SUSTAINABLE EQUITIES

# SYCOMORE SÉLECTION RESPONSABLE

**PM COMMENT**
April 2020

## PERFORMANCE (I share)

April 2020
Fund: +7.4%
*EURO STOXX TR: +6.5%*

2020
Fund: -11.7%
*EURO STOXX TR: -19.8%*

Inception (24.01.2011)
Fund: 74.1%
*EURO STOXX TR: +42.0%*

## INVESTMENT TEAM

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Founding partner

Bertille KNUCKEY
Head of ESG
Senior portfolio manager

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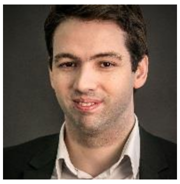
Analyst – fund manager



## MARKET ENVIRONMENT

In April, markets rebounded sharply after hitting lows in March.

However, macroeconomic data was very disappointing, with PMIs in the Eurozone at their lowest since the creation of the indicator in 1998, having fallen much lower than during the financial crisis of 2008-2009. The reasons: the lockdowns, of course, but also the deterioration of the labour market and the realisation that the economic recovery will be much slower than anticipated. Nevertheless, news flow from China has been encouraging: after hitting a trough in February, leading indicators improved in March and in April (though they remain very weak).

Furthermore, following a meeting (instigated by Donald Trump) and a historical agreement between OPEC countries and Russia on production cuts, the publication of unprecedented oversupply figures led to storage capacities reaching saturation points, which in turn caused oil prices to tumble. Crude oil moved into negative territory for the first time in history (WTI priced at -37 dollars per barrel). The volatility of oil prices exceeded 1,400% - levels that are unheard of in international markets.

Nevertheless, equity markets rose in April; while the number of Covid infections has continued to climb (4 million people affected throughout the world), a plateau seems to have been reached in most European countries and American States, which has enabled governments to plan the first lockdown easing strategies. The responses from governments and central banks also largely reassured investors. After the historic announcements in March, some governments announced additional fiscal measures and central banks took further steps towards more monetary easing: the Fed has included “Fallen Angels” in its asset purchase programmes; the ECB now accepts them as collateral; and the Bank of Japan has lifted the upper limits of its buying programmes, which are now unlimited.

On the sector front, Value stocks outperformed Growth and defensive stocks during the month, notably after many short positions were unwound.

Visibility on the impact of the crisis for companies remains very poor. 73% of S&P 500 companies have published their Q1 2020 earnings; for 20% of these, earnings came in lower than expected by over one standard deviation – which had not happened since 2008. This demonstrates that investors have not yet fully factored in the economic impact of the crisis.

## PERFORMANCE ANALYSIS — SECTORS

| | Fund weighting vs indice | Impact |
|---|---|---|
| **Oil & Gas** Perf. -3.7% | **Absence** 0.0% vs 4.3% for the Eurostoxx TR | **+0.5%** |
| **Financials** Perf. +4.6% | **Underweight** 4.2% vs 16.3% for the Eurostoxx TR | **+0.2%** |
| **Technology** Perf. +9.8% | **Overweight** 15.1% vs 10.8% for the Eurostoxx TR | **+0.2%** |
| **Industrials** Perf. +6.7% | **Overweight** 31.5% vs 16.5% for the Eurostoxx TR | **+0.1%** |

In April, the fund's sector mix had a positive impact (adding +1.2% to outperformance). Sycomore Sélection Responsable benefited from our absence from the oil & gas sector (the only sector to post negative returns during the month, down -3.7%), our under-exposure to financials and our over-exposure to technology.

Stock selection also contributed positively to the fund's relative performance (+0.3%).

## PERFORMANCE ANALYSIS — STOCK CONTRIBUTION

### Leading contributors

This month's leading contributors to performance mainly included:

- Technology stocks (Worldline and Nexi), a sector that has continued to be particularly sought after by investors;
- Stocks that enjoyed strong rebounds in April after excessive corrections in March, such as Spie – which was the leading contributor to performance after publishing encouraging earnings (earnings growth and stable EBITA margin at 3.7%) and issuing reassuring statements on its financial situation (€1.4 billion in cash, covenant at 4x net debt/EBITDA while the group stands at 2.7x and no debt maturing before 2023) and on its outstanding free cash flow generation (stronger than last year, with no expected deterioration in working capital requirements). Other companies include Nexans, Prysmian and Smurfit Kappa.

