EI STURDZA BOND FUNDS COMMENTARY

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

DECEMBER 2018 – MONTHLY COMMENTARY BY PORTFOLIO MANAGER ERIC VANRAES

DECEMBER AT A GLANCE

During December, the main financial markets were driven by Brexit uncertainties, the pause in the trade war between the US and China, the last Fed rate hike of the year and the continuing social troubles in France. The month started with a mitigated set of employment data in the US with only 155'000 jobs created while average hourly earnings stabilised at +3.1%. In Europe, the fears of slowdown increased in France and Italy. In Germany, a possible recession can not be ruled out as exports decreased sharply. Government bonds rallied, the US curve started to invert (2-5y) and corporate spreads widened on both sides of the Atlantic. Emerging bond spreads stabilised as many investors bet on Emerging Markets (both equities and bonds) as a top performing asset class in 2019. During this last month of 2018, fears of a global slowdown increased sharply: first and foremost in China, then in the US and Europe. This month also marked the end of the ECB's asset purchase program.

STRATEGIC EURO BOND FUND
STRATEGIC GLOBAL BOND FUND
STRATEGIC QUALITY EMERGING BOND FUND

The three bond Funds were liquidated on 14th December and the Investment Adviser has continued to sell the issues that could not be transferred into the new Fund, mainly bonds denominated in euro with very low yields and emerging market bonds in US dollar which do not align with the new investment strategy.

STRATEGIC BOND OPPORTUNITIES FUND

The new Fund was successfully launched on 14th December with an AUM slightly below USD 60 million. The Investment Adviser adjusted the allocation slightly, between Treasuries, Investment Grade and Emerging Markets but postponed most of the strategic moves until January, when liquidity returns to the fixed-income markets. The Strategic Bond Opportunities Fund's strategy is the "best of" the three former funds, the core portfolio being the former Strategic Global Bond Fund. In addition, select Emerging Market bonds (around 30%) have been added to the portfolio, a number of which were previously held by the Strategic Quality Emerging Bond Fund. Further, a small number of bonds denominated in euro, previously held by the Strategic Euro Bond Fund (around 16%, hedged into US dollar) have also been included in the new Fund's portfolio.

OUTLOOK

The Investment Adviser's outlook is focusing on two major topics: inflation and the Central Banks' stand-point. The risk of inflation remaining subdued and the US yield curve flattening, combined with other topics such as the risk of the trade war escalating, suggest that recession fears (or at least fears of a significant slowdown) will rapidly become a major concern. In addition, after the recent correction of emerging markets and the European periphery, the team is still convinced that high quality bonds, considered as safe havens, will attract more investors in the coming months.

PORTFOLIO MANAGER

ERIC VANRAES

Eric Vanraes is Head of Fixed Income Investments at Banque Eric Sturdza SA, where he has been employed since July 2008. Eric has over 26 years' experience and currently manages our fixed income range. Prior to joining the Eric Sturdza Banking Group Eric was a member of Senior Management, Head of Credit and Absolute Return Portfolio Management and Manager of four compartments of the SICAV UBAM at Union Bancaire Privée.

CONTACT

E.I. Sturdza Strategic Management Limited

Telephone	+44 1481 722 322
Email	info@eisturdza.com
Website	eisturdza.com

CONTINUED OVERLEAF

In the US, the Investment Adviser believes that long US Treasuries are still attractive and that they could be a top performing asset class in 2019. An inverted curve slope can not be ruled out for early 2019, after the Fed rate hike on 19th December. The Fed may be making a mistake by pursuing its monetary policy normalisation, the markets not having the capacity to absorb any additional rate hikes. The Investment Adviser believes that the best strategy today is to keep investing in short term corporate bonds yielding around 3.5% combined with 30y US Treasuries. The behavior of the Fed will be a key driver of the markets and bond yields will also depend on the evolution of equity markets. The Investment Adviser believes that only one more rate hike in the US will be possible in 2019 and that the Fed will probably be forced to ease before year end. Consequently, the Fed funds rate could be back to their current level in one year.

In Europe, the Investment Adviser believes that the Bund will match the US Treasuries behavior and will also perform well in case of any resurgence of tension in Italy or France and in the case of recession fears in Germany. Brexit uncertainties will also add stress to the market. A QE2 is possible in the Eurozone before the end of 2019.

In the Emerging Markets, the Investment Adviser continues to closely monitor the behavior of spreads (both governments and corporates) and the increasing volatility due to global risk aversion. Spreads have widened substantially in 2018 and some Emerging bonds could perform well in 2019.

In conclusion, the Investment Adviser etains the belief that the best performing asset class will be a mix of short term Investment Grade corporates and long-dated US Treasuries. Emerging markets re likely to remain volatile during the coming months, but current levels offer an attractive opportunity to invest in very high-quality EM markets. Bonds denominated in euro and hedged in US dollar are also becoming an attractive investment opportunity.

WARNING

The contents of this document have neither been reviewed nor endorsed by the Central Bank of Ireland or any other regulatory authority. If you are in any doubt about any of the contents of this document you should obtain independent professional advice.

BLOOMBERG DISCLAIMER

Data presented herein is obtained via Bloomberg PORT where stated. Any such data is subject to change from the date of production of this document. Such changes may impact upon comparative data between the investment and benchmark present. Such information therefore is provided for reference purposes only, is subject to change and should not be relied upon for an investment decision.

GENERAL DISCLAIMER - APPLICABLE TO UK DOMICILED RECIPIENTS

This communication is issued in Guernsey by E.I. Sturdza Strategic Management Limited which is regulated by the Guernsey Financial Services Commission. Any investments or investment services mentioned in this communication are not intended for retail customers. Consequently, this communication is only made available to professional investors and eligible counterparties and should not be relied upon by any person that does not possess professional experience in relation to investments. If you are in any doubt as to whether you possess suitable experience in relation to investments please consult your financial adviser. Past performance is no guarantee of future results. Under no circumstances should this document be forwarded to anyone in the United Kingdom who is not a professional client or eligible counterparty as defined by the Financial Conduct Authority. For the purpose of distribution in the United Kingdom this material has been issued by E.I. Sturdza Investments Limited, Claridge House, 32 Davies Street, London, W1K 4ND which is an appointed representative of Mirabella Advisers LLP which is authorised and regulated by the Financial Conduct Authority. Further this communication is not an offer or an invitation to purchase financial instruments but intended as information. Further the information contained in this communication does not represent a research report. E.I. Sturdza Strategic Management Limited has not considered the suitability of investment against your individual needs and risk tolerance. Shares in the Fund should only be purchased by persons with professional experience and investors should refer to the Fund Prospectus and/or KIID for detailed information about potential risks involved in investing in financial instruments as well as the latest half-yearly report and unaudited accounts and/or annual report and audited accounts. The information contained herein is estimated, unaudited, may be subject to change and reflects the performance of the relevant fund offered by E.I. Sturdza Strategic Management Limited during the period indicated. Any opinions or estimates expressed herein are at the date of preparation and are subject to change without notice; however no such opinions or estimates constitute legal, investment, tax, or other advice. Individual performance of the Fund may vary and historical data is not an indication of future results. The value of the Fund and the income which may be generated from it can go down as well as up and therefore investors must be able to bear the risk of a substantial impairment or loss of their entire investment. The Swiss Representative and Swiss Paying Agent is Banque Eric Sturdza SA, Rue du Rhône 112, P.O. Box 3024, CH-1211 Geneva 3. Copies of the Prospectus, KIID, articles of association, annual and semi-annual reports may be obtained free of charge at the seat of the Swiss representative. This document is intended for information purposes only and is not intended as an offer or recommendation to buy, sell or otherwise apply for shares in the Fund. E.I. Sturdza Strategic Management Limited, 3rd Floor, Frances House, Sir William Place, St Peter Port, Guernsey GY1 1GX. Part of the Eric Sturdza Banking Group. Company Registration Number: 35985.

DISCLAIMER - SWISS DOMICILED RECIPIENTS

E.I. Sturdza Funds Plc and its sub-funds are Irish funds authorized by the Irish Central Bank. They are approved for distribution in Switzerland by FINMA. The Swiss representative and paying agent is Banque Eric Sturdza SA, rue du Rhône 112, 1204 Geneva / Switzerland. Investors should refer to the fund prospectus and/or KIIDs for detailed information about potential risks associated with investments in financial instruments as well as the latest half yearly report and unaudited accounts and/or annual report and audited accounts. The prospectus, KIIDs, Articles of association, semi-annual and annual reports of E.I Sturdza Funds Plc can be obtained, free of charge, at the seat of the Swiss representative, Banque Eric Sturdza SA. The information contained herein is estimated, unaudited, may be subject to change and reflect the performance of the relevant funds during the period indicated. Any opinions or estimates expressed herein are at the date of preparation and are subject to change without notice. No such opinions or estimates constitute legal, investment, tax or other advice. Individual performance of the funds may vary and historical data is not an indication of future results. The value of the funds and the income which may be generated from it can go down as well as up and therefore investors must be able to bear the risks of a substantial impairment or loss of their entire investments. Past performance is no guarantee of future results. Performance data do not take into consideration commissions and costs charged at the time of issuance and/or redemption of the shares. This document is intended for information purposes only and is not intended as an offer or recommendation to buy, sell, or otherwise apply for shares in the funds.