

Strategic European Smaller Companies Fund

Fundamental trading throughout the Pandemic



ERIC STURDZA
INVESTMENTS

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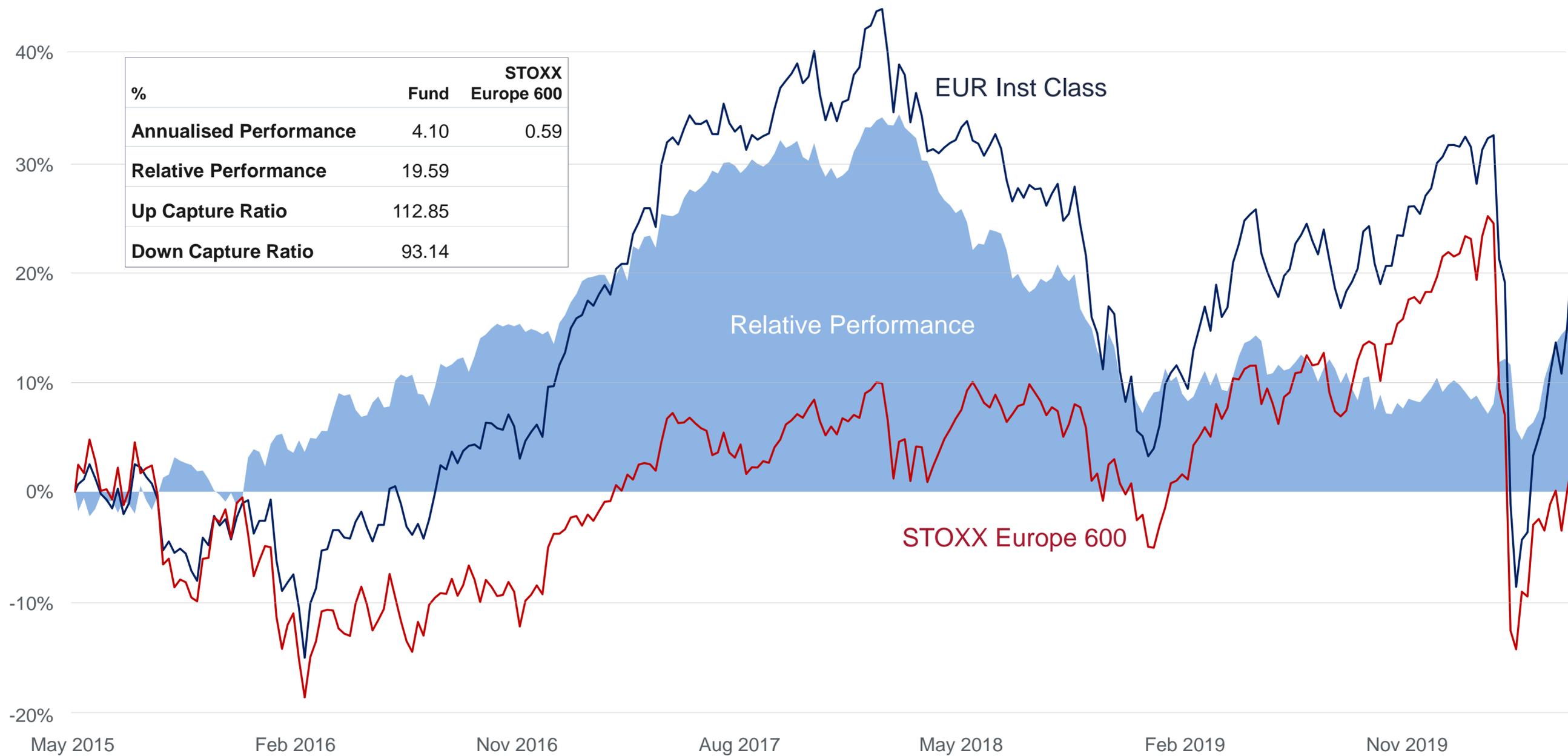
Investment Adviser
Pascal Investment Advisers S.A.