### Leading detractors

This month's leading detractors mainly included industrial stocks that had been particularly affected by the current circumstances (such as Alstom or Stadler Rail), as well as companies that had held up well in March and suffered from investors' arbitrage movements – such as Dassault Systèmes, Carrefour, Kerry Group, Orsted and SEB (resilient last month after releasing robust 2019 earnings, but impacted after announcing sales down by almost 16% in Q1 2020 and an expected drop in turnover of 450 to 500 million euros in Q2 2020, at the end of April).

- Kingspan, Irish company specialising in sustainable building materials, was the leading detractor during the month after reporting sales down 3% in Q1 2020 and down 35% in April. The company also suffered from the Competition and Markets Authority's (CMA) announcement that a full inquiry would take place over the acquisition of SIG's "Building Solutions" division by Kingspan, due to the group's leadership position.

## MAIN PORTFOLIO MOVEMENTS – APRIL 2020

| POSITIONS REDUCED | POSITIONS SOLD | POSITION INCREASED | POSITIONS ADDED |
|---|---|---|---|
| UMICORE | ESSILORLUXOTTICA | ATOS ORIGIN | PHILIPS |
| DASSAULT SYSTEMES | - | DANONE | - |
| DSM | - | CAP GEMINI | - |

## FOCUS ESG

Responsible dividends were one of the key themes to be discussed as part of our “pre-shareholder meeting” dialogue in 2020. The issue here is to ensure that shareholders do not receive payments at the expense of other stakeholders and that dividends do not cause the company’s financial structure to weaken and be at risk.

In the current circumstances, the question of dividends has become a major priority. We therefore decided to vote AGAINST resolutions aimed at maintaining dividends if the company’s stakeholders and earnings are likely to be heavily affected by the epidemic, and if the fair treatment between shareholders does not appear to be guaranteed.

Companies that are limiting the negative impacts of the crisis on their employees, suppliers or clients – whatever the regulatory framework applicable within their industry – will be the ones to emerge from the crisis with a stronger business model, market share gains, an improved brand image or better relations with public authorities.

Among the criteria we consider to assess the legitimacy of a dividend pay-out in these exceptional circumstances, we include:

• any financial assistance received from the government;

• the company’s financial situation and wage bill in the current context and whether this has been taken into account in its dividend/share buy-back policy;

• broadly speaking, the company’s attitude with respect to its shareholders, particularly with its employees and suppliers, as it navigates the crisis (including positive initiatives in terms of job preservation/compensation of salary losses/health coverage/exceptional bonuses for employees who continued to work (Danone, Carrefour, L’Oréal, Sanofi, Unilever, etc.), support for the most heavily impacted suppliers and clients (Danone, L'Oréal, Unilever, etc.), contributions with products and expertise (Air Liquide, Sanofi, etc.) or executive pay cuts (Kering, Michelin, Nexans, Saint-Gobain, Schneider Electric, Seb, etc.).

Since the start of the earnings season, we have been asking companies about their specific situation with respect to the crisis and the efforts made, where relevant, to support any affected stakeholders. When a company suggests a dividend that we feel is ill-adapted to the circumstances, we shall examine the explanations provided on a case-by-case basis.

In the current context, we have so far chosen to vote AGAINST the dividend pay-outs of two portfolio companies:

• Schneider Electric: +8.5% dividend rise. The company has not provided any information on the use of furlough schemes and relief packages for its employees and has not replied to our questions on these issues ahead of the shareholders’ meeting.

• Allianz: +6.7% dividend rise. The company will benefit from government assistance via its subsidiary Euler Hermes, as the German government has pledged to cover most losses incurred from loan insurance.

