ERIC STURDZA INVESTMENTS

Strategic Long Short Fund

June 2023 Fund Commentary

Retail Marketing Communication / Publicité / Financial Promotion addressed to investors in the countries mentioned in the disclaimer, related to **E.I. Sturdza Funds plc – Strategic Long Short 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").

The investment team completed the second quarter with a trailing one-year net return for the strategy standing at +0.9% compared to returns of +8.2% and +7.1%, respectively, for the tracked major indices of our surviving equity long/short fund peers—HFRI Equity Hedge (Total) Asset-Weighted Index and Morningstar Long-Short Mutual Fund Category—over the same period. 1,3 Cumulative net performance since their portfolio inception (March 2009) stands at +286.2% for the strategy compared to returns of +127.3% and +90.9% for these same peer indices, respectively.

Past performance is not predictive of future performance. Please see additional performance notes and disclaimers at the end of this document for important information about data sources and calculations

Quarterly Review

Our small step back this quarter left our strategy slightly positive year-to-date in a hyper-narrow equity market where mega-cap stocks surged while most other stocks declined. Concurrent with the mega-cap divergence was a sharp "junk"/short-covering rebound in lower-quality equities that had been decimated during the bear market of 2022. Speculation that the pause in interest rate hikes could signal the end of the rate cycle added fuel to both forces. We've witnessed both phenomena many times over the years and would note that the "junk" rally, so far, is typical in magnitude, while the mega-cap divergence is more pronounced than usual. Together, they represent both a headwind and an opportunity. Our long book contributed an estimated +2.9% net in Q2, with our small and mid-cap positions generally lagging behind the narrowly led market. Our short/put book contributed an estimated -4.0% net, with a majority of puts eroding in value with the bounce in many unprofitable/leveraged equities. Given these forces, we found attractive opportunities to reposition capital between divergent positions within the long book and to refresh put positions with higher strike prices and longer durations. After moderate declines in April and May, the strategy's performance

Chris Crawford
Portfolio Manager

Investment Approach

Differentiated approach to Long Short Equity Investment.

Long Investment Universe: Bias to owner-operated companies, within out-of-favour or underfollowed companies.

Short Investments: Focusing on two well honed investment themes, young companies and leveraged equities.

Often Contrarian at Point of Entry: Not afraid to be early, patient investors.

Absolute Approach: Objective is to achieve long-term capital growth, providing investors compelling upside capture with downside protection.

Flexible Mindset: Not constrained by benchmark limits or internal committees.

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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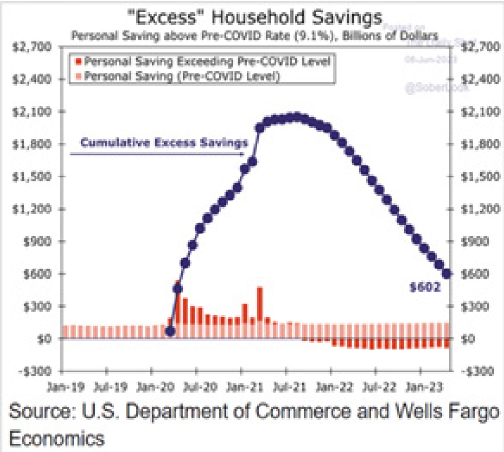
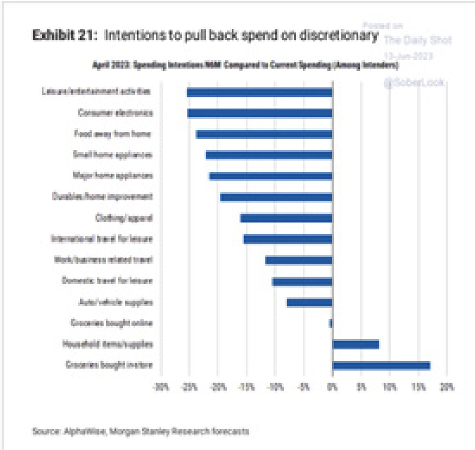
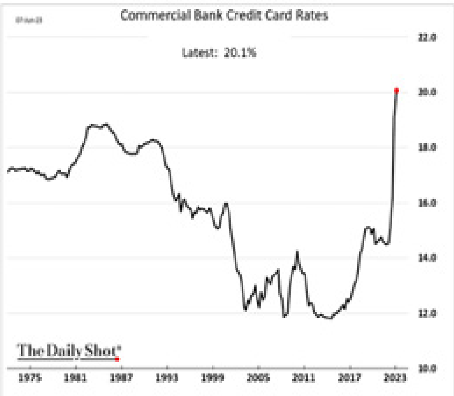
rebounded in June with a +2.9% net monthly gain as the market breadth increased. We believe both sides of the book have compelling potential at current prices.

We may not yet be in an officially declared recession, but corporate profits are receding and consumers are under increasing stress. With some exceptions, Q1 earnings results and outlooks highlighted both cooling demand and rising costs. We note that selling cycles have lengthened and business deals are taking longer to close. Most consumers are feeling the compounding impact of inflation over the past few years which effectively accumulates to approximately a 15%-20% permanent new tax on consumption (not even including what we perceive to be a notable decline in content and quality of some products and services). Rising mortgage rates plus home price inflation have caused payments for new mortgages to nearly double since 2021. White collar layoffs continue to hit high-income knowledge workers (30% of this year's Harvard Business School MBA class reportedly did not have job offers at graduation, and many with offers have deferred starts). Increased prices for many essentials and the resumption of student loan payments threaten to crowd out discretionary consumer spending. The boost of excess Covid savings and massive stimulus has nearly been depleted.

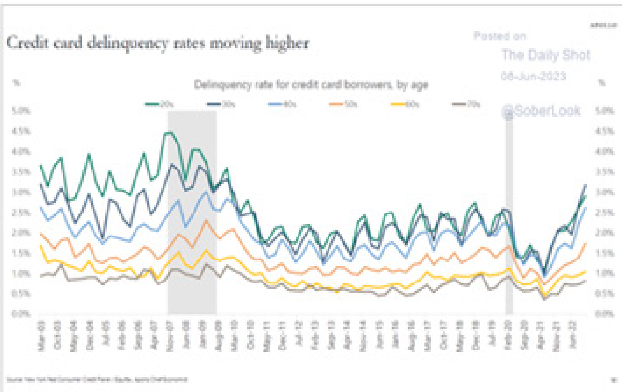




We believe the impact of higher interest rates is still not yet fully reflected at both the corporate and consumer levels. Credit card rates have surged to levels not seen in decades and delinquencies have been steadily rising.



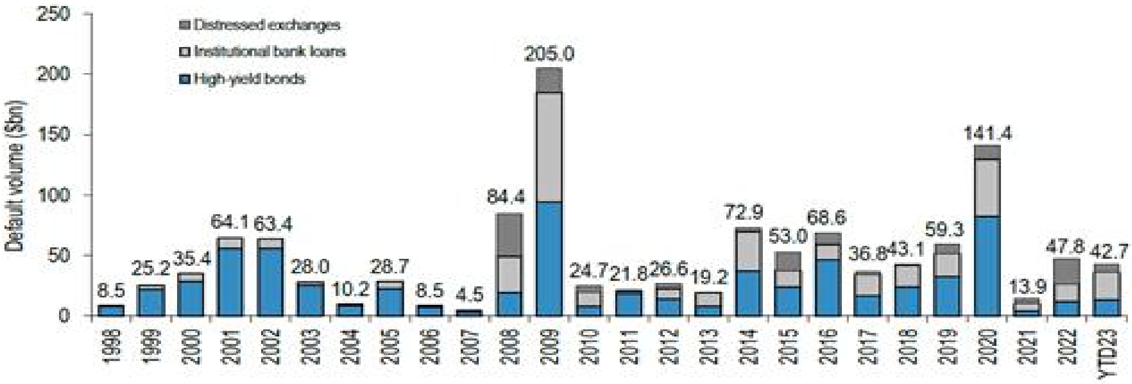
The Daily Shot



Torsten Slok, Apollo

Highly leveraged companies will likely refinance at much higher rates as their debt matures. At best, this reduces profits and at worst, it forces a restructuring that impairs equity value. Interest coverage ratios (EBITDA/interest expense) for LBOs conducted in 2021 were 3.5x on average at the time of the deals. This ratio has declined to about 2.0x today due to higher interest rates and is poised to fall lower if rates move even higher and/or EBITDA moves lower. This suggests private equity portfolios could take negative marks in the coming quarters. We continue to expect a crescendo of bankruptcies over the next couple of years.

Figure 2: Default and distressed exchange volume on pace to be the third largest annual total on record



Source: J.P. Morgan, PitchBook Data, Inc, Bloomberg Finance L.P, S&P/IHSMarkit

AI mania has been an excellent distraction/hiding place from the bleakness elsewhere in the market. The key task in the coming years will be to determine what AI can do that is actually valuable and useful in a business setting. Will AI be truly revolutionary and be able to train itself to do ever more creative/complex tasks, or is it merely the next extension/evolution of traditional coding, capable of only linear incremental gains? Will AI be a competitive advantage or just a widely available necessity? Who will benefit the most, the creators or users of AI? How do we distinguish between the companies truly developing/practising AI and the imposters that are attaching themselves to the concept, seeking a higher valuation multiple? There are plenty of examples of the latter, ranging from a company claiming to use AI to better price risk in the ultra-competitive auto insurance market to another claiming to select the best suited wardrobe to make you more fashionable. This hot theme has added fuel to the rally and raised embedded expectations for a large group of equities that had been nearly abandoned. We suspect there will be a few pockets of revolution, but the main impact of AI will be more in prosaic but useful tools that automate a wide range of tasks and provide new functionality. One recent example we find promising among our long holdings is Dropbox's launch of its Dash product, which seeks to unleash generative AI on a company's own protected private data which is already stored by Dropbox.

We expect a volatile Q2 earnings season, given the risks and uncertainties highlighted above. However, we are finding compelling opportunities on both sides of the book. The upside to our appraised values is well above average in our long book for excellent businesses and management teams (mostly owner-operators). Many of these longs have lagged or fallen so far that we believe they could be resilient in a downturn and are strong enough to gain market share and catalyze further value by repurchasing undervalued stock. Some long positions have countercyclical characteristics or are undergoing change that can unlock value. We believe our put portfolio is poised to benefit from rising rates, persistent inflation, consumer recession and the less forgiving capital-raising environment for young cash-burning ventures.

Position Contributions

NVE ("NVEC") is making a second consecutive appearance as a top contributor to the strategy and our comments from last quarter are still relevant.

Dropbox ("DBX") equity, in our view, became meaningfully undervalued in recent years through a combination of stock price decline and steady free cash flow generation and intrinsic value increase. This leading player in cloud storage has franchise qualities and has recently become more focused on efficiency and better scaling its large investment in stock compensation. DBX's newly launched AI innovations mentioned earlier could drive incremental growth.

Atkore ("ATKR") is another repeat contributor this quarter and our comments from last quarter still stand. We recently gave a detailed presentation on the company at the MOI Global Wide Moat Investment conference in June. Please contact us if you would like to view it.

After years of analyzing Tesla ("TSLA"), we finally purchased a position after its 60% price decline during the tech crash last year, which coincided with the continued impressive execution of their business plan. We were rewarded with a quick rebound in the stock and believe risk/reward is now better reflected in the short term. Tesla's market value is ahead of our sum-of-the-parts appraisal that examines each of the company's different business ventures, but there are scenarios where this value can grow further over time.

Houlihan Lokey ("HLI"), a long-time holding, appreciated modestly as fears over slowing deal activity became better anticipated in the earnings outlook. HLI could see a tailwind from restructuring work if our view on distressed companies proves accurate.

On the losing side of the ledger, put premium erosion was, by far, the largest detractor as the sharp rally in leveraged and venture equities pushed most of our positions further out of the money. We view this rally as an excellent opportunity to replace these puts with higher-strike puts for names where our negative thesis still applies (i.e. most of them).

SBA Communications ("SBAC"), a leading owner and operator of communication towers, underperformed with the headwind of a rising cost of debt capital. In our opinion, the tower business is one of the best businesses on the planet (each tower is a micro monopoly with low scalable fixed costs), but the tower equities for years have traded above our estimates of fair value. SBA is much more reasonably priced now, should benefit from a large 5G wireless buildout, and is using its strong free cash flow to deleverage its balance sheet.

United Therapeutics ("UTHR") was again a small detractor this quarter with some lingering payer concerns and intellectual property litigation with a potential new market entrant. We believe these are manageable issues and there have recently been favourable developments for UTHR in the court case. We appraise the company's pulmonary hypertension franchise much higher than the market and are quite excited about plans for investment in a new organ-manufacturing facility in Research Triangle which represents an embedded call option which we believe is not given much credit by the market nor the analyst community.

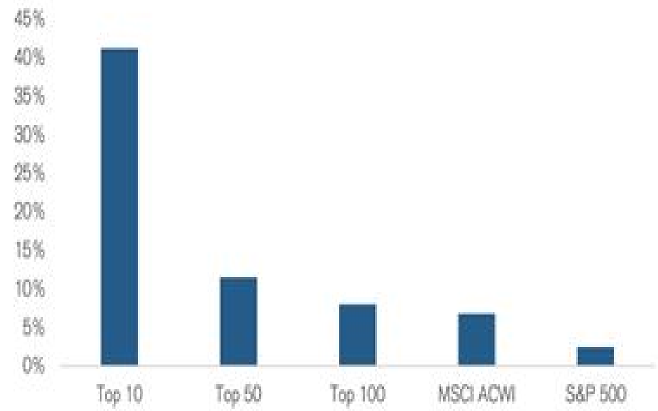
We exited our position in Zoom Video ("ZM") during the quarter after lowering our growth expectations and concluding that other investments were relatively more attractive. By contrast, we added to our position in Sprott ("SII") which was a small detractor during the quarter. Sprott is a highly experienced niche asset manager with a differentiated line of investment funds focused on precious metals and energy-transition commodities.

The Fund exited Q2 2023 with a net long exposure of 74% (beta-adjusted), nearly unchanged compared to the beginning of the quarter. Gross exposure is also stable. We replaced a substantial number of eroded or expired puts with new options where negative investment theses still warranted it. Similarly, we harvested a few long positions and redeployed capital to relatively more attractive opportunities. Our portfolio is balanced as we are able to find a diverse range of compelling ideas on both sides of the portfolio.

Appendix: Graphics We Found Interesting

A. Dominance of mega-caps in developed markets

Figure 1: **Median year-to-date Total Shareholder Return % by market cap thresholds (Developed Markets)**



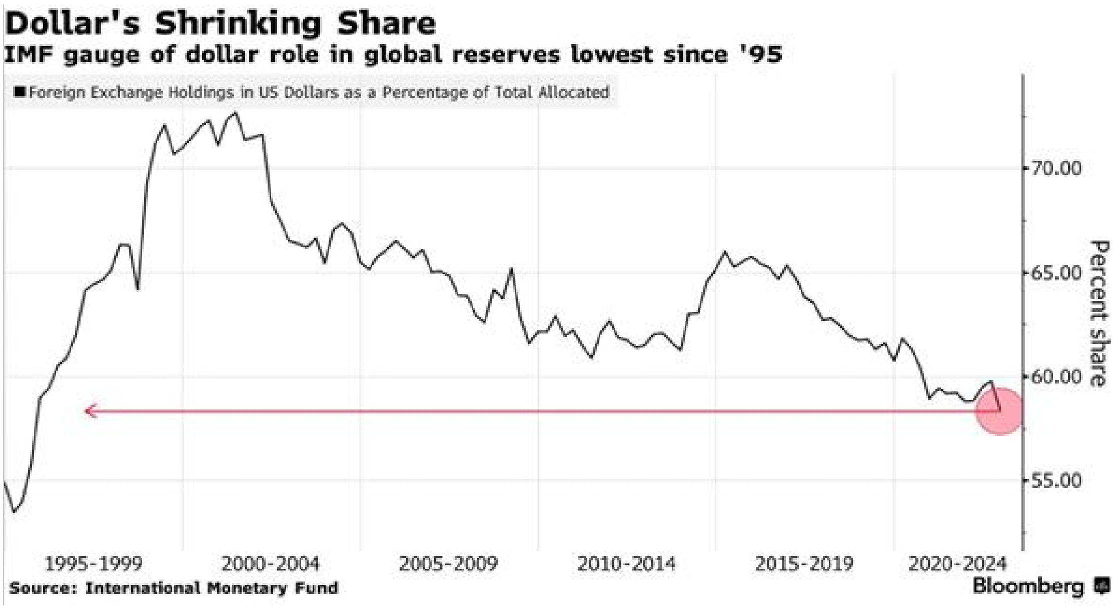
Source: HOLT. Criteria: Median data, Developed Markets

B. Same store retail sales trendingtoward negative

The Daily Shot

C. 10yr/2yr yield curve inversions happen about once a decade, often before a recession.

D. Is de-dollarisation cyclical or secular?



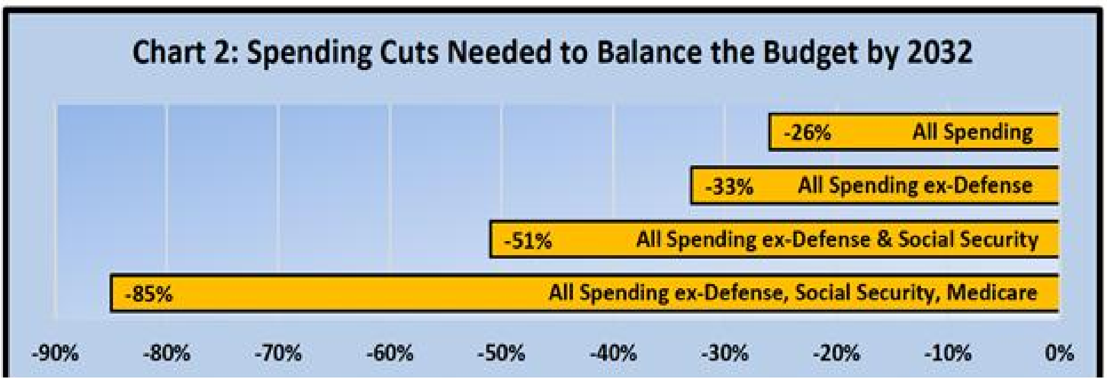
E. What if Tesla establishes durable scale advantages and undercuts into the auto industry

Top-selling electric vehicles in the U.S. for the first half of 2023

VEHICLE	SALES	CHANGE FROM 2022
Tesla Model Y*	200,520 vehicles	52.9%
Tesla Model 3*	112,791	11.3
Chevrolet Bolt	33,659	360.9
Rivian R1T*	16,452	194.3
Volkswagen ID.4	16,448	272.5
Ford Mustang Mach-E	14,040	-20.6
Hyundai Ioniq 5	13,641	-0.4
Tesla Model X*	13,475	3.7
Tesla Model S*	10,106	-29.3
Ford F-Series Electric	8,757	281.4

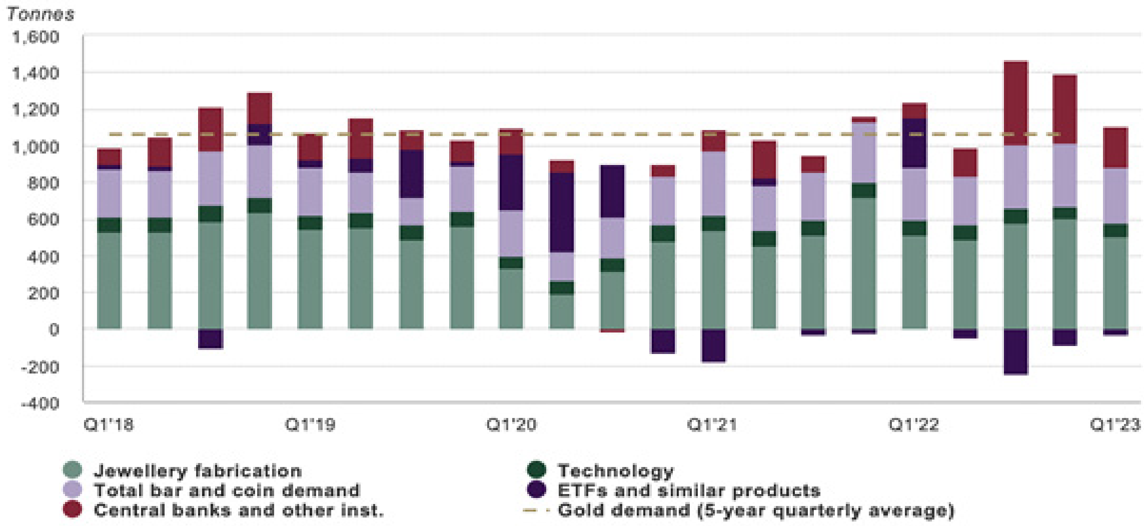
*Estimated
Source: Motor Intelligence

F. This is why the U.S. will have to keep borrowing more!



Source: Michael Tyler, Eastern Bank; CBO; Treasury Department

G. Central banks have been buying more gold than usual in recent quarters

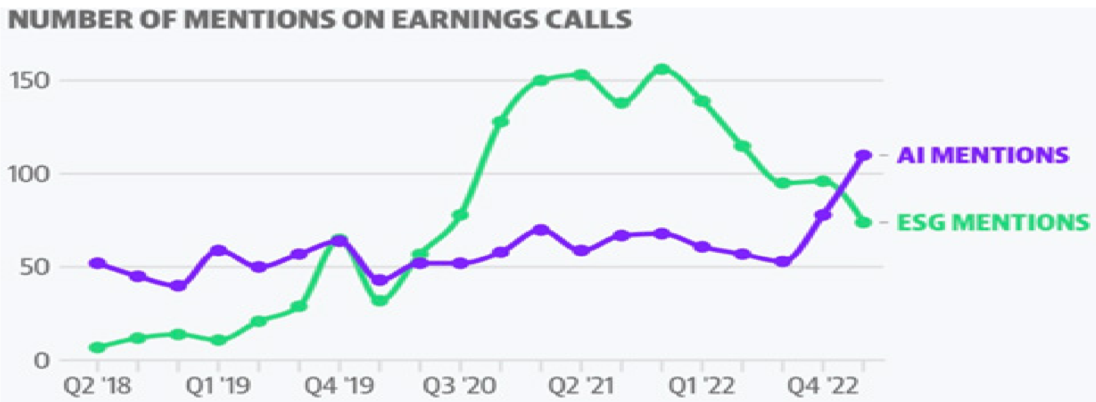


Sources: Metals Focus, World Gold Council; Disclaimer

H. Is gold under-reserved globally?

I. Was 2021 "peak ESG" in financial markets?

S&P500 Earnings Call Key Words Analysis



Source: Factset, Yahoo Finance

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