

STRATEGIC EUROPEAN SMALLER COMPANIES FUND

A SUB-FUND OF E.I. STURDZA FUNDS PLC. REGISTERED IN IRELAND.



EI STURDZA
INVESTMENT FUNDS

NOVEMBER 2018 – MONTHLY COMMENTARY BY PORTFOLIO MANAGER BERTRAND FAURE

FUND COMMENTARY

European equities continued to suffer during November, for the same reasons as highlighted in last month's commentary (trade tensions triggering uncertainties around future economic growth, limited visibility about the Fed's next move in December and beyond, as well as significant risk reduction across the board). In Europe, those factors were amplified by continued outflows from our universe. Fund flow figures gathered by Reuters give a testimony of the forced selling pressure that has crippled Small & Mid-Caps over the past three months. Sadly, the Fund was not immune to all these pressures and declined -4.19% during November.

As per last month, individual stock commentaries are less relevant in a month characterised by an absence of discrimination, however we would like to highlight a few facts.

Norma, Tarkett and Ferronordic Machines were the top three contributors during November.

Norma benefited from a very solid Q3 report early in the month, reporting 7.0% organic growth (+9.7% YTD), improved margins compared to Q2 (with lower raw materials impact on gross margin) and a confirmation of the full year guidance.

Tarkett has also been heavily impacted by inflation in raw materials since mid 2017. The sharp decline in the price of oil has been seen as a relief for the end of 2018 and more importantly for next year. This phenomenon was coupled with sizeable insider buying activity towards month end.

Ferronordic Machines, the Swedish listed company that sells, rents and services construction equipment and other heavy machinery in Russia, was once again one of the top three monthly contributors following the best ever quarterly report for the company in terms of revenues and profitability (adjusted EBIT up 60% with a 10.1% quarterly margin). Despite Russia's large natural resources and positive long-term economic development, infrastructure investments have been severely neglected for years. For example, the country's road and rail density remains amongst the lowest in Europe. The recent May decree signed by Putin however, includes several concrete actions related to housing, urban environment and road quality, intended to boost infrastructure investments. Additionally, according to Ferronordic, the Russian Ministry of Economic Development recently finalised a list of 200 infrastructure projects with an aggregate cost of c. USD 100bn, which would further drive demand for construction machinery.

At the other end, Boozt, Spie and Jacquet Metal were the 3 main detractors.

Boozt reported another quarter of strong revenue growth in Q3 (+37% top line growth), however the gross margin was weaker than expected due to heightened levels of discounting across the sector (unusually warm weather undoubtedly played a part) and underperformance of the offline beauty store in Copenhagen. The Investment Adviser believes those factors are temporary and the team put more emphasis on the strong KPIs reported by the company since its IPO: customer acquisition, order frequency and average order value, all of which point in the right direction.

There is little to report about Spie and Jacquet other than continued selling pressure around cyclical companies.



PORTFOLIO MANAGER



BERTRAND FAURE

Bertrand Faure has been Managing Director of the Investment Adviser since its inception in 2002.

Prior to joining the Investment Adviser he worked for Och-Ziff Capital Management Group in London between 1999 and 2001 as a hedge fund manager focusing on merger arbitrage and event-driven investments. Before joining Och-Ziff he worked in the investment banking division of Goldman Sachs International in London between 1997 and 1999 and was involved mostly in French related mergers and acquisitions and corporate finance projects.

Bertrand is a graduate of the Ecole Polytechnique in Paris.

FUND OBJECTIVE

The Strategic European Smaller Companies Fund's (the "Fund") objective is to outperform small and medium capitalisation firms operating in the European equity markets.

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*For detailed performance information based on complete 12-month periods since inception, please refer to page 2.

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The Fund's largest position over most of the year has been Albioma, which is an independent energy producer developing and operating projects in thermal biomass and solar power. Albioma's core business is high-performance energy recovery from biomass that is free from any conflict of use, with particular emphasis on bagasse, the fibrous residue that remains after sugar cane has been crushed.

Year to date Albioma has declined 20% in spite of the fact that it is the least cyclical company held in the portfolio (its returns are guaranteed by the regulator), and the year is developing exactly as planned.

Recent news flow has been very positive for the company, but this has not been reflected in the stock price.

- 15th November – The French energy regulator approved the terms of a draft amendment between EDF and Albioma Caraïbes power plant in Guadeloupe, allowing the conversion of the only 100% coal-fuelled facility to operate with biomass. Converting the power plant to operate with biomass will increase the share of renewable energy in Guadeloupe's energy mix to approximately 35% (from 20.5% in 2017).
- 4th December - the Company announced that the warrants issue reserved for 42 employees and the CEO, was met with great success with a subscription rate of over 140%. Each employee paid €0.90 for each warrant struck at €20.9 with an exercise period between 2021 and 2024. Each employee implicitly created the stock at €21.80, a great sign of confidence for a stock that closed at €15.70 yesterday.
- 11th December - Jacques Veyrat, 51% shareholder of the

recently listed company Neoen, acquired 5.50% of the company for €31.7 Million to clean up the residual stake held by the historical private equity owner of the business at a 20% premium to yesterday's closing price. A 20% premium for a minority stake.

This specific example is here to demonstrate that the year to date mark to market evolution of Albioma, albeit frustrating, is totally disconnected from the underlying fundamentals, the trust of its employees in the future of the Company and the capital that investors with deep knowledge in the industry are willing to invest in the business. The contrast is so staggering that, in the Investment Adviser's opinion, it cannot remain as mispriced as it is indefinitely.

Even though markets have continued selling off month to date in December we are observing changes:

- In recent conferences the Investment Adviser has attended, the mood from companies was cautiously relaxed and positive. Investors were clearly desperate for companies to say that the cycle is rolling over and that they're seeing weakness, but they simply aren't in most areas outside of autos, semis and retail, and even in those sectors there are pockets of strength.
- There has been a clear increase in insider buying very recently in the Fund's universe.
- Lastly, M&A activity has finally picked up from November, with takeovers announced by several companies in Europe: Amer Sports, Basware, Poyry, Ahlsell, Osram Lighting to name but a few.

All these observations are important factors to watch and keep in mind for 2019.

The views and statements contained herein are those of Pascal Investment Advisers SA in their capacity as Investment Adviser to the Fund as of 12/10/18 and are based on internal research and modelling.

Please contact info@eisturdza.com should you wish to have an update call with the investment team.

* PERFORMANCE DATA (as at the end of November 2018)

CUMULATIVE PERFORMANCE (%)

	November 2018	3 Months	6 Months	1 Year	2 Years	3 Years	Since Fund Inception
EUR	-4.19	-13.87	-15.08	-18.36	3.44	9.94	9.71
STOXX Europe 600 NR EUR	-0.99	-6.16	-5.88	-4.94	10.37	0.83	0.77

PERFORMANCE BY CALENDAR YEAR (%)

	2018 YTD	2017	2016	2015	Annualised since inception
EUR	-20.75	22.80	13.55	-0.72	2.63
STOXX Europe 600 NR EUR	-5.62	10.58	1.73	-5.09	0.21

2015 performance from launch date

Please note, past performance is not indicative of future returns.

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