However, we have supported maintaining dividends as planned, sometimes with a modest rise compared to last year, for companies not overly impacted by the Covid-19 crisis, that have communicated on the assistance provided to other stakeholders, and that have not applied for government aid (for example, Sanofi, Air Liquide, Unilever and DSM).

## PERFORMANCE ANALYSIS — INDIVIDUAL STOCKS

### MTD PERFORMANCE ATTRIBUTION - main attributions - from 28-FEB-2020 to 31-MAR-2020

| | SSR | | | EURO STOXX TR * | | | |
|---|---|---|---|---|---|---|---|
| Valeurs | Average Weight | Return | Contribution | Average Weight | Return | Contribution | Valeurs |
| SPIE | 1.6% | 50.5% | 0.7% | 0.0% | 50.5% | 0.0% | 0.6% |
| Umicore | 2.6% | 23.7% | 0.6% | 0.2% | 23.7% | 0.0% | 0.4% |
| Total | - | - | - | 2.4% | -7.2% | -0.2% | 0.4% |
| IMCD | 2.2% | 24.7% | 0.5% | 0.1% | 24.7% | 0.0% | 0.3% |
| Nexans | 2.1% | 20.3% | 0.4% | - | - | - | 0.3% |
| Tomra Systems | 1.9% | 20.2% | 0.4% | - | - | - | 0.2% |
| Worldline | 2.8% | 15.4% | 0.4% | 0.2% | 15.4% | 0.0% | 0.2% |
| Prysmian | 2.1% | 17.6% | 0.3% | 0.1% | 17.6% | 0.0% | 0.2% |
| Smurfit Kappa | 3.5% | 11.6% | 0.4% | - | - | - | 0.2% |
| Nexi | 1.8% | 16.6% | 0.3% | 0.1% | 16.6% | 0.0% | 0.2% |
| Orsted | 2.2% | 3.3% | 0.1% | - | - | - | -0.1% |
| Infineon | - | - | - | 0.5% | 26.2% | 0.1% | -0.1% |
| Stadler Rail AG | 0.8% | -5.2% | 0.0% | - | - | - | -0.1% |
| Carrefour | 1.1% | -6.4% | -0.1% | 0.2% | -6.4% | 0.0% | -0.1% |
| SEB | 1.3% | -3.3% | 0.0% | 0.1% | -3.3% | 0.0% | -0.1% |
| Bayer | - | - | - | 1.6% | 17.6% | 0.3% | -0.2% |
| Alstom | 2.7% | -2.0% | -0.1% | 0.2% | -2.0% | 0.0% | -0.2% |
| Kerry Group | 3.6% | -0.1% | 0.0% | 0.4% | -0.1% | 0.0% | -0.2% |
| Dassault Systemes | 3.8% | -1.1% | -0.1% | 0.5% | -1.1% | 0.0% | -0.3% |
| Kingspan Group | 2.6% | -4.5% | -0.2% | 0.2% | -4.5% | 0.0% | -0.3% |
| Cash | 4.9% | | 0.1% | - | | 0.0% | -0.3% |
| Net performance | | | 7.4% | | | 6.5% | 0.0% |

## FUND PROFILE

Sycomore Sélection Responsable aims to deliver long-term returns in excess of those of the Euro Stoxx TR index by selecting quality companies that create sustainable value for all their stakeholders and present a discount to their intrinsic valuation.

This conviction-based portfolio, unconstrained with respect to style, sector, country or market capitalization, is built on an in-depth fundamental analysis of companies, in particular on extra-financial issues (ESG), allowing a better assessment of risks and the identification of the most attractive long-term opportunities.

## 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 November change over time. The lowest category does not mean "risk free". Historic data used to calculate the synthetic indicator November not represent a reliable indication of the fund's future risk.

Synthetic risk and reward indicator

Lower risk, potentially lower returns.

| 1 | 2 | 3 | 4 | **5** | 6 | 7 |
|---|---|---|---|---|---|---|

Higher risk, potentially higher retruns.