May 2020

Investment Philosophy

| | |
|-------------------|---|
| Rigorous Research | Fundamental analysis combined with an in-depth industrial approach, continuous reassessment of financial, industrial, social responsibility and strategic positioning. |
| Great Businesses | Predictability of cash earnings, high or rapidly-improving returns on invested capital, barriers to competition, positive FCF and clean, or rapidly improving, balance sheets; often found in family controlled firms. Management is key! |
| Process | Detailed, repetitive, and demonstrable fundamental research process. Always meet management, and constructively work with them where possible. |
| Discipline | Large discrepancy required between our proprietary valuation and market price, and a reason why they will converge. Risk reward is important. Position weightings move as the discrepancies in valuations develop. |
| Prudence | Increase cash in the absence of compelling investment opportunities. Positions sizes are constrained by the maximum potential loss per position. |
| Conviction | Concentrated portfolio with core positions typically 5 -10%. |

Performance Since Inception



Source: Eric Sturdza Investments/Morningstar Direct. Data from launch 5th May 2015 to the end of May 2020. Up and Down Capture Ratios are based on monthly returns and relate to the time frame 01/06/2015 – 31/05/2020. Please note that past performance is not indicative of future returns.

Portfolio Level Actions

December 2019

“The focus remains on investing in well-managed, resilient companies with strong free cash flow generation.”

Quote taken from the December 2019 Monthly Fund Commentary.

- Repositioned the Fund in late 2019 towards more stable and resilient business models following strong market performance in 2019.
 - Seven positions exited in H2 2019, reducing the cyclical exposure of the Portfolio.

January 2020

- In mid January a position level study was undertaken to understand the direct / indirect impacts of inactivity in China.
- 23rd January Wuhan was locked down, as work had been done, the team were able to quickly...
 - Reduce exposure to impacted positions in late January – predominantly China and Auto related companies.

February

- De-risking decision taken post eruption of several Northern Italian clusters of the virus.
 - Reduced exposure to cyclical, indebted or Italian companies.

March

- Global scale of the pandemic became clearer.
- Likely period of inactivity and as a result, similar to 2008 financial crisis, potential cash flow issues.
 - Any companies that could potentially be at risk were fully divested.
 - Increased some positions where stock price evolution totally de-correlated from potential earnings risk.

Current Market Views

“The most hated rally in history.”

Stock markets climbed in the midst of a devastating health and economic crisis.

- Equity markets are too complacent.
- Stocks are already becoming expensive at current levels.
- Possibility of a recovery is potentially weaker than expected through 2021.

