



E.I. Sturdza Strategic European Smaller Companies Fund

May 2019 Fund Commentary



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PORTFOLIO MANAGER

“Sell in May and go away.” May has a reputation for being a complicated month for stock markets and has lived up to its reputation again this year post a very strong run in the first four months of the year. The Fund lost -6.22%* during the month, resulting in a year to date return of +12.13% and translating into a 0.65% outperformance versus its benchmark.

In spite of the recent U-turn in the US-China trade negotiations, the Investment Adviser does not believe there will be a large-scale confrontation between the two countries, as the two economies are too intertwined to keep up with the trade war rhetoric. This U-turn however fuelled short term volatility, consistent with the Investment Adviser’s predictions in last month’s commentary, aggravated by the continued outflows from the European equity space. Against the above, the benchmark index lost -4.94% in May.

According to the Investment Adviser, the prevailing and continuing uncertainty means corporates are adopting a “wait and see” approach, which slows down capital spending and prevents M&A transactions, in spite of historically low interest rates. Across the board, Q1 reporting was OK-ish in Europe, with Q2 appearing to be more difficult. According to the team, there are projects, quotes and requests around but they have so far failed to convert into real orders. Most corporates anticipate a back-end loaded year, certainly now more than before. Against this backdrop, the cyclical share of the portfolio was reduced to concentrate on investments more resilient and less sensitive to short term GDP fluctuations.

Barco was the largest monthly performance contributor, followed by Albioma and Takeaway.com. Unsurprisingly, these three companies can be classified as non-cyclical, which was demonstrated by their ability to post positive absolute performance when markets changed course in May.

There is little to report about the stocks’ share price movements apart from a Capital Market Day for Barco held at the Company’s headquarters on 9th May. The main takeaway from this event was the updated sales and margin guidance aiming for a 5%+ sales CAGR and 14-17% adj. EBITDA margin by 2022E for Barco, ahead of market expectations.

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

After delivering stellar performance until the end of April (+77% YTD on 30.04.19), Boozt dropped in May on the back of a lukewarm Q1 report. Whilst its gross margin declined, fulfilment costs rose on the back of an increase in return rates in the context of additional promotional activity as the Company bought excess inventory cheaply from several suppliers in the autumn, with the aim of driving volumes while securing new customers. Management solely focused on attracting new customers and enlarging the online share of the market, which according to the team can result in quarterly earnings (and stock price) volatility as experienced recently. Since its IPO, Boozt has impressed with its strong disruptive growth, and should in the Investment Adviser’s opinion continue to benefit from the structural shift from store-based sales to online retailing in Scandinavia.

There is nothing stock-specific to be mentioned regarding Spie or Akwel during May.

INVESTMENT APPROACH

The Fund’s competitive advantage and its key differentiator between it and its peers is the ability to focus on target companies from every angle and leverage the network of relationships and corporate access provided by a number of stakeholders, including founding partners to provide a real understanding of the market share and performance of the investee companies that results in the totality of the investment research being generated internally.

INVESTMENT OBJECTIVE

To outperform small and medium capitalisation firms in the European equity markets

A sub-fund of E.I. Sturdza plc.
Registered in Ireland.

CONTACT

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


PERFORMANCE DATA As at end of May 2019

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	3Y	Fund Inception
EUR	-6.22	1.63	-9.72	-12.60	16.07	16.65
STOXX Europe 600 NR EUR	-4.94	0.67	-0.80	0.17	15.57	6.20

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	2017	2016	Annualised Inception
EUR	12.13	-24.86	22.80	13.55	3.85
STOXX Europe 600 NR EUR	11.48	-10.77	10.58	1.73	1.49

Past performance is not an indicator of future performance.

AWARDS


See Awards Disclaimer on last page.



IMPORTANT INFORMATION

The views and statements contained herein are those of Pascal Investment Advisers SA in their capacity as Investment Adviser to the Fund as of 10/05/2019 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.

WARNING

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AWARDS DISCLAIMER

The Strategic Smaller Companies Fund (EUR Class) received a 3-star Overall Morningstar Rating™. Morningstar Ratings as of 31/05/19.

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