ESG Research,
an undeniable driver of value creation

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- **Each year, Sycomore AM is backtesting its proprietary ESG research criteria to identify those who have the highest impact on the economic output and the stock performance of followed companies**
- **In 2011, companies having the best financial communication were the most resilient in that tough year for European equities**
- **En 2012, an high correlation has been identified between our ESG « best-in-class » firms and their generated Return-on-Equity**

DEMONSTRATE THAT SRI FUNDS ARE CREATING VALUE: A REAL CHALLENGE FOR THE INDUSTRY

The financial performance of SRI funds is subject to many debates. As equally as important, the question of the true impact of these products on sustainable development has not been discussed yet. Extra-financial performance is something difficult to define. What performance are we talking about? How can we measure its effects? This issue is based on the definition of precise, understandable and comparable indicators. For the first time in 2012, Novethic, a French-based research institute has made an inventory of ex-post measures of ESG quality. Measures that have been made for now are mainly punctual and are done to address client inquiries or to raise awareness on SRI investments.

SYCOMORE AM IS BACKTESTING ITS EXTRA-FINANCIAL ANALYSIS CRITERIA SINCE 2011

To address this challenge, it is important to conduct research on ESG indicators used in extra-financial analysis models. In this regard, Sycomore AM is backtesting all of its ESG criteria to assess their impact on performance, volatility and their relevancy vs. economic indicators such as productivity (e.g. employee/revenue ratio), valuation (P/E), EBIT margin and the RoE. Our methodology is simple and robust. We calculate correlations between grades given to each criterion (from 1 to 5) and their economical and market performance indicators. First backtestings were done in 2011 and 2012 on more than 750 stocks of Sycomore AM's investment universe.

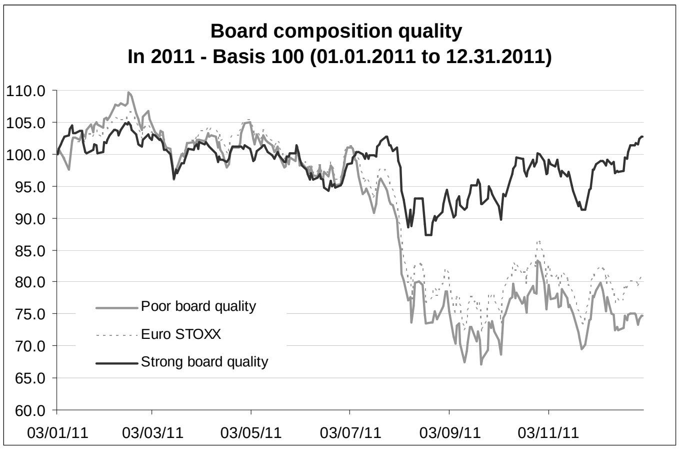
First results are interesting but cannot be taken as a definitive conclusion. As all empirical study, an analysis on multiple years is necessary. This observation is all the more important that the relevant indicators are different depending on the market trend. Notably, governance indicators are more efficient in period of high volatility and bear market phases. We are detailing here the main conclusions from tests made in 2011 and 2012 to demonstrate that ESG analysis can create performance.

SOUND CORPORATE GOVERNANCE AS A RISK MANAGEMENT TOOL

In 2011, five criteria had an high correlation (above 50%) with firms' stock performance: 1) the quality of the board of directors, 2) management team stability, 3) growth model sustainability, 4) social climate et 5) financial statements quality. Firms with above average grades on those five criteria have outperformed markets in 2011. We also found five criteria that were highly relevant for volatility: 1) strategy execution, 2) consistent executive compensation, 3) financial communication quality, 4) growth model sustainability and 5) social climate. Firms that had above average grades on those criteria were less volatile than the markets in 2011.

The following chart is comparing the performance of companies that had excellent grades for their Board quality (top 50 firms that were graded 5 out of 5) versus those who had poor quality (bottom 57 firms that were graded 1 out of 5). In 2011, the first category of companies posted a +2.7% performance with an average volatility of 18%. On the other hand, the second category of firms was down 25.2% with an average volatility of 31%.

Figure 1 – Sycomore AM Backtesting (2011), Source: Factset, Sycomore AM



Past performance is not necessarily indicative of future results.

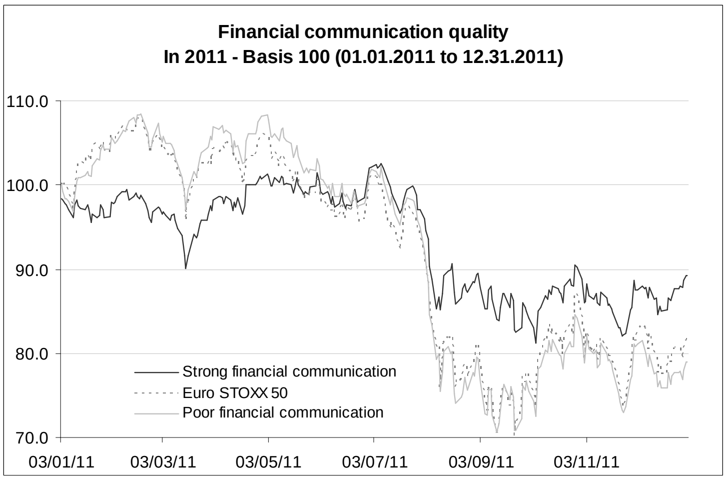
SOCIAL CLIMATE: A PRODUCTIVITY FACTOR WITHIN THE FIRM

Regarding ESG criteria's economic materiality, results are more heterogeneous. For productivity, we have found two relevant criteria: social climate within the firm and complexity level of the regulatory environment. When those two items are poor for the firm, their productivity was lower than the sector average. Regarding EBIT margin, five criteria turned out to be positive: social climate, good strategy execution, financial statement quality, « pricing power » and competitive advantage.

FINANCIAL COMMUNICATION QUALITY: A KEY INDICATOR IN BEAR MARKETS PHASES

On 2011, we have also seen financial communication quality as the key criteria in the Governance thematic. **The quality of financial communication is particularly correlated to stock performance and volatility.** In average, companies of our investment universe having the best grades (5 out of 5) have outperformed the EURO STOXX 50 of 10% with a sub-20% volatility (Figure 2).

Figure 2 –Sycomore AM Backtesting results (2011), Source: Factset, Sycomore AM



Past performance is not necessarily indicative of future results.

Backtesting the year 2012 has allowed us to observe ESG criteria in a different market phase. Good results on indicators presented before showed to help deliver a strong resilience from companies in bear market phases. Stock market behaviour is however not stable. It can vary according to the global market context, independently from pure financial characteristics. This observation is also valid for extra-financial characteristics as it is illustrated in 2012.

In 2012, we have kept around 10 pertinent criteria when it comes to volatility including: sustainable development, financial communication, quality of management team, management compensation, social capital, social climate, working conditions, market share evolution, distribution network quality… We are seeing no pertinent environmental indicators on this period. More difficult to apprehend, environmental criteria relevance depend on the sector, and cannot allow a sharp statistical analysis as we did on governance and social.

STRONG ESG RESULTS HAS A POSITIVE EFFECT ON FIRMS RETURN-ON-EQUITY
2012 was the first year we saw a correlation between some ESG criteria and RoE (return of equity). RoE is measuring a company ability to generate net income as a percentage of shareholders equity i.e. a pure value creation criteria. For environmental, social or governance themes, or the Overall ESG grade, « best-in-class » companies have on average higher RoE than our « worst-in-class » firms (Table 1). This observation is also valid when looking at specific ESG criteria (Table 2).

Table 1 – Sycomore AM Backtesting results (2012), Source: Factset, Sycomore AM

AXES	2012 Average RoE	
	« Best-in-Class »[1]	« Worst-in-Class »[2]
Overall ESG grade	16.10%	9.90%
Environment grade	13.30%	7.90%
Social grade	15.80%	12.20%
Governance grade	20.30%	10.20%

[1] 1st decile among 670 analysed companies
[2] 10ème decile among 670 analysed companies

Table 2 – Sycomore AM Backtesting results (2012), Source: Factset, Sycomore AM

CRITERIA	2012 Average RoE	
	« Best-in-Class »[1]	« Worst-in-Class »[2]
Financial statement quality	17.10%	6.00%
Reaching financial targets	19.20%	7.50%
Consistent management compensation	21.20%	8.40%
Social climate	15.20%	8.50%
Gaining market share	20.10%	-8.00%
Distribution network quality	16.40%	9.70%
Competitive advantage	16.50%	3.20%

[1] 1st decile among 670 analysed companies
[2] 10ème decile among 670 analysed companies

SYCOMORE AM IS PUTTING ESG RESEARCH AT THE HEART OF ITS INVESTMENT PROCESS
Through a seasoned proprietary model, ESG research is fully integrated to the investment process of Sycomore AM. Extra-financial criteria are directly impacting the risk premium applied to all companies of our investment universe, whatever their size or sector. Aiming to enhance our fundamental analysis, this approach has led the firm to launch a range of SRI funds in 2011 and 2012 with the Sycomore Sélection Responsable and the Sycomore Sélection Credit fund. In addition to integrating extra-financial criteria, these SRI equity and bond strategies are applying ESG exclusion and selection filters enabling Sycomore AM to identify the best socially responsible investment opportunities available in the market.

About Sycomore AM:

Founded in 2001, Sycomore AM is one of the first equity-focused independent investment management companies in France. The Paris-based firm is majority-owned by its founding partners and its employees. Rated « High Standards » by Fitch Ratings since 2008, Sycomore AM is managing close to 2 billion Euros through open-ended UCITS vehicles and institutional dedicated mandates. Sycomore AM is a signatory of the UNPRI and is among the leading independent players in socially responsible investments in France.

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