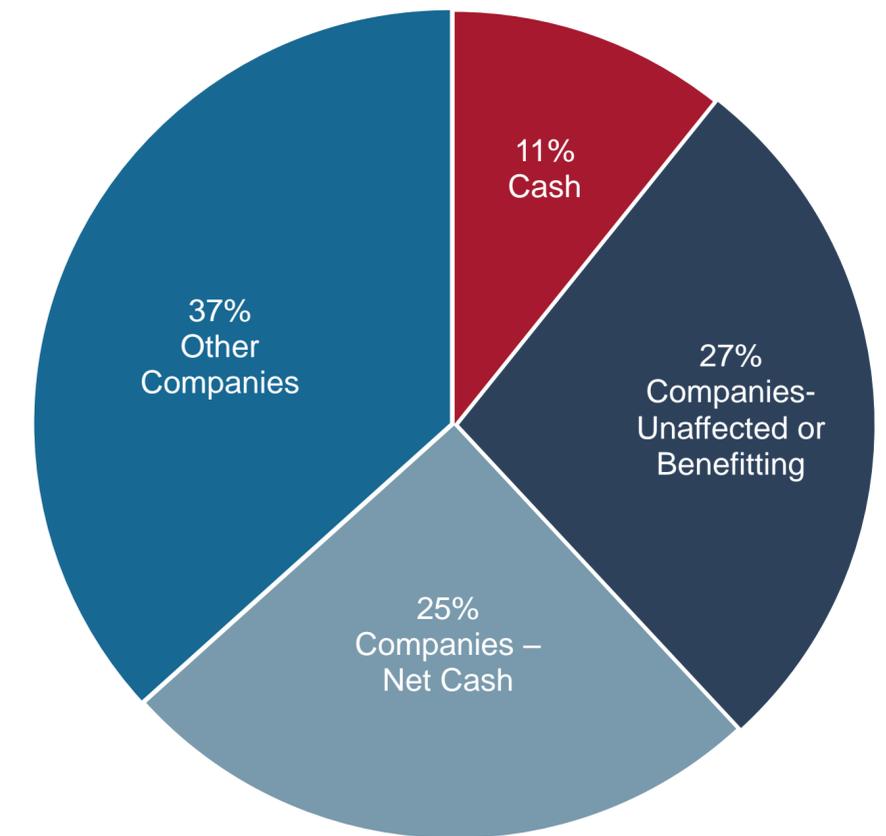
VS

- The stock market is not the economy.
- It is a tool for pricing in the future and has already discounted issues.
- Stock markets heavily influenced by central banks' massive stimulus around the world.

- **Continued volatility likely** – Significant and continued money printing, uncertainty surrounding the viability of a large range of businesses.
- **Risks on both sides** of the argument – our responsibility is to deploy capital in a portfolio of stocks that are able to cope with all potential outcomes.
- **Volatility will undoubtedly create opportunities** – which explains the 11% cash exposure.

Current Portfolio Exposure

- **Cash: 11% of the portfolio**
 - Volatility in markets is expected to continue.
 - Cash levels to take advantage of better entry level opportunities
 - Short list of companies identified.
- **Companies unaffected or benefiting from COVID19: 27% of portfolio.**
 - No compromise on valuation multiples, even for this group.
 - Step change transition into digital e-commerce and services.
 - Unsurprisingly, YTD performance > +20%.
- **Companies with a Net Cash position at the end of 2019: 25% of portfolio.**
 - Will survive no matter what happens.
 - Ability to emerge from the crisis on a stronger footing with competitors bleeding.
 - M&A opportunities for years to come.
- **Others: 37% of portfolio.**
 - None of companies have uncovered debt repayments for the next 2 years.
 - Share of the portfolio with the highest beta post lockdown.
 - This is where we reinvested in March.



Companies Unaffected / Benefiting

Albioma (9%)

- Independent renewable energy producer. Mostly in French overseas territories.
- Market cap: €1bn.
- Perf YTD: +23%.

Boozt (7%)

- Scandinavian technology company selling fashion and beauty online.
- Market cap: €380M.
- Perf YTD: +31%.

Iliad (4%)

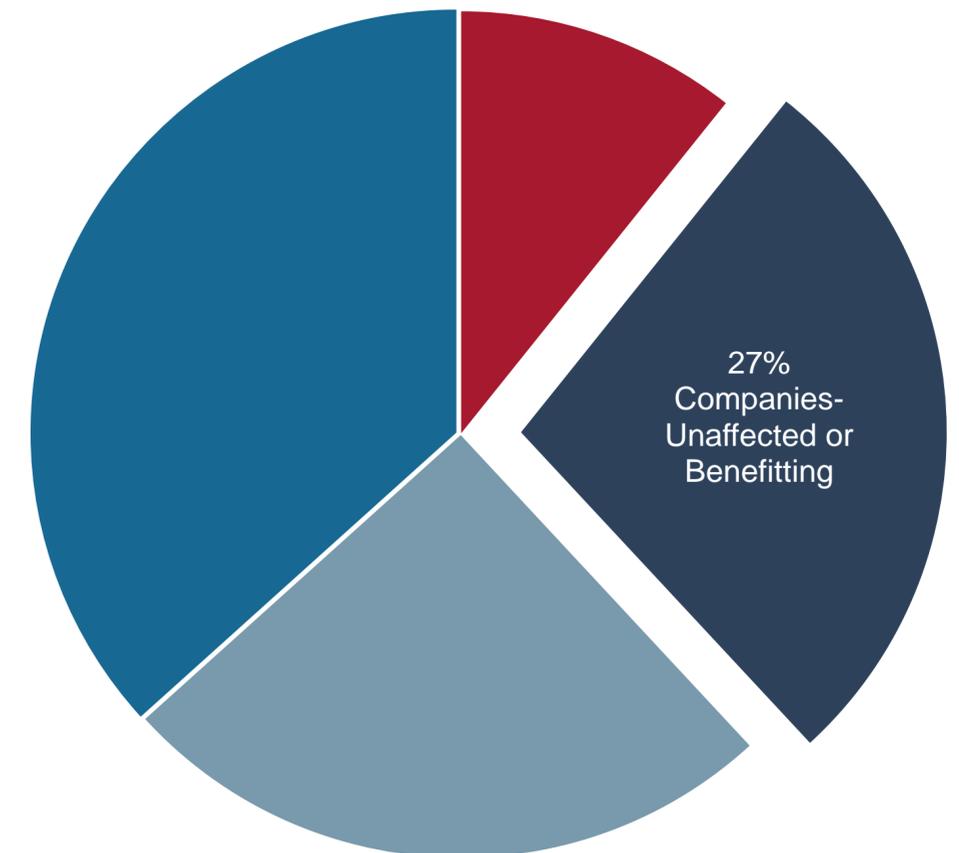
- Telecom operator in France and Italy.
- Market cap: €9.4bn.
- Perf YTD: +37%.

