that began in mid-2019. She previously worked at L'Oréal until March 2021, as CEO of the professional products division and a member of the Executive Committee. Her name has been frequently mentioned in the press recently as she was one of the internal candidates to succeed Jean-Paul Agon at L'Oréal, and resigned shortly after the appointment of Nicolas Hieronimus. She was also considered for the top job at Danone (in a final duel with Antoine de Saint-Affrique).
- Secondly, excellent H1 results that led to management upgrading its 2021 guidance, which now points to organic sales growth of nearly 10% on 2019 (vs previous growth target).

Finally, Bekaert's H1 results, combined with an upgrade of the mid-term margin target to 9-11% (previously 8-10%), demonstrated that the restructurings of 2019 and 2020, and improved pricing discipline, have enabled a step change in margins for the business. In addition, the targeted balance sheet structure at year end, leaves ample space for a material share buy back and, in the analyst call,

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



CFO Boussaid indicated that share buy backs are definitely on the table. We believe that market consensus is going to move up considerably following the H1 2021 results and revised guidance (consensus was that 2021 and 2022 EBIT margins were at the 8.6-8.8% level). Some sell side brokers have begun to materially raise price targets towards €65, consistent with our assessment of the company's fundamental value, as they also recognise the significant 50% upside from current trading levels. As a reminder, the Fund initiated a position in this Belgian company in October 2020 when the price was still below €20.

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 July 2021

Annualised Return% ¹

	1M	3M	1Y	2Y	3Y	5Y	Annualised Inception
A EUR Class	5.26	7.72	58.28	30.10	17.38	14.86	12.17
Benchmark	2.06	6.26	32.33	11.81	8.24	8.94	5.44

Calendar Year Performance % ²

	YTD 2021	2020	2019	2018	2017	2016	Fund Inception
A EUR Class	23.00	28.63	24.41	-24.86	22.80	13.55	104.76
Benchmark	17.52	-1.99	26.82	-10.77	10.58	1.73	39.16

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 687 Europe Equity Mid / Small Cap funds as of 30/06/2021. Based on 85.98% of AUM. Data is based on long positions only.

See Awards Disclaimer on last page.





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