ERIC STURDZA INVESTMENTS

Strategic Bond Opportunities Fund

September 2021 Fund Commentary

Market Development

September began with an unfortunate surprise, only 235,000 jobs were created in the US during August, compared to the expected 750,000. This has been a significant dampener ahead of the FOMC meeting. On 22nd September, the Fed confirmed that inflation was higher than expected, but still transitory. The US central bank has decreased its growth outlook for 2022, but the markets concluded that Jerome Powell was finally more hawkish than at Jackson Hole in August.

In Europe, the ECB confirmed the reduction of the Pandemic Emergency Purchase Program, which had been largely anticipated. Christine Lagarde confirmed that this decision was not a version of tapering, but a recalibration of the ECB policy after having reached the peak of the pandemic crisis.

In China, the collapse of Evergrande became a high source of concern, but the People's Bank of China managed the issue in order to avoid a systemic risk and a "Chinese Lehman crisis". Following two days of uncertainty, the markets "bought" this scenario. Long-term US Treasury yields began to climb significantly in September, but the crucial issue is that real yields climbed as much as nominal yields (and sometimes more). If we were to retain only one thing from September, it would undoubtedly be the sharp increase of real yields, a key driver in the behaviour of all other financial markets.

Market Outlook

Our outlook will continue to focus on the macroeconomic situation (including growth, inflation and unemployment), Central Banks' behaviour (the timing of tapering and its size) and the evolution of equity markets which could be more volatile in the coming weeks. The COVID pandemic seems to be under control, but the WHO does not want to confirm this.

Inflation fears in the US and in Europe are increasing as market participants do not totally share the view of central banks on "transitory" higher prices. The new fear in developed markets is a possible stagflation in Europe and the US, and a significant slowdown in China in 2022. In this context, the behaviour of the Fed towards tapering will likely become the major source of concern. The Fed should clarify its position at the next FOMC meeting on 3rd November.

The outlook of economic growth for Q1 2022, higher commodity prices, the potential damages of the Evergrande collapse and the shortage of components affecting different industrial sectors all need to be considered in order to adapt our strategy accordingly. In our view, tapering should be lower than expected or potentially postponed, but the main scenario could be a confirmation of tapering leading to a potential monetary policy mistake by the Fed.

In the US, long dated US Treasuries could remain under pressure and reach levels seen in Q1 during the reflation fears period (10y note at 1.8%, 30y at 2.4%-2.5%). This would be a major buying opportunity. Fed purchases and strong demand for safe haven assets should stabilise long-term yields at reasonable levels. In Europe, the ECB should stay ultra-accommodative despite higher inflation.

Some high-quality Emerging Markets could offer investment opportunities, driven by demand, but the political and health situations in Latin America are, for the time being, too

Eric Vanraes

Portfolio Manager

Investment Approach

The Fund is a diversified bond fund, investing in bonds predominantly denominated in USD, including Sovereigns, Supranationals and Agencies (together SSAs), corporate bonds across all sectors and financials. A strong conviction portfolio of 30-60 issuers, seeking exposure to all continents (including developed as well as emerging markets), all types of ratings from AAA / Aaa to BB / Ba2 (Standard & Poor's / Moody's) and non-rated bonds (10% maximum), senior or subordinated debt (hybrid corporates and Tier II bank debt) with either fixed or floating coupon rates.

Investment Objective

To achieve a total return through a combination of capital growth and income by investing in a globally diversified portfolio of fixed income securities.

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

Registered in Ireland.

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risky and uncertain to consider investing in this region. In the meantime, China has become the major concern, and the evolution of credit spreads is uncertain following the Evergrande collapse.

As a result, we believe that the best strategy today is to invest in a selection of high-quality corporate bonds, both in EUR and USD, favouring USD Investment Grade. Hybrid debt has become very expensive: the objective is to keep the existing position for the carry of the spread, but not increase the weight of this asset class until there's a major correction in the equity markets. High-quality credit spreads are still attractive in the current environment, but our main objective during the fourth quarter is to gradually increase the duration of the portfolio through the purchase of long dated US Treasuries in order to protect the Fund against the increasing threats mentioned above.

Fund Strategy

In September we gradually increased the duration of the portfolio. As risks and uncertainties in global financial markets increased, we began to sell the remaining US 10y Note future short position. We then started to build a small position in 50y US Treasuries. In the US Investment Grade market, we sold ST Engineering 2025 for two reasons: too tight a spread and high ESG risk.

Ratings & Awards

Morningstar Sustainability Rating

Out of 481 Global Fixed Income-funds as of 31/07/2021. Based on 81.98% of AUM. Data is based on long positions only.

Awards Disclaimer - The Strategic Bond Opportunities Fund received a 4 Globe Morningstar Sustainability Award. Data is based on long positions only. Historical Sustainability Score as of 30/06/2021. Sustainability Rating as of 31/07/2021. Sustainalytics provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score.

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