E.I. Sturdza Strategic Bond Opportunities Fund

May 2019 Fund Commentary

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PORTFOLIO MANAGER

MARKET DEVELOPMENT

In May, two main events drove the US market: 1) The release of the unemployment figures, which were above market expectations (263'000 job creations and a 3.6% unemployment rate in April, the lowest since 50 years) but offset by the second driver - the fears of an intensive trade war between the US and China (and possibly Mexico). In Europe, the European Commission revised its growth prevision down, led by Germany, whose economy is expected to grow 0.5% this year (down from the previous estimate of 1.1%). At the same time, the German Ifo index reached 97.9 points in May, its lowest level since 2014.

On both sides of the Atlantic all eyes were on central banks behaviour, waiting for a more dovish stance. According to the Investment Adviser, the probability of a US recession in 2020 increased, at least in the mind of market participants, with government bond markets rallying significantly. At the same time, corporate spreads widened in line with equity markets' behaviour. On 30th May, Mr Clarida, vice-Chairman of the Fed, mentioned for the first time the possibility of a rate cut should the economic environment worsen in the second half of the year.

Overall, this month can be summarised by two figures: +2.4% and -6.6%, i.e. the monthly performances of the Bloomberg-Barclays US Treasury Total Return and the S&P 500 respectively. The favourite saying "sell in May" could have been replaced by "buy in May… but US Treasuries".

PORTFOLIO STRATEGY

During the month, the strategy of the Fund has not been modified, with the Investment Adviser only having slightly increased the weight of the US Treasury maturing in 2048.

MARKET OUTLOOK

The Investment Adviser's outlook continues to be tied to two major topics, inflation and Central Banks' stand-point. In the Investment Adviser's opinion, inflation risk remains subdued and the US yield curve inversion, combined with other topics such as the risk of an escalation in the trade war, suggest that recession fears (or at least fears of a significant slowdown) are a major concern.

In the US market, the Investment Adviser believes that long US Treasuries continue to be attractive, considering that they could still be a top performing asset class in 2019 despite the rally already observed year to date. A more inverted curve slope is not excluded in 2019 as a first Fed rate cut could take place in July.

The Investment Adviser believes that the best strategy today is to keep investing in short term corporate bonds and investment grade Emerging Market bonds combined with a barbell strategy on the US Treasury yield curve, with an overweight of 1-2y combined with 10-30y US Treasuries. The Fed's behaviour will be a key driver of the markets and bond yields will also depend on the evolution of equity markets. The team believes that the Fed will probably be forced to ease significantly before year end (between 50bp and 75bp) or alternatively implement a QE4 before Q2 2020. Other options, such as a rate peg, are also on the table.

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 plc. Registered in Ireland.

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In Europe, the Investment Adviser thinks that the Bund will match the US Treasuries' behaviour and, in addition, will perform well as recession fears are likely to increase in the coming months. Brexit uncertainties will add some stress to the market. In the team's opinion, a QE2 will probably become inevitable in the Eurozone before the end of the year.

In Emerging Markets, the Investment Adviser will continue to closely monitor the behavior of spreads (both governments and corporates).

In conclusion, the team still believes that the best performing asset class is a mix of short term Investment Grade corporates and long-dated US Treasuries. Emerging Markets still offer an attractive opportunity (but more selectively than in January), with bonds denominated in Euro and hedged in US Dollar also offering an attractive carry.

This said, in the current environment and given a global spread widening risk, the Investment Adviser intends to increase the weight of US Treasuries, whilst reducing exposure to the three other pillars (corporate spreads in Dollars, emerging markets in Dollars and corporate spreads in Euro). The team believe that a mix of all these sub-asset classes will represent an opportunity to deliver robust performance during the coming months despite a very low yield environment and strong performance since inception of the Fund on 14th December 2018.

IMPORTANT INFORMATION

The views and statements contained herein are those of the Eric Sturdza Group in their capacity as Investment Advisers to the Funds as of 11/06/2019 and are based on internal research and modelling.

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