FLEXIBLE STRATEGIES

SYCOMORE L/S OPPORTUNITIES

PM COMMENT
Q1 2020

PERFORMANCE (I SHARE)

Q1 2020
Fund: -13.7%
Euro Stoxx TR: -24.7%*
Ester: -0.1%

2020
Fund: -13.7%
Euro Stoxx TR: -24.7%*
Ester: -0.1%

Inception (11.10.2004)
Fund: +66.1%
Euro Stoxx TR: +77.7%*
Ester: +15.1%

INVESTMENT TEAM

Gilles Sitbon
Senior Portfolio Manager

Hadrien Bulté
Analyst/PM

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 World War Two.

However, the size and the speed of the response from central banks, including quantitative easing programmes 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.

POSITIONING AND MAIN PORTFOLIO MOVEMENTS

During the quarter, we initially reduced our exposure to equities in January and February as markets rallied during the period: the fund's net exposure declined from 59% on 31.12.2019 to 54% on 31.01.2020, and then rose to 55% on 28.02.2020. Due to the sharp sell-off at the end of February/early March, amid extreme levels of volatility, we gradually increased our exposure to the equity market, which rose to 62% on 31.03.2020.

Volatility should remain elevated in the short-term (driven by the development of the pandemic, which is still on-going) and a further leg down is possible in the near run. However, investors are positioned defensively at the moment, with very large cash reserves in their portfolios. We are ready to reinvest significantly when visibility improves, but this seems premature for the time being.

POSITIONS DECREASED	POSITIONS EXITED	POSITIONS INCREASED	POSITIONS INITIATED
BAYER	TERREIS	ISS	API GROUP
ALD	TI FLUID SYSTEMS	AUTOTRADER	ASTM
SPIE	ANHEUSER-BUSCH	REXEL	THALES

We have replaced our Put/Spread with shorts on futures (Euro Stoxx 50).
The fund was managed with a long bias and we built a Put/Spread to protect the portfolio in the event of a drawdown of -7% to -8%. During the correction, we restriked this position three times, and considering the likelihood of a market closure – which would have caused liquidity problems for a number of maturities – we took some profits and replaced this Put/Spread with shorts on Euro Stoxx 50 futures offering an equivalent level of coverage.

Stocks displaying high debt levels were particularly hard hit by the market and we trimmed, or sometimes sold, companies displaying leveraged balance sheets that could deteriorate in the short term, or those offering very low visibility, while increasing or adding new positions in stocks with more resilient and defensive business models. We removed Nebula from the portfolio (the proposed deal is now unlikely) and initiated a new position in Aveva (software for the oil & gas industry, based on a sales model that requires much personal interaction). We also trimmed our position in Park Hotel by 50%.

Meanwhile, we strengthened our positions in Spie, Elior, Cap gemini, Comcast, Nexi, Uber, Vodafone, Roche, Carrefour, Vivendi.

OUTLOOK

Over a mid to long-term investment horizon, several indicators are flashing clear buy signals: market breadth, bull/bear, put call ratio, number of stocks hitting record highs, volatility, correlation, ERP etc.

Nevertheless, while we feel the authorities have responded well to the urgency of the situation, the crisis is far from over. In the short-term, markets will continue to be driven by the Covid-19 epidemic and the developments on the health crisis front, but also by the lifting of lockdowns (fast or slow), and the impact on demand (with oil prices also raising questions). Over the longer term, the issue of who will cover the bill needs to be addressed: will this involve more quantitative easing, a tax increase, currency devaluations? Will the sharp increase in money supply generate tensions on inflation within two to three years? Opinions diverge.

Furthermore, while markets have already sold-off once, historically, they tend to bottom-out over several waves.

Today, it seems reasonable to claim that the asset purchases made by the Fed and the ECB were successful in preventing a crash on bond markets: aggressive monetary and fiscal policies played an essential in role in helping to stabilise the market. Outflows from UCITs (particularly fixed income funds) have now dried up and very modest inflows have started to resume.

The market is becoming polarised with a clear split between Value and Growth stocks (Healthcare, Consumer Staples and Tech – with its “Work from Home” baskets, are clearly outperforming). Companies have trimmed, in some cases cancelled, their shareholder return (dividend pay-outs and share buybacks).

