



# Strategic Europe Quality Fund

August 2023 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 Europe Quality 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”).

“Not too hot, not too cold. Just right”. August showed how fragile the so far prevailing Goldilocks mood can be. Price action in the first part of the month came on the back of solid macro data in the US, raising the likelihood of a soft landing, but also complicating the inflation and interest rate picture. Bond yields rose and equities fell sharply. Towards the end of the month, lukewarm consumer confidence and labour numbers (lowest job openings since March 2021, quit and hire rates back to pre-pandemic levels) helped tame the hawks and provide some relief for equities. Meanwhile in China, a highly levered real estate industry, slowing imports and exports, subdued domestic demand, and an escalating youth unemployment rate took a further toll on stocks exposed to the region (see below).

The Fund outperformed, shedding 1.62%\* over the month vs. -2.53% for the index with positive stock selection more than offsetting an 80+ bp headwind from sector allocation (overweight Consumer Discretionary, underweight Energy and Pharma).

Most detractors were found among our China exposed Consumer holdings with the overall risk-off mood surrounding the region triggering some profit taking: LVMH, Moncler, L’Oreal, Porsche and Pernod all declined. Having already done so earlier this summer, we tactically reduced our exposure further, yet keeping all names in the portfolio.

Among the positive contributors, Kingspan (see July letter) and Pandora reacted well to positive trading updates, whilst Danaher continued to catch up on the back of positive signs regarding customer destocking.

We added two small positions during the month: Fluidra and Rolls-Royce.

Fluidra is a mid-sized company (4 Bn market cap) with leading positions in the very attractive swimming-pool industry. Being largely an aftermarket business (70% of sales), Fluidra relies on its large installed base to ensure very high levels of profitability. Organic growth is strong yet somewhat cyclical as largely geared towards residential new-build trends. Operating in a fragmented industry, Fluidra is also a steady consolidator and regularly seizes inorganic growth opportunities. Having thrived during the COVID period, the company recently faced a trifecta of headwinds: normalisation of post COVID demand, a sharp residential downturn, and deep supplier destocking. Despite this and an eye watering 22% fall in volumes, the company actually managed to increase margins in Q2. Given streamlined inventory levels in the distribution channels and indicators suggesting that new build figures may be troughing, we deem the worst part of the downturn could be behind. Having added Ashtead last month (more geared to US nonresidential trends), Fluidra is the latest addition to our Construction related holdings (Saint Gobain, Kingspan, Ashtead, Spie).

Rolls-Royce has so far proven to be an elusive turnaround play: despite operating in a cosy oligopoly with rock-solid industry fundamentals (incidentally shared with MTU Aero Engines, another portfolio holding), the company has been struggling with internal reorganisations for years. The latest restructuring endeavour, under newly appointed CEO Tufan Erginbilic seems to be bearing fruits with a Q2 performance that was nothing short of spectacular. Whilst large engine flying hours were still 17% below 2019 levels, the company achieved a solid performance in its core Civil aerospace business. The investor day planned for November could shed some light on an attractive turnaround potential as “low hanging fruits” opportunities help downsize the cost base, and further travel catch-up fuel the top line. A still widely sceptical sell-side community and an attractive valuation (£2 Bn free cash in sight on our estimates vs. an £18 Bn market cap and peers trading at mid-single digit free cash flow yields) all add up to what we deem is a favourable risk

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

## Investment Approach

The investment approach utilised by the Investment Adviser will be highly selective, focusing on corporate value based on cash flow (operating cash flow, free cash flow and earnings before interest and tax depreciation and amortization “EBITDA”) and the quality of the companies’ business models, rather than changes in earnings per share. Preference will be given to companies with high free cash flows, high levels of recurring revenue, franchise stocks (typically displaying low capital intensity and high return on capital) and undervalued growth companies. The Investment Adviser expects that the portfolio exposure will normally be concentrated in around 30-40 positions.

The Fund shall not invest in companies with a market capitalisation below Euro 300 million at the time of purchase.

## Investment Objective

To achieve capital appreciation over the long term.

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

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reward despite an arguably good run in the shares this year.

With both Fluidra and Rolls-Royce joining the Fund we add two names to our “fallen angels” bucket, a somewhat higher risk/higher return portion of the portfolio vs. our typical core “compounders”, yet an area we are always keen to investigate. In our experience, part of the valuation premium that Quality companies typically command stems from the fact that they simply rarely fail. When they do, that premium vanishes which opens interesting opportunities if the business can be put back on track. Time will tell.

### Ratings & Awards



#### Morningstar Sustainability Rating



ALLOCATOR  
INVESTORS  
CHOICE  
AWARDS

Top Performer 2022, Long Only  
Equity Fund under \$1bn.

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The Strategic Europe Quality Fund - A EUR share class has a Morningstar rating of 3 stars overall and 3 stars over 10 Years. Morningstar Rating™ as of 31/08/2023. The Strategic Europe Quality Fund received a Morningstar 5 Globe Sustainability Award. Sustainability Rating as of 31/07/2023. Out of 2,624 Europe Equity Large Cap funds as of 31/07/2023. Based on 100.00% of AUM. Historical Sustainability Score as of 30/06/2023. Sustainalytics provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score. Data is based on long positions only.

The Strategic Europe Quality Fund received a Morningstar Low Carbon Award. Carbon Metrics as of 31/07/2023. Based on 96.92% of AUM. Data is based on long positions only.

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.

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## Performance Data As at end of August 2023

### Annualised Return %

	1M	3M	1Y	3Y	5Y	10Y	SI
A EUR Class	-1.62	1.58	10.40	2.23	2.37	6.51	7.57
SEQF Benchmark	-2.53	1.84	13.45	10.99	6.34	7.03	7.03

### Calendar Year Return %

	YTD	2022	2021	2020	2019	2018	SI
A EUR Class	12.07	-21.90	22.50	-8.95	26.60	-6.63	155.20
SEQF Benchmark	10.51	-9.49	25.13	-3.32	26.05	-10.57	139.07

### 12 Month Returns %

	01/09/2022 - 31/08/2023	01/09/2021 - 31/08/2022	01/09/2020 - 31/08/2021	01/09/2019 - 31/08/2020	01/09/2018 - 31/08/2019
A EUR Class	10.40	-17.64	17.49	-4.91	10.64
SEQF Benchmark	13.45	-7.93	30.88	-2.92	2.45

SEQF Benchmark: MSCI Europe Net Total Return Index EUR to 20 July 2023 & Morningstar Developed Europe Target Market Exposure NR EUR Index from 21 July 2023.

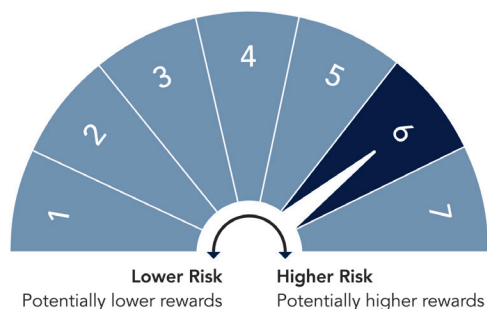
Past performance may not be a reliable guide to future performance. Returns could be reduced, or losses incurred, due to currency fluctuations.

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: 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, there is a currency risk. 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 ericsturda.com. Please refer to the glossary at ericsturda.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.

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 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, 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.ericsturda.com/literature/](http://www.ericsturda.com/literature/).

on the basis of a (mathematical) formula. The classes are categorised and compared with similar funds in the asset class, based on their score and they are awarded one to five stars. In each category the top 10% receive 5 stars, the next 22.5% 4 stars, the next 35% 3 stars, the next 22.5% 2 stars, and the last 10% 1 star. The rating is calculated monthly on the basis of historical performance over 3, 5 and 10 years and does not take into account the future performance.



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