SYCOMORE
ASSET MANAGEMENT

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MINUTES | CONFERENCE CALL | STANISLAS DE BAILLIENCOURT

I. Update on the public health crisis

I.1. In Europe, the first countries impacted by the epidemic (Italy and Spain) are now starting to see the first positive results of their lockdown policies. The situation has improved in these countries since the beginning of last week, but also in France, where the number of daily admissions into intensive care started to decline at the end of the week. This figure is the only truly reliable indicator for making country comparisons, as screening policies differ greatly from one State to the other.

The market did not react to this news last week, as the pandemic was spreading fast in the United States; this worried investors and market volatility spiked.

I.2. After a strong acceleration, and although the epidemic has continued to spread across the United States, the pace of infection seems to have slowed and only the State of New York is now in a critical situation. The rest of the country – including California – has been relatively spared so far.

I.3. The impact on the economy remains difficult to assess at the moment: many companies have already given up on their 2020 estimates, but haven't yet issued new guidance.

However, it seems that the lockdown measures and the duration of their impact on the economy, remain underestimated to this day.

Looking at the first countries to have lifted their lockdown measures - and where in some cases, partial quarantines were then reinstated – feedback has shown that organising the exit is much more complicated than declaring the lockdown. Consequently, the return to "business as usual" will be much more gradual that initially believed. Many industries (transportation, tourism, hotels, hospitality and their B2B suppliers) will still be affected for several months and in all likelihood until the end of the year, at least.

As an example, three to four weeks ago, Elis – Europe's leading provider of textile and hygiene rental and cleaning services - which generates more than a third of its turnover in the hospitality industry, had planned for a 6 to 8-week lockdown before a return to normal. It now seems that the recovery will be much slower and gradual than expected. Air travel will also be durably impacted: although there is very little information on the reopening of borders, it seems likely that this process will be gradual and not occur for several months.

II. Implications for the market and for our investment strategy

II.1. Market conditions have improved over the past two days after the first positive signs that lockdowns in Europe are starting to be effective, and in the absence of a broad-based escalation of the epidemic in the US. We have observed:

- A steady drop in volatility over the past ten days: the VIX index, representative of the short-term (1-2 months) risk premium, has fallen from 65 to 45. These levels remain very high (they have not been seen for three years, but we had reached historical peaks prior to this); however, a stabilisation has occurred.
- Credit spreads have tightened. Two weeks ago, we referred to a correction on bond markets that seemed excessive compared to the equity sell-off, notably due to lower liquidity. We have also observed a normalisation on bond markets - naturally on the sovereign bond segment, but also on the Investment Grade market, where many companies were able to issue new bonds over the past week, which is a positive signal. In the United States, issuance reached record highs with net volumes of almost 300 billion dollars in just five trading days. The High-Yield segment has also started to normalise.
- A drop in volumes on the futures market, which signals that market conditions are starting to return to normal.
- A rebound in several oil-related industries (oil stocks of course, but also equipment manufacturers and banks exposed to the sector, driven by hopes that at least one component of the global economy is starting to stabilise). A meeting between all OPEC members and Russia will be held on Thursday. The objective is for Russia and Saudi Arabia to agree on production cuts of up to 10 million barrels per day, in order to adapt to a drop in consumption that can be as high as 15 million barrels per day. Oil prices will not move back to 50 or 60 dollars per barrel – a level that would enable oil companies to maintain their capex and pay out partial dividends. In our Sycomore Allocation Patrimoine fund -we have no oil stocks in our SRI funds-, we took advantage of last week's rebound to start trimming our positions. For some, such as Total, the spread between the lows in March and current prices has reached 30%.
- A sector rotation: over the past few days, stocks trading at a considerable discount, such as banks or insurance companies, have rebounded. The easing of a number of rules by regulatory authorities and the massive financing capabilities have improved the conditions for the industry.
- The telecoms sector is proving highly resilient: during the crisis, the industry acts as a vital link both for individuals and companies and is securing 95% of its income. While the sector has already rebounded, it still offers compelling long-term opportunities (Orange or Deutsche Telekom, for example).

II.2. Nevertheless, many uncertainties remain, particularly over the impact of the public health crisis on the economy and the deep changes brought about by the crisis.

- The shape of the economic recovery is a crucial factor as it will determine the models used by analysts as they update their forecasts for corporate earnings over the next five years. A present, P/E ratios can appear particularly low across all markets, but earnings expectations for 2020 are still much too high.
- While during the 2008/2009 crisis, applications for unemployment benefit in the US had risen gradually from March 2008 to Q3 2009, they have now reached 10 million over the past two weeks (6.6 million last week and 3.3 million the week before that). Admittedly, these mostly involve low-qualified jobs, but the sheer number is impressive and suggests that the upcoming economic crisis may turn out deeper than expected. Healthcare is less affordable in the US and

the social "shock absorber" system is also lighter; as a result, the economic impact of the health crisis could be greater than in Europe. It will be important to monitor this data, while bearing in mind that these figures can be highly volatile and that with jobs if this type, a turnaround (i.e. re-employment) can also happen very quickly in the US.

- While offering a solution for companies facing short-term cash flow difficulties (through the intermediary of commercial banks which are benefiting from LTRO operations), the ballooning of central bank balance sheets was both massive and fast. However, these unprecedented volumes and speed could have negative implications for financial markets over the longer term.
- Share buybacks acted as a major support factor for equity markets over the past three years, particularly in the US. Many companies had issued bonds to fund these corporate actions. In 2020, it seems obvious that companies will take a much more cautious stance.
- Bruno Le Maire first urged companies not to pay out any dividends this year, before adding they should actually cut them to two thirds of the sum originally planned. Some companies complied with this political message. Large, high-quality companies (notably within the consumer spending, luxury, healthcare and even real estate sectors) are not facing cash flow difficulties and are able to pay their dividends, but some have chosen make modest cuts, if only to show that they are sensitive to the governments' message; others are more prudent and have delayed dividend pay-outs – which generally occur between April and June, in Q3 or Q4. Finally, the companies that won't have paid out any dividends in 2020 will most certainly make up for this or make exceptional payments in 2021.
- Record capital outflows from emerging countries, with the exception of China: the country emerged first from the crisis and has a productive system that is supported by the State. All other emerging countries are experiencing capital outflows. Admittedly, the decline ng USD interest rates are favourable; however, the management of the crisis itself - and the post-crisis period, including the recovery of international trade - is proving problematic in several regions (in Brazil, for example, where the Health Minister and the President have diametrically opposed views on the management of the crisis).

The vaccine – the only solution that will finally put an end to the Covid-19 epidemic – won't be available on a large scale for the next 12 months at least. Meanwhile, we should be prepared for new waves of contamination and as a result, further market sell-offs. We believe that earnings expectations are still overly-optimistic for 2020 and beyond, as a normalisation is now only forecast for 2021 (based on 2019 levels).

We shall therefore remain nimble and trim our positions in upcoming rebounds: while the massive and fast response from central banks has helped to support markets, the underlying public health crisis remains unsolved. Similarly, questions over the ability of our economies to go back to their pre-crisis conditions remain unanswered. The elevated volatility is causing weekly swings that are sometimes similar in scale to those we observe over a year – we shall therefore also take profits during market rebounds.

III. Positioning of Sycomore Allocation Patrimoine

The fund's equity exposure has risen to 22% as our hedging strategies were 'out of the money' following the market rebound. We strengthened the most heavily impacted US stocks, including the banks First Republic and JP Morgan. We also increased our exposure to Alibaba, which will enable us to play on the recovery of consumer spending in China, but also on a deep transformation in consumer patterns, at least in the short run. We have observed that despite the lifting of lockdown measures, consumers still continue to favour internet purchases and are only gradually returning to their previous spending habits.

Food items still account for most of the spending, even after the stock piling triggered by the crisis. We therefore added Danone to the portfolio last week, after a considerable decline, as the company is likely to benefit from this trend until the end of the lockdown (although the group's water division is currently suffering from closed restaurants). We are also absent from the automotive sector, which offers very low visibility on changing behavioural patterns after the crisis. Furthermore, this is an industry that requires a concentration of players and which offers very little flexibility.

As far as small and mid-caps are concerned, we had reduced this segment as early as end 2018. We have preferred to focus on large caps for liquidity reasons, as these stocks offer greater flexibility. Furthermore, small caps tend to rebound after large caps, as smaller-sized companies are more impacted by the crisis due to their lower diversification; we will have time to move back to this market segment once the crisis is over.

The fund's exposure to bonds currently stands at 54%. It continued to rise slightly following the strong performance of the bond envelope last week, with a slightly higher yield and a gradual rerating of portfolio holdings.

This week we shall keep a close eye on the confirmation of the plateau, or even a slight decrease in the number of cases in Europe, and on the lockdown exit strategies, in order to assess trends for economic growth in H2. We shall also watch developments on the economic front (unemployment data) and on public health matters (continued inflexion in growth and non-extension to other States). We may also start to hear from US companies ahead of the earnings season which is due to begin mid-April.

Risk/Return Profile

The fund may suffer capital losses.

Potential risks

- Capital risks: investors are warned that their capital may not be recovered in full.
- Risk related to discretionary management: the management team can, in the indicated limits, freely allocate the FCP's AuM between the different asset classes, implying that the FCP cannot be invested in the most performing markets at all time. In this case, the net asset value could lower.
- Equity risk, due to an equity exposure ranging from 0% to 60% of the AuM. Investors should bear in mind that the equity markets are particularly risky, that they can be subject to periods of low prices spanning several years that generate severe capital losses for investors. In case of market drop, the net asset value may lower. Moreover, it is likely that some holdings in portfolio experience a period of strong decrease while the equity markets rise. If the price of one or more stocks in portfolio decrease, the net asset value may lower, independently from the market trend.
- Risk related to companies with low capitalization in which the FCP is likely to invest in. It is possible, considering the small number of holdings available on the market, that the buying or the redemption of shares of a low cap company last several days or several weeks. Investors have to bear in mind that the smid caps market is meant to receive companies which, because of their specificities, can present risks for the investors and lead to a decrease in the net asset value.
- Interest rate and credit risk, as the portfolio can be exposed to bonds and other debt securities or monetary instruments up to 100%. The interest rate risk is the risk that the rates decrease if the « placements » are done at variable rates or that the rates increase if the investments are done at fixed rates, the value of an interest rate product is in inverse ratio of the interest rates' level. In case of unfavorable variation of the interest rates, the net asset value may lower. The credit risk is the risk that an issuer is not capable of recovering its debt anymore or that his grade be lowered, possibly leading to a decreasing net asset value.
- Emerging Markets risk: investments exposed to Emerging Markets could be affected by economic and political uncertainties due to the fragility of their economic, financial and political structures.
- Foreign Exchange risk: some stocks can be listed in another currency than Euro. Hedging of the foreign currency exposure is discretionary.
- Commodities related risk: commodities markets present specific risks that can lead them to evolve very differently from traditional financial instruments. Commodities valuations, especially within energetic sector, are highly correlated to output and estimated natural resource levels. Climatic and geopolitical hazards can also affect these funds' NAV. During periods of declining commodities markets, the fund's NAV might decrease.

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investors may receive more or less at redemption than the sum initially invested. Investors are warned that they could suffer capital losses.