



Strategic European Silver Stars Fund

December 2021 Fund Commentary



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Portfolio Manager

Retail Marketing Communication / Publicité / Financial Promotion addressed to investors in the countries mentioned in the disclaimer, related to **E.I. Sturdza Funds plc – Strategic European Silver Stars 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”).

We would like to wish you a happy and healthy 2022 following such an eventful year in 2021.

The Fund posted a total net return of +27.56%* in 2021, while the benchmark returned +24.91% (2.65% relative outperformance), which is the Fund’s third consecutive year returning over 20% performance after 24.41% in 2019 and 28.63% in 2020.

The largest overall contributors for the Fund in 2021 were: Hunter Douglas (+7.85%), Ipsos (+4.64%) and Bekaert (+3.79%). Out of the 35 names held over the 12 months, only four contributed negatively: Teamviewer (-2.60%), Just Eat Takeaway (-2.48%), Albioma (-0.80%) and Nordic Paper (-0.08%).

2021 was a strong year for equities as easy liquidity conditions and rising earnings supported markets despite any uncertainty. Markets, in general, were not as volatile and jumpy as we expected, with less discrimination and dispersion than seen in 2020. Polarisation remained elevated, although it was driven by themes (reopening vs staying at home, value vs growth, active vs passive, ESG...) rather than by bottom-up selection.

We discussed 2021 in detail together with our views for 2022 in a separate write up released in mid-December, so to avoid repeating ourselves you can find the article here: ericsturdza.com/insights/bertrand-faure-2021-wrap-up.

December was another strong month for the Fund (+7.74%*). The largest contributors to the performance were: Hunter Douglas (+3.99%), Bekaert (+0.92%) and Befesa (+0.62%), while the three largest detractors were: Just Eat Takeaway (-0.43%), Indra Sistemas (-0.35%) and Pierce (-0.09%).

Hunter Douglas had a very strong month. On 31st December 2021, it was announced that 3G Capital had agreed to buy a majority stake in the Dutch window-coverings maker in a transaction that values the business at about \$6.9bn (€175 per share). This marks another episode in the Hunter Douglas story that began for the Fund in early June 2020, when we started building the position. This investment was one of the top five largest contributors to the Fund in 2020, despite only being held for six months, with the stock rising 43% in the second half of 2020 after it was added to the portfolio. As mentioned above, Hunter Douglas is also the largest contributor to the Fund in 2021.

A year ago, on 12th December 2020, Bergson Holdings B.V. (a holding company owned and controlled by Mr Sonnenberg) holding over 90% of the total issued capital of Hunter Douglas, announced that Bergson had offered to acquire all of Hunter Douglas’ outstanding common shares for €64 per share in cash to take the company private. In May 2021, the Sonnenberg family raised their offer by nearly 30% to €82 per share, but the revised proposal still failed to win sufficient support from shareholders.

We felt that both the initial and revised offer prices were totally inadequate and did not tender any of the Fund’s shares to the offer that lapsed in June 2021. In hindsight, this appears to be the correct decision, as the tender ratio to the offer turned out to be ridiculously low, and the stock price immediately traded at over €100 when the offer expired.

This new proposal, at €175 per share, represents an increase of 173% compared to the original offer twelve months ago, and 113% compared to the revised offer from seven months ago. We are currently evaluating the options in the best possible manner for the Fund’s interests.

Bekaert and Befesa’s strong performances in December were not driven by any company-specific news, and appeared to be a catch-up effect following the drop in price for both stocks in November, which we said at the time, felt unjustified.

Investment Approach

We believe 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 Funds plc.

Registered in Ireland.

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* A EUR Class; for detailed performance information based on complete 12-month periods since inception, please refer to page 3.



On the detractor side, we were disappointed by Just Eat Takeaway's stock price development during the month, as the European Commission finally announced the long-awaited proposals on regulating the gig economy. With stricter guidelines on labour classification, the European Commission expects between 1.7 and 4.1mn people to be reclassified as workers, translating to a cost increase of €4.5bn for food delivery platforms (social security charges, minimum wage, sick time, holiday allowance, pensions etc).

As one sell-side analyst phrased it: *"The cost of employing people is 30% to 35% higher than the self-employed model. This implies that the cost to deliver a pizza is roughly €2 higher when the courier is employed"*. As a reminder, Just Eat Takeaway is the only platform that already properly employs its couriers, so the new regulation should be good for them, although the stock market does not currently appear to be recognising this.

For Indra Sistemas, December was not a good month as governance issues arose for the second time last year. As a reminder, in May there was weakness in the stock following the appointment of Marc Murtra as the non-executive Chairman of the Board of Directors, seen as a political move as he was the candidate proposed by the Spanish State-owned holding company SEPI, Indra's largest shareholder with an 18.7% stake.

On 14th December, Corporacion Financiera Alba announced the sale of 5% of Indra's capital to Spanish industrial company SAPA at a price of €10.28 per share. SAPA appears to be a player naturally aligned with the Spanish government, its sole customer, whereas Corporacion Financiera Alba offered some kind of counterweight.

This particular concern relates to the news from late September, when Rolls-Royce announced that it had signed a definitive agreement to sell 100% of ITP Aero to Bain Capital Private Equity, which is leading a consortium of investors, for approximately €1.7bn. The consortium includes interests to be held by Spanish co-investors SAPA and JB Capital. The main risk perceived by the market rests on the Spanish government's intent to try and twist Indra's arm again, in order to acquire a stake in ITP Aero, with Bain Capital still inclined to leave 15% of the company's capital to Spanish industrial groups. Indra's market cap lost €265mn on the news, close to the counter value of the 15% stake in ITP Aero (15% x €1.7bn), which we feel is significantly overstated for several reasons:

1. The stake in ITP Aero cannot be worth zero as implied. This deal, in our opinion, is not the best use of Indra's debt capacity, but it does not represent real value destruction.
2. Independent directors still represent the majority of Indra's board.
3. The current stock price totally erased the guidance upgrade announced with the Q3 results, buoyed by strong operating momentum and a valuation that is still at rock bottom and overly discounted.

As we did in May 2021, we have used this stock price weakness surrounding the perceived governance risks to reinforce our investment in this company.

As always, we invite investors and prospective investors, to contact us should they wish to understand our views on the current situation and the positions held in the portfolio.



Performance Data As at end of December 2021

Annualised Return%

	1M	3M	1Y	2Y	3Y	5Y	Annualised Inception
A EUR Class	7.74	7.63	27.56	28.07	26.85	13.50	11.97
Benchmark	5.42	7.56	24.91	10.64	15.79	8.91	6.05

Calendar Year Performance %

	YTD 2021	2020	2019	2018	2017	2016	Fund Inception
A EUR Class	27.56	28.63	24.41	-24.86	22.80	13.55	112.35
Benchmark	24.91	-1.99	26.82	-10.77	10.58	1.73	47.90

12 Month Returns%

	01/01/2021 - 31/12/2021	01/01/2020 - 31/12/2020	01/01/2019 - 31/12/2019	01/01/2018 - 31/12/2018	01/01/2017 - 31/12/2017
A EUR Class	27.56	28.63	24.41	-24.86	22.80
Benchmark	24.91	-1.99	26.82	-10.77	10.58

Past performance may not be a reliable guide to future performance. Returns could be reduced, or losses incurred, due to currency fluctuations.

Source of graphs and tables: Morningstar. The performances presented are shown after deduction of ongoing charges and performance fees. Any entry or exit fees are excluded from this calculation. Dividends reinvested. Benchmark: STOXX Europe 600 NR EUR. Same reference period as for the class: Net Return, dividend reinvested. The reference benchmark of this class is used for performance comparison purposes only. The performance of the benchmark is not indicative of past or future performance of the Fund. Reference periods:

- Annualised Returns as of the date of the reporting over the defined period. Data less than 1 year is not annualised.
- Calendar Year Returns: Annual Performance for the stated calendar year.
- 12 Month Returns: performance for the stated time frame.

When the currency presented differs from yours, changes in exchange rates may have an adverse effect on the value price or income of the product. Class currency hedging is used on non base currency classes aiming to reduce the impact of currency risk. The performance and NAVs of all classes may be obtained at ericsturdza.com. Please refer to the glossary at ericsturdza.com/glossary for further explanation on specific terminologies.

Risk & Reward Indicator ("SRRI") & Inherent Risks

The risk indicator is based on historical data and may not be a reliable indicator of the future risk profile of the Fund, is not guaranteed and may change over time. The lowest category does not mean risk free.

1	2	3	4	5	6	7
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< Lower Risk

Potentially lower rewards

Higher Risk >

Potentially higher rewards

The risk indicator for the Fund is set as 6, which reflects the historic price behaviour of the Fund. The sub-fund may be subject to high volatility.

Factors that affect the indicator include: Investments in equity securities are subject to fluctuations in value dependent on market conditions which will directly affect the value of investments. The Fund invests with a focus on Europe and may hold a sizeable exposure to a single country which may increase the risk of investing when compared to a fund that invests in a globally diversified range of countries. The Fund invests in a concentrated portfolio that may potentially focus on one or more sectors or industries. The range of investments may increase the risk profile of the Fund compared to a more diversified portfolio across sectors and industries. Additional Risks: Currency, Custody and Settlement, Financial Derivatives, Liquidity, Market Capitalisation, Operational and Taxation risks.

For more information about potential risks, please refer to the Key Investor Information Document (KIID), the Prospectus and Supplement available at www.ericsturdza.com/literature/.

Ratings & Awards



Morningstar Sustainability Rating

Out of 676 Europe Equity Mid / Small Cap funds as of 31/10/2021. Based on 88.67% of AUM. Data is based on long positions only.



Citywire Rating: The rating is based on the Fund Manager's three-year risk-adjusted performance to 30/11/2021.

Awards Disclaimer: The Strategic European Silver Stars Fund received a 3-star Overall Morningstar Rating and a 3-star 5-year Morningstar Rating (A EUR Class). Morningstar Ratings™ as of 30/11/2021.

The Strategic European Silver Stars Fund received a 3 Globe Morningstar Sustainability Award. The Morningstar® Sustainability Rating™ is intended to measure how well the issuing companies of the securities within a fund's portfolio holdings are managing their financially material environmental, social and governance, or ESG, risks relative to the fund's Morningstar Global Category peers. Historical Sustainability Score as of 30/09/2021. Sustainability Rating as of 31/10/2021. Sustainability analysis used in the calculation of Morningstar's Historical Sustainability Score.



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