JustEat Takeaway (4%)

- Online Food services delivery operator.
- Market cap: €14.5bn.
- Perf YTD: +19%.

Musti (4%)

- Leading Scandinavian pet care specialist.
- Market cap: €443M
- Perf YTD: +64% (since IPO in Feb 20)



Companies with Net Cash

Trigano (7%)

- Leading European Motorhome manufacturer.
- Market cap: €1.6bn.

Somfy (4%)

- World leader in automatic controls for openings and closures in homes and buildings.
- Market cap: €3.3bn.

Akwel (4%)

- Auto supplier specialised in fluid management and mechanisms.
- Market cap: €409M.

Aubay (4%)

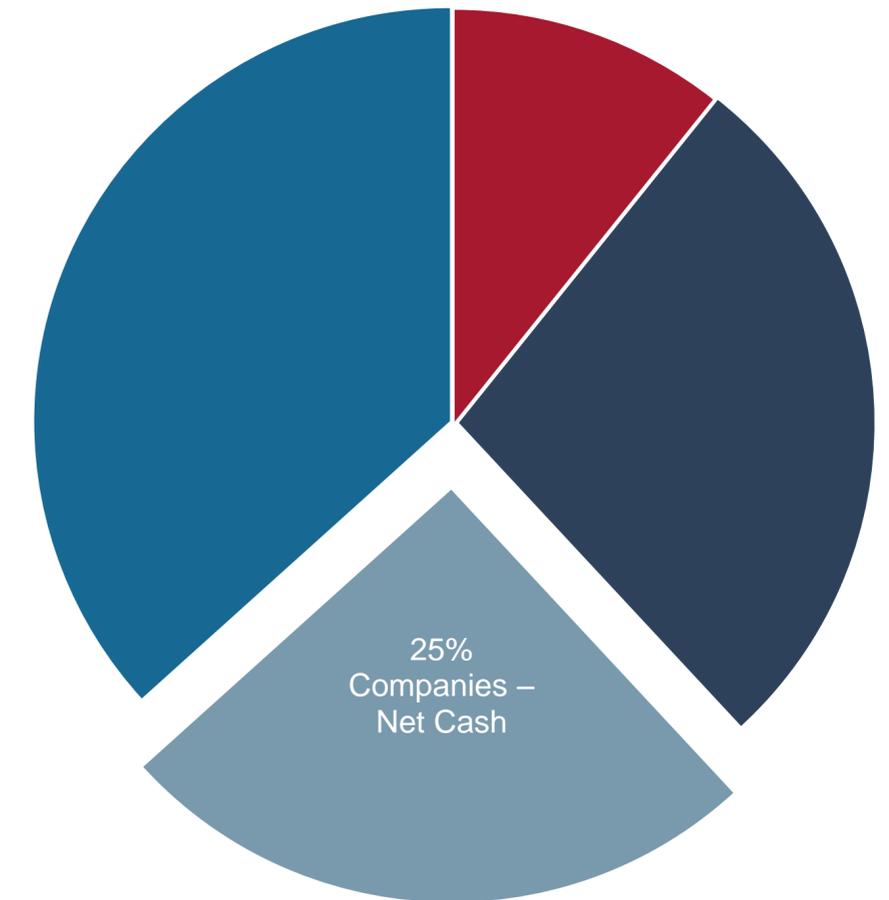
- IT services company.
- Market cap: €375M.