The depth of the impact the virus will have on corporate earnings is very difficult to modelise (many issuers are cancelling their guidance for 2020 without issuing new data) and many questions over post-crisis household and business spending patterns remain unanswered. Our analysis efforts now focus more than usual on the quality of balance sheets and liquidity.

Several portfolio positions offer a potential upside ranging between 100% and 200%; however, we believe that a further leg down is possible and are ready to increase our exposure to equities further should this scenario materialise.

PERFORMANCE ANALYSIS: LEADING CONTRIBUTORS AND DETRACTORS

Since the beginning of the year, the fund’s leading detractors have essentially been companies particularly affected by the public health crisis within the corporate services (ISS and Elior), tourism (Parks H&R) and industry (Airbus) sectors.

API group (3.0% of the portfolio on average; -34.3% YTD) - providing fire protection systems and specialised construction installations for Telecom and Utilities companies in the United States – featured among leading detractors during the first quarter. The group displays strong fundamentals and has recently refinanced its debt at an attractive rate. There are no issues on the covenants and the company’s 2020 guidance remains virtually unchanged (estimated EBITDA of 390 to 400 million, versus 400 million expected previously). However, this stock has been traded OTC during the quarter before a re-listing on the NYSE (end April), which in light of current liquidity concerns, led to a sharp drop amid very low trading volumes.

The fund’s leading contributor to performance in 2019 - HelloFresh (1.1%; +64% YTD) - also delivered the strongest positive contribution to performance in the first quarter of 2020. After releasing robust earnings in January and reporting a considerable improvement in margins and an acceleration in organic growth, this leader in home-delivered fresh food ingredients has benefited from the lockdown measures. The fund’s leading contributors in Q1 included companies that have been particularly resilient in the current context, or have benefited from the crisis situation, such as players in the technology (TeamViewer and RIB Software) or video game (Ubisoft) industries.

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SYCOMORE L/S OPPORTUNITIES

PM COMMENT
Q1 2020

YTD Contributions - from 31-DEC-2019 to 31-MAR-2020

	Poche Convictions				
Valeurs	Poids début de période	Poids moyen	Poids Fin de période	Return	Contribution
HelloFresh	1.0%	1.1%	1.8%	64.0%	0.71%
InterContinental	-	-0.0%	-	-24.6%	0.26%
RIB Software	-	0.1%	-	50.4%	0.21%
TeamViewer AG	1.5%	1.1%	1.1%	14.1%	0.20%
Arkema	-0.4%	-0.4%	-0.3%	-33.5%	0.15%
Fielmann	-0.5%	-0.4%	-0.4%	-26.2%	0.13%
Straumann	-0.5%	-0.5%	-0.5%	-22.3%	0.13%
Ubisoft	1.0%	0.8%	1.1%	9.1%	0.13%
Diamond Eagle	1.0%	0.8%	-	12.0%	0.11%
Pernod Ricard	-0.4%	-0.5%	-0.5%	-18.8%	0.10%
Rexel	1.1%	0.9%	0.8%	-42.8%	-0.48%
Vodafone Group	1.9%	2.0%	1.9%	-26.3%	-0.53%
Elis	1.0%	0.9%	0.8%	-53.3%	-0.56%
Elior	1.0%	0.9%	0.6%	-54.1%	-0.63%
Park H&R	1.0%	0.8%	0.2%	-68.7%	-0.68%
Mediawan	2.1%	2.0%	1.7%	-32.0%	-0.71%
ISS	2.0%	1.9%	1.9%	-41.4%	-0.80%
Airbus	1.4%	1.5%	0.7%	-54.5%	-1.11%
API Group Corp	2.9%	3.0%	2.3%	-34.3%	-1.14%
ASTM	1.8%	2.7%	3.1%	-40.7%	-1.25%

FUND PROFILE

Sycomore L/S Opportunities is an opportunistic flexible long/short European equities fund for which net exposure to equities varies according to the manager's convictions. The fund's strategy, which combines long positions and short positions over an investment horizon of five years, is to outperform the EONIA compounded index through discretionary management. Stock picking is mainly based on asymmetries between upside potential and downside risk estimated by the management team.

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.

Lower risk, Higher risk,

1	2	3	**4**	5	6	7

potentially lower returns potentially higher returns.