MINUTES | CONFERENCE CALL | STANISLAS DE BAILLIENCOURT

I. Market Environment

- Ahead of last Thursday's European summit, several countries had worked on joint funding projects (such as the Spanish idea involving the issuance of perpetual European bonds to finance structural investments and economic stimulus in different Eurozone countries). However, no agreement was reached - which revived investors' concerns over Europe's ability to respond and act as one. Heads of State have decided not to manage this issue directly and have instructed the European Commission to issue proposals – which will considerably lengthen the process.

  This situation has had repercussions on the sovereign debt of the Eurozone's weakest countries (as was the case during the 2011 crisis); Italian bonds were particularly affected due to a large debt supply and the severity of the health crisis in the country: yields on 10-year Italian bonds, after moving down to around 1.30% at the end of March, rose from 1.60% to 2.30% last week (which is equivalent to a 5-7% loss in value), before declining slightly on Friday after the ECB's intervention. In this environment, safeguarding the credibility of the