Conzetta (3%)

- Leading global provider of high-quality solutions for the sheet metal processing business.
- Market cap: €1.6bn.

Valmet (3%)

- Global #1 maker of board, tissue and graphic paper machines and #2 of pulp lines
- Market cap: €3.5bn.



Other Companies

Spie (6%)

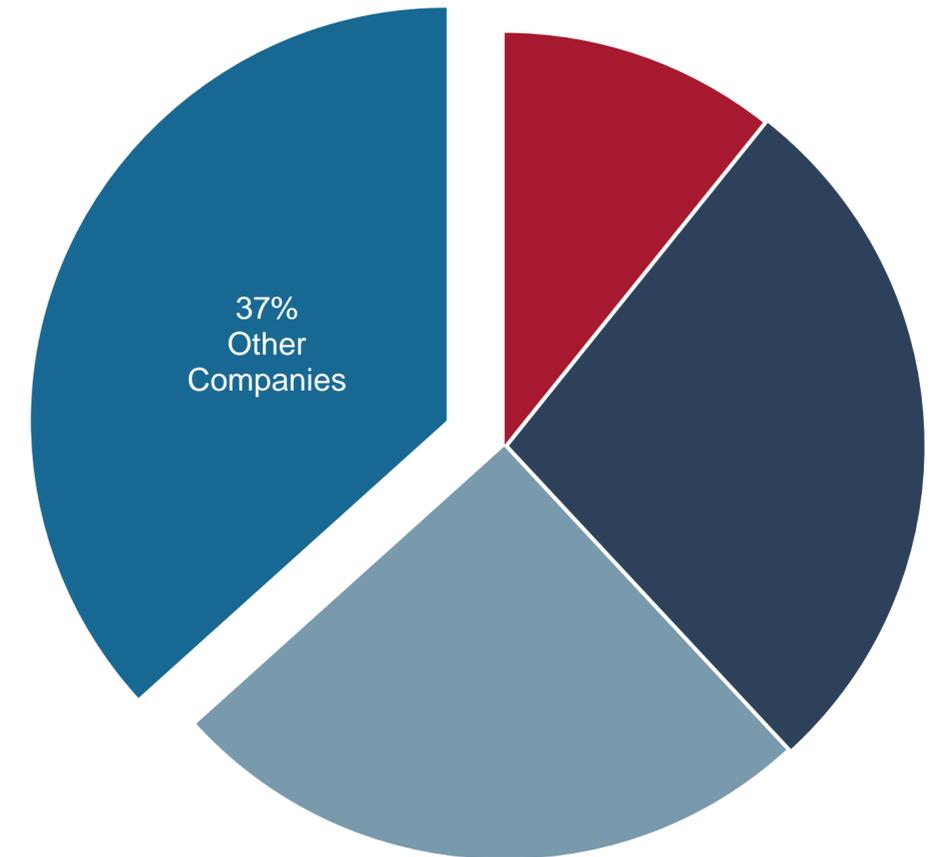
- Independent European leader in multi-technical services.
- Market cap: €2.2bn.

Ipsos (8%)

- Third largest market research company in the world.
- Market cap: €971M .

Befesa (5%)

- Services company specialising in recycling of steel dust, salt slags and aluminium residues.
- Market cap: €1.2bn.



Conclusion

- The team have proven their ability since inception to deliver relative outperformance and capital preservation.
- Proactive actions were taken well in advance as the situation developed combining calm fundamental reviews with pragmatic decision taking.
- 2020 is obviously a difficult year for fundamental managers, but individual positions and positioning lead to sizeable outperformance year to date.
- Well balanced portfolio to weather all potential outcomes for the months to come (neither conservative, nor blind sighted hoping for a V shape recovery) in the team's assessment.
- Volatility likely to continue, and volatility produces opportunity for outperformance through absence of discrimination.
- The team foresee more than 50% upside potential over the next two years.

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