SUSTAINABLE EQUITIES

SYCOMORE SÉLECTION RESPONSABLE

PM COMMENT
April 2022

PERFORMANCE (I share)

April 2022
Fund: -2.0%
EURO STOXX TR: -1.7%

2022
Fund: -12.6%
EURO STOXX TR: -10.5%

Inception (24.01.2011)
Fund: +122.4%
EURO STOXX TR: +95.0%

INVESTMENT TEAM

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MARKET ENVIRONMENT

In April, the world's main stock markets declined amid high market volatility (VIX at 28.9 and V2X at 29.6). European markets suffered more modest losses than their American counterparts, which recorded substantial declines (-8.8% for the S&P 500 and -13.3% for the Nasdaq, its worst monthly loss since October 2008). Fears of a global economic slowdown have intensified with multiple sources of concern hitting investors concomitantly on various fronts.

Inflation readings have continued to reach new record highs (+8.5% year-over-year in March in the United States, a 40-year high, and +7.4% in Europe) and central banks are attempting to contain rising prices with increasingly strong monetary tightening policies. As a result, sovereign yields continued to rise with 10-year rates in the US exceeding 3% in April for the first time since 2018. The Bund closed the month at 0.937%. Against this backdrop, high growth plays – which are more sensitive to rising rates – suffered more than average. The Euro Stoxx Total Market Growth index dipped by -3.58% in April while the EuroStoxx Total Market Value index shed only -0.32%.

The war in Ukraine is dragging on and verbal threats are escalating. Investors are concerned over the economic consequences of the conflict, particularly in the event of gas supplies being cut off.

China has continued with its Zero Covid policy, including partial lockdowns, prompting fears of supply chain disruptions, production shutdowns and a sharper than expected slowdown in demand.

The publication of the gross domestic product in the US for Q1 2022 – which is down -1.4% on an annualized basis – further exacerbated investors' fears of a slowdown in global economic growth, even if the disappointment largely stems from trade-related data, while domestic demand and capital expenditure both rose substantially.

The macroeconomic indicators that have been reported so far remain relatively robust. The same can be said of Q1 2022 corporate earnings, once more above expectations (particularly within the energy sector). Nevertheless, most companies are issuing very cautious guidance for the future, considering the implications of rising commodity prices and supply chain difficulties, going forward.

Amid this challenging environment, investors have turned to defensive safe havens such as telecoms, utilities, staple consumer goods, energy, and healthcare. Conversely, cyclical sectors and the industries most impacted by aggressive interest rate hikes - such as technology, consumer discretionary and real estate - sold off.

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PERFORMANCE ANALYSIS — SECTORS

	Fund Weighting vs Index	Impact month
Consumer Staples Perf. +2.7%	**Overweight** 10.2% vs 5.8% for the Eurostoxx TR	+0.2%
Energy Perf. +3.0%	**Underweight** 0.9% vs 4.9% for the Eurostoxx TR	-0.2%

In April, the fund's sector breakdown had a neutral impact on its monthly performance.

Sycomore Sélection Responsable benefited from its over-exposure to staple consumer goods, and from its lack of exposure to the real estate sector.

In contrast, the fund's under-exposure to energy and telecommunications detracted from performance as these sectors posted the largest monthly gains in April (+3.0% and +4.2% respectively).

PERFORMANCE ANALYSIS – INDIVIDUAL STOCKS

Overall, stock selection within Sycomore Sélection Responsable had a neutral impact on the fund's performance in April.

Leading contributors

The fund's leading contributors to performance in April largely included defensive plays, which were popular with investors in todays' challenging environment. Lifted by positive knock-on effects from its Capital Markets Day, Air Liquide (3.4% of the portfolio, +4% in April) once more featured among top contributors.

The group has eased investors' concerns over its ability to increase prices in line with inflation and has set targets for improving its operating margin and dividend growth. The group also demonstrated the strong rationale behind its capex, designed to seize the opportunities offered by the energy transition.

Top contributors in April also included healthcare stocks (Sanofi), staple consumer goods (Danone, Kerry Group, Unilever) and energy plays (Iberdrola, Acciona Energias).

Leading detractors

The faster and stronger-than-expected rise in long-term interest rates has weighed on the valuations of longer duration assets, primarily hitting high-growth stocks. Naturally, this month's leading detractors included technology plays, and principally ASML (5.3% of the portfolio, -10.2% in April), ASM International (1.3%; -12.7%) and Infineon (1.3%; -11.4%).

Hermès (2.0%; -7.8%) and Carl Zeiss Meditec (1.1%; -18.1%) have suffered from their exposure to Chinese consumer spending and from rising long-term rates. We have consequently revised our valuation assumptions and remain constructive on these companies' ability to create value over the mid-term.

This month's main detractors also included cyclical companies highly exposed to China, such as Schneider Electric (2.5%; -9.5%). We had trimmed this position in March considering the persistent risks associated with China's "zero Covid" policy, supply chain disruptions and cost inflation.

MAIN PORTFOLIO MOVEMENTS

POSITIONS REDUCED	POSITIONS SOLD	POSITIONS INCREASED	POSITIONS ADDED
ORANGE	-	BNP PARIBAS	-
SPIE	-	SIG GROUP	-
CARREFOUR	-	-	-

ESG FOCUS

French energy player TotalEnergies (2.8% of the EuroStoxx TR index; NEC: -15%) fails to meet our selection criteria due to its E&P activities in the Russian Arctic. TotalEnergies has operations in Siberia, where the group produces liquefied natural gas (LNG) in the Yamal LNG facility and owns 10% stakes in the Arctic LNG 2 gas project, under construction in Siberia and now at a standstill due to the war in Ukraine.

Sycomore Sélection Responsable does not own shares in TotalEnergies, but we are shareholders through investments made by other vehicles. In light of recent developments - following the filing of two draft resolutions ahead of TotalEnergies' May 25th shareholder meeting - we felt it was important to provide insights into the reasons these two proposals were ultimately excluded from the meeting’s agenda.

As had already been the case in 2020, in April 2022, Sycomore AM linked up with a dozen other shareholders to submit a climate change proposal ahead of the 2022 shareholders’ meeting, urging the company to amend its Articles of Incorporation and add an appendix to its management report, which would include climate-related information, and would be presented every year at the shareholders’ meeting.
Following this request to include the draft resolution on the agenda, TotalEnergies pledged to publish some of the data requested, though has not committed to providing more information on its 1.5°C “reference” scenario and underlying assumptions, which are the key to assessing the alignment of the company’s strategy with the objectives of the Paris Agreement. Satisfied with this progress, some of the co-filers withdrew from the process. As the minimum capital ownership criteria were no longer met following these withdrawals, the draft resolution could not be retained and will therefore not be put to the shareholders’ vote on May 25th 2022.

At the same time, another group of investors led by NGO Follow This – also behind the resolution filed in 2020 – submitted a draft resolution to TotalEnergies requesting amendments to the Articles of Association, including an appendix to the management report describing the strategy implemented by TotalEnergies to align the company’s activities with the objectives of the Paris Agreement. In a press release, TotalEnergies’ board of directors informed its shareholders that the resolution was not admissible for inclusion on the agenda for legal reasons, claiming that the proposed resolution “contravenes French legal rules setting the prerogatives of the Company's governance bodies” and would imply “under cover of extending the transparency of the information to be provided in the management report (…) an obligation to frame the strategy”.

Discussions are currently taking place with the Autorité des marchés financiers (AMF) after the authority was called upon by shareholders for assistance with approving the filing of climate change proposals in France and assessing whether they can be excluded – a position that Sycomore AM has backed for several years now, through our active role on the FIR board of directors. In the US for example, the SEC has ruled that as a matter of principle, “proposals (from shareholders) should not be excluded if they touch on issues with broad societal impact, such as climate change, if only because they cover aspects that can also be considered relevant to ordinary business”2. However, at this stage, it seems that shareholder democracy and the legitimacy of the climate change proposals expressed by TotalEnergies’ shareholders will not enjoy such recognition this year.

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PERFORMANCE ATTRIBUTION

	SSR			EURO STOXX TR *			
	Average Weight	Return	Contribution	Average Weight	Return	Contribution	Total Attribution
Sanofi	2.7%	9.4%	0.2%	2.3%	9.4%	0.2%	0.0%
Iberdrola	1.8%	11.0%	0.2%	1.2%	11.0%	0.1%	0.1%
Danone	1.3%	15.2%	0.2%	0.7%	15.2%	0.1%	0.1%
Air Liquide	3.4%	4.0%	0.1%	1.6%	4.0%	0.1%	0.1%
Kerry Group	2.4%	4.4%	0.1%	0.3%	4.4%	0.0%	0.1%
Saint Gobain	2.3%	3.8%	0.1%	0.6%	3.8%	0.0%	0.1%
Unilever	1.2%	8.3%	0.1%	-	-	-	0.1%
Acciona Energias	1.4%	6.3%	0.1%	-	-	-	0.1%
Smurfit Kappa	2.8%	3.2%	0.1%	-	-	-	0.1%
PolyPeptide	0.5%	17.3%	0.1%	-	-	-	0.1%
Adidas	1.4%	-8.6%	-0.1%	0.7%	-8.6%	-0.1%	-0.0%
Euronext	1.7%	-7.4%	-0.1%	0.1%	-7.4%	-0.0%	-0.1%
BNP Paribas	2.7%	-4.3%	-0.1%	1.1%	-4.3%	-0.1%	-0.1%
Infineon	1.3%	-11.4%	-0.2%	0.7%	-11.4%	-0.1%	-0.1%
Hermès	2.0%	-7.8%	-0.2%	0.9%	-7.8%	-0.1%	-0.1%
ASM Inter.	1.3%	-12.7%	-0.2%	0.3%	-12.7%	-0.0%	-0.1%
Merck	2.7%	-6.1%	-0.2%	0.5%	-6.1%	-0.0%	-0.1%
Carl Zeiss Meditec	1.1%	-18.1%	-0.2%	0.1%	-18.1%	-0.0%	-0.2%
Schneider E.	2.5%	-9.5%	-0.2%	1.7%	-9.5%	-0.2%	-0.1%
ASML	5.3%	-10.2%	-0.5%	4.7%	-10.2%	-0.5%	-0.0%
Cash & Others	2.9%		-0.2%	-	-	-	-0.2%
Net performance			-2.0%			-1.7%	-0.0%

* reinvested dividends calculated by FactSet Portfolio Analyser

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 December change over time. The lowest category does not mean "risk free". Historic data used to calculate the synthetic indicator December 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 29.04.2022. *TR: reinvested dividends. Past performance is no guarantee of future returns.

The fund offers no yield or performance guarantees and comes with a risk of capital loss. The performance of the fund is partly driven by the ESG indicators of the stocks held on the portfolio, though these are not the only determining factor. Before investing, please read the KIID for the fund available on our website: www.sycomore-am.com.