FLEXIBLE STRATEGIES

SYCOMORE PARTNERS

PM COMMENT
Q1 2020

PERFORMANCE (IB share)

Q1 2020
Fund: -22.0%
Euro Stoxx TR: -24.7%

5 years
Fund: -17.0%
Euro Stoxx TR: -9.6%

Inception (05.03.2008)
Fund: +28.1%
Euro Stoxx TR: +21.0%

INVESTMENT TEAM

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MARKET ENVIRONMENT

After rallying in 2019, markets began 2020 with a sell-off triggered by investors' fears over the economic consequences of Covid-19 which was spreading in Asia, tensions between Iran and the United States, and uncertainty over the US elections as the Democrat primaries got underway. Nevertheless, macroeconomic data continued to improve and overall, 2019 earnings came in better than expected (admittedly after downward revisions). The signing of a Phase I trade agreement between China and the United States, which included an increase in Chinese imports, had also reassured investors and enabled markets to post strong gains until mid-February, when most indices hit new record highs.

The fast spread of the virus and the rising number of infection clusters outside of China then clouded visibility and precipitated a sharp market sell-off that began at the end of February: during the last week of the month, equity markets posted their worst weekly drawdown since the Great Financial Crisis in 2008/2009, and in March, their worst monthly correction since the same crisis (with most indices plunging 30% in the first half the month, before enjoying a strong rebound at the end of the period) amid particularly high volatility (VIX peaking at 85 and averaging 58 during the month). The Covid-19 pandemic and the lockdown measures that followed have caused the world economy to enter its eighth recession of the past hundred years, with the largest decline in global GDP since WW2.

However, the size and the speed of the response from central banks, including quantitative easing programs and even direct intervention from the Bank of England, which will lend to the British State, but also from governments in the form of relief and fiscal stimulus plans, are exceptional. These measures, both larger in scale and implemented faster than during the 2008/2009 crisis, helped to stabilise markets in the final week of March. Nevertheless, while these massive packages are easing the strain on liquidity and supporting the economy over the short-term, they do raise issues over the sustainability of ballooning government debt in the longer run.

Uncertainty over the impact of the current health crisis on corporate accounts remains very high. Many companies have already given up on their estimates, but without issuing new guidance for the moment; however, any visibility on the depth and duration of the pandemic and on the recession that will unfold (particularly with regards to corporate balance sheets and liquidity) is still very limited.

EXPOSURE RATE

For many months, the fund's exposure to equities remained within a range of 40 to 50% as market conditions did not allow us to add any exposure: we were faced with a lack of volatility and a strong and rising dichotomy between very expensive growth stocks and the rest of the market.

During the quarter, we initially reduced our exposure to equities in January and until mid-February, due to the market rally during the period: the fund's exposure rate fell from 56% on 31.12.2019 to 50% on 31.01.2020. We then gradually increased our exposure as and when the market corrected, starting in mid-February, as extreme market volatility enabled the fund's exposure rate to recover some of its flexibility. Our exposure to equities rose from 50% on 31.01.2020 to 58% on 28.02.2020 and 74% on 31.03.2020, peaking at 80% at the end of the month. This exposure rate is close to the fund's historic high (90%) recorded early 2009 during the Great Financial Crisis of 2008/2009 and in 2011 during the sovereign debt crisis.

We have been taking some profits on stocks posting very sharp gains in several days, but have maintained a high exposure rate in order to capitalise on current opportunities, as a number of stocks are trading at very high discounts. We have put our tactical management of the fund's exposure on hold for the time being. While we cannot be certain that the trough is behind us, we are convinced that the stocks added to the portfolio at current valuation levels offer considerable upside potential for the next few quarters.

KEY PORTFOLIO MOVEMENTS 2020

POSITIONS DECREASED	POSITIONS EXITED	POSITIONS INCREASED	POSITIONS ADDED
API GROUP	ROCHE	ORANGE	ANHEUSER-BUSCH INBEV
SOPRA GROUP	DEUTSCHE WOHNEN	SANOFI	TOTAL
KORIAN MEDICA	UNIBAIL	ELIS	ALPHABET

- Our investments mostly focused on high quality/growth large caps displaying strong balance sheets and high levels of liquidity and that are not particularly impacted - in some cases not at all - by the crisis: Sanofi, Orange, Vivendi (80% of the value of company is derived from its Universal Music division based on a streaming model and is not suffering, and could even benefit, from the current crisis), Walt Disney (potential from the Disney+ platform, a more family-oriented alternative to Netflix which seems poised for a strong launch with 50 million subscribers, a figure that beats the group's estimates). Though the group's attraction parks are closed, they will open again – probably within a few months. We also invested in Google (a position we have since sold after a sharp rebound; while we believe in the group's long-term growth prospects, we prefer to keep some cash in the portfolio to seize opportunities that will arise if markets undergo a further correction).

- We also initiated new positions or strengthened existing holdings in companies that have been hard hit (down 40 to 60% in just a few months). These are, admittedly, seeing their business models impacted in the short-term, but enjoy a dominant market position which will be further strengthened after the crisis, as secondary, weaker players fail to survive. Here again, we pay close attention to stock liquidity: AB Inbev, Elis, Spie, Elior, ADP, Lagardère, Fraport.

• ANHEUSER-BUSCH INBEV: stocks in the world's leading brewery company were trading at around €100 at their peak and have since tumbled to less than €30. These are all time lows for a group operating in an extremely resilient industry; the group's rather high debt levels (4.5 times EBITDA, with a highly resilient EBITDA) due to the mega merger that formed the group is worrying investors in today's low-visibility environment. Nevertheless, AB Inbev owned large cash reserves of 10 billion euros before the crisis, which have since been increased to 20 billion euros following the use of available revolving credit facilities. Admittedly, sales in bars and restaurants have totally ceased; however, supermarket sales are stable or slightly on the rise. The largest organic slowdown that the group has ever experienced was -4%. AB Inbev has not issued any guidance for this year and analysts are expecting a negative growth of -5% for 2020, which we do not believe is realistic. We have modeled a 15% decline in sales in 2020 with a 20% drop in EBITDA (negative operating lever) followed by a gradual recovery - we are not expecting a V-shaped but a much more incremental recovery; as an example, in our models, the profitability in 2022 is still not back to its 2019 levels. On the basis of these realistic – even conservative – assumptions, we estimate AB Inbev's potential upside to be 70%.

• ELIS: the leader in industrial laundering services for hotels and hospitals includes large industrial companies and small local players (butchers, bakeries…) among its client base. Elis also provides hygiene and water bottle services to corporate clients. While the hotel business – currently at a standstill – accounts for 30% of Elis' turnover, the group's activities within the industrial sector are still operating at 50% of their capacity, notably thanks to its presence in Northern Europe (Elis recently bought its Danish competitor, Berendsen, in 2017). Five years ago, 75% of Elis' sales were generated in France. The group now has a truly international dimension with a dominant presence in Europe and strong presence in Latin America (leader in Brazil in particular). Although hotels will not be opening on May 11th, they will within the next few months and when business does resume – in the worst scenario, in 2021 – Elis will be particularly well-positioned and may benefit from the closure of smaller laundry companies with insufficient diversification or cash flow. Elis displays an EBITDA margin of 40% and is a very robust company. The impact of the health crisis on the stock's valuation should be around 15 to 20%. Yet in 2019, Elis was trading at 22 euros and has tumbled to 8 today! In its 80-year history, Elis has only experienced one year of negative growth, in 1947, when the US army – one of Elis' clients – left France. The stock is now trading at a price that is 50% lower than its IPO price five years ago; since, the group has doubled in size and enjoys a robust long-term outlook.

• SPIE: stocks in this company specialising in technical management services for office buildings (heating, air-conditioning, networks) have tumbled 60% since the beginning of the year. Yet maintenance services must continue even if offices are empty.

• ELIOR: the stock was worth 20 euros two years ago, it is now worth 6! School canteens may be temporarily closed at present, but this will soon end. Elior will remain in business for years to come.

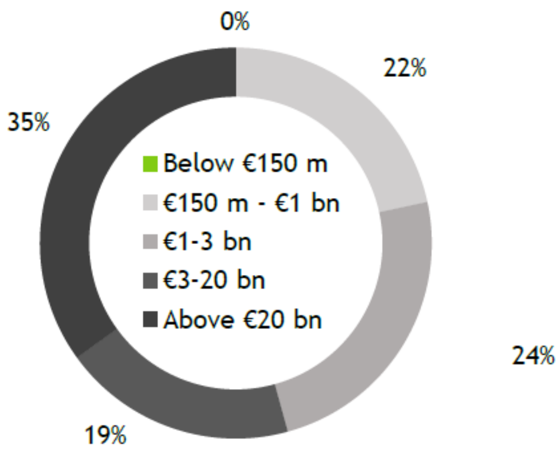
• FRAPORT: stocks in the Frankfurt airport have lost two thirds of their value in three months! Admittedly, air traffic is at a standstill at the moment and may remain closed for several months; however activity will pick up, albeit gradually. Infrastructure will remain an essential and robust support factor over the long term.

The rerating for stocks included in this segment is expected to be around 100%, possibly more for some companies.

POSITIONING

Within the invested share of the portfolio (which accounts for 74% of assets as of 31.03.2020, the rest is in cash), 54% is invested in large caps (of which 65% in markets caps above €20 billion) and 46% in small and mid-caps. Within this segment, around half display market caps under €1 billion, while the other half have market caps ranging between €1 and 3 billion. Sycomore Partners has a balanced profile and is over-exposed to the mid-cap market compared to indices. This detracted from performance during the sharp correction in February/March, as small caps suffer more than their larger counterparts in these challenging markets.

As of 31.03.2020



In terms of style, the fund is equally split between quality/growth/defensive stocks and infrastructure/holdings/cyclicals. Banks only account for 2% of the portfolio. We do not intend to hold structural positions in the banking sector due to a lack of visibility; nevertheless, their current valuations are so low (30 to 35% of their Book Value) that we took the tactical decision to add two banks (BNP Paribas and Credit Agricole) to the portfolio. These positions remain limited weightings, as the market currently offers many more opportunities in sectors enjoying clearer visibility and lower investor aversion.

OUTLOOK

We only slightly reduced the fund's exposure rate after the rebound that followed the sharp correction in February/March, as the companies we focus on are extremely undervalued, hitting levels close to those observed when the cycle bottomed-out in early 2009. In the event of a further leg down in equity markets, we would consider increasing our exposure.

The scale of today's crisis is unprecedented, but the massive support provided by central banks and government relief plans will be decisive. Visibility is low or even inexistent at present, as most companies are no longer issuing guidance for 2020. Yet it is precisely in these periods of extreme volatility, when investing in stocks is "nerve-wracking", that profitability tends to be highest for patient, rational investors able to rise above the extremely negative news flow and look ahead to the mid-term prospects.

PERFORMANCE ATTRIBUTION 2020

On a year-to-date basis, the fund's main detractors were mostly mid-caps that have been particularly affected by the health crisis, within sectors such as business services (Elis and Elior), cinemas (Cineworld), tourism (Melia Hotels) and industry (FPP, Chargeurs). However, Chargeurs - an industrial small cap that we have been following for many years, specialised in producing protective plastic films but also operating a high-quality woolen and technical textiles division - has recently started to manufacture surgical masks and has committed to delivering 100 million units to the French government. The stock posted a very sharp rebound after this announcement was made. All crises bring their share of positive initiatives. These should be recognised and we are proud to be able to support a number of them.

YTD PERFORMANCE ATTRIBUTION - main attributions - from 31-DEC-2019 to 31-MAR-2020

	Sycomore Partners		
Valeurs	Average Weight	Return	Contribution
Total	0.4%	14.0%	0.6%
Orange	2.0%	-15.1%	-0.2%
ING Group	-	-	-
Banco Santander	0.0%	-40.3%	0.0%
Safran	-	-	-
BNP Paribas	0.2%	-18.6%	-0.2%
Saint-Gobain	0.1%	18.4%	0.2%
Viel et Cie	0.8%	-2.3%	0.0%
Daimler	-	-	-
Imerys	1.5%	-39.2%	-0.7%
ALD	1.8%	-42.2%	-0.9%
FFP	1.3%	-45.3%	-0.9%
Chargeurs	1.7%	-46.5%	-0.9%
ASML	-	-	-
Meliá Hotels	2.2%	-50.6%	-1.2%
Cineworld	0.8%	-78.3%	-0.9%
Elior	1.5%	-54.1%	-1.3%
Elis	1.9%	-53.3%	-1.4%
Cash	47.3%		-2.4%
Net performance			-22.0%

FUND PROFILE

Sycomore Partners is a concentrated stock picking fund with variable equity exposure of between 0% and 100%.It seeks significant returns over a 5-year investment horizon with a concentrated selection of highly discounted European stocks, and opportunistic, discretionary management of equity market exposure.

RISK PROFILE

The chart hereafter reflects the FCP's variable and discretionary exposure to the portfolio's eligible assets. The FCP's risk category is not guaranteed and may change over time. The lowest category does not mean "risk free". Historic data used to calculate the synthetic indicator may not represent a reliable indication of the fund's future risk.

Synthetic risk and reward indicator

Lower risk, — Higher risk,

1	2	3	**4**	5	6	7

potentially lower returns — potentially higher returns.

Data as of 31.03.2020. *TR: dividends reinvested. Past performance is no guide to future returns.
The fund offers no yield or performance guarantees and comes with a risk of capital loss. Before investing, please read the KIID for the fund available on our website: www.sycomore-am.com.