

STRATEGIC EUROPEAN SMALLER COMPANIES FUND

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



EI STURDZA
INVESTMENT FUNDS

DECEMBER 2018 – MONTHLY COMMENTARY BY PORTFOLIO MANAGER BERTRAND FAURE

FUND COMMENTARY

2018 was a frustrating year for the Fund in terms of absolute and relative performance, declining 24.86% for the year on an absolute basis and underperforming its benchmark. After 3 strong years, both in absolute and relative terms, 2018 was markedly different. Despite its 2018 performance, the Fund remains in positive territory since inception on 5th May 2015, having gained +4.0%, while its benchmark has lost 4.7% over the same period, highlighting the Fund's ability to preserve capital for investors, even in turbulent times.

At the same time last year, the Investment Adviser wrote in the monthly commentary that "markets remain vulnerable to macro disappointments and changes in central banks' policy, as many valuation metrics appear stretched and investors still show signs of complacency". This statement unfortunately turned out to be true but at the same time failed to capture additional uncertainties that the markets had to face during the year: the US-China trade war, the consequences of the change of government in Italy, the never-ending Brexit debate and the yellow vests protests in France during recent weeks to name a few.



All of the above triggered massive outflows from European equities since April 2018 through to year end. While the Fund has been relatively un-impacted by this phenomenon during 2018, other market participants were not in the same position and became forced sellers, indirectly impacting valuations of the Fund's investments, with a peak around the 20th of December.

From 20th December to January 8th, the Fund recorded a +7.3% return; with some of its constituents such as Lisi (+23.9%), Jacquet Metal (+17.4%), Akwel (+16.1%), Metall Zug (+15.5%), Barco (+13.9%), Mauna Kea (+13.5%), Mersen (+12.6%), Rieter (+11.7%) and Elis (+10.2%) experiencing sizeable rebounds.

In the Investment Adviser's opinion, this shows that the later part of 2018 was mostly technical from a mark to market perspective and went way beyond the fundamentals of the underlying businesses. In spite of this rebound, the team believes there remains upside potential for the Fund's portfolio of around 50% from current levels (based on assumptions which incorporate a more prudent macro scenario for the years to come).

During December, the Fund lost -5.19%, while its benchmark recorded a decline of -5.46%. Albioma was the largest monthly contributor, followed by Takeaway.com and Befesa. As highlighted in the November commentary, Albioma was massively oversold up to then. This said, the news flow detailed in last month's letter triggered a +12.8% rebound in the stock price in December in spite of a very poor stock market performance during the month.

On 21st December, Takeaway.com announced a transaction that was long awaited, and was one of the key pillars of the Investment Adviser's investment thesis, with the acquisition of its key German competitor from Delivery Hero. Similar to the Netherlands, where Takeaway.com holds a 90%+ market share, the Company will now benefit from the same market position in a country which is five times bigger. The stock price gained 28.3% on the day of the announcement and increased 25.5% during the month. Finally, Befesa gained 5.6% in December following a broker's upgrade early in the month and an upgrade of its debt rating from BB- to BB by the S&P.

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.

CONTACT

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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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At the other end of the spectrum, Boozt, Elis and Granges were the three main detractors. After poor performance in November, Boozt suffered from Asos' profit warning, one of its European peers.

There is little to report about Elis and Granges other than continued selling pressure around indebted, automotive-related or French companies.

The views and statements contained herein are those of Pascal Investment Advisers SA in their capacity as Investment Adviser to the Fund as of 09/01/2019 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 December 2018)

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	3Y	Fund Inception
EUR	-5.19	-15.87	-24.86	-7.73	4.77	4.03
STOXX Europe 600 NR EUR	-5.46	-11.57	-10.77	-1.33	0.38	-4.73

CALENDAR YEAR PERFORMANCE %

	YTD 2018	2017	2016	Annualised Inception
EUR	-24.86	22.80	13.55	1.08
STOXX Europe 600 NR EUR	-10.77	10.58	1.73	-1.32

Past performance is not an indicator of future performance

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

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