Strategic Bond Opportunities Fund

December 2021 Fund Commentary

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Retail Marketing Communication / Publicité / Financial Promotion addressed to investors in the countries mentioned in the disclaimer, related to **E.I. Sturdza Funds plc – Strategic Bond Opportunities Fund** – (hereinafter referred to as the "Fund") a sub-fund of E.I. Sturdza Funds plc, an Irish open-ended umbrella investment Company with variable capital – UCITS ("the Company").

Market Development

In December, the two key drivers of the markets were the emergence of the Omicron variant in Europe, Asia and America; and the hawkishness of the Fed. Reinforced by November's strong economic data (the unemployment rate falling to 4.2% and inflation climbing to 6.8%), the Federal Reserve decided to increase its asset purchase program from $15bn to $30bn per month. This acceleration means that the tapering will probably end in March 2022, and will immediately open the door for a first rate hike, followed by two others in 2022 and three in 2023. In this hostile environment for bonds, long term Treasuries barely moved. This is a probable sign that market participants believe that this hawkishness is exaggerated and this monetary policy mistake could lead to an economic slowdown.

Market Outlook

Our outlook will continue to focus on the macroeconomic situation (including growth, inflation and unemployment), Central Banks' behaviour and the evolution of equity markets, which could be more volatile in the coming weeks. The COVID pandemic, led by the Omicron variant (but Delta still very active) remains a concern and the impact of the Omicron variant on the economic situation in developed markets is still unknown. Inflation fears in the US and in Europe are still high, but a scenario of a global slowdown, led by a sharp drop of the Chinese GDP is becoming more likely. The economic growth outlook for Q1 2022: higher commodity prices, the potential damages from the collapse of the Chinese high yield market (led by Property) and the shortage of components affecting different industrial sectors (leading to a possible recession in China) all need to be considered in order to adapt our strategy accordingly.

In the US, long dated US Treasury yields are becoming more attractive and we continue to search for new entry points to increase the duration of the portfolio, should we have the opportunity to buy more long bonds on any weakness. Fed purchases (which remain high despite the beginning of tapering), and strong demand for safe haven assets should stabilise long-term yields at current levels. A Fed monetary policy mistake is possible in 2022. Jerome Powell will probably fight more aggressively against inflation in order to stop the escalation, before the Mid-Term elections if possible.

In Europe, the ECB should stay ultra-accommodative despite higher inflation. Some high-quality emerging markets could offer investment opportunities, driven by demand, but for the time being, they still appear too risky and uncertain.

As a result, we believe that the best strategy today is to invest in a selection of high-quality corporate bonds, both in EUR and USD, favouring USD Investment Grade. Hybrid debt is still very expensive: the objective is to keep the existing position for the carry of the spread, but not increase the weight of this asset class until there is a major correction in equity markets. High-quality credit spreads remain attractive in the current environment, but our primary objective within the first quarter of 2022 is to gradually increase the duration of the portfolio through the purchase of long dated US Treasuries in order to protect the Fund against the increasing threats mentioned above, which could affect the markets in Q2 or Q3 2022.

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 Funds plc.

Registered in Ireland.

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Fund Strategy

In December, we commenced the implementation of our strategy for Q1 2022: lowering credit risk and favouring duration. We decreased the weight of two hybrid bonds, BP and Bimbo. This was also an opportunity to improve the ESG quality of the Fund - BP and Bimbo being the two issuers presenting a high ESG score according to Sustainalytics. We also reduced the positions in Italy, AliBaba and the Indonesian sovereign agency Perusahaan Penerbit. We increased the duration of the portfolio through the purchase of a US Treasury maturing in 2051, financed by the sale of US Treasuries maturing in 2022.

Ratings & Awards

Morningstar Sustainability Rating
Out of 1,700 Global Fixed Income-funds as of 31/10/2021. Based on 99.29% of AUM. Data is based on long positions only.

Awards Disclaimer - The Strategic Bond Opportunities Fund received a 3-star Overall Morningstar Rating and a 3-star 3-year Morningstar Rating (A USD Class). Morningstar Ratings™ as of 31/12/2021.

The Strategic Bond Opportunities Fund received a 3 Globe Morningstar Sustainability Award. Data is based on long positions only. Historical Sustainability Score as of 30/09/2021. Sustainability Rating as of 31/10/2021. Sustainalytics provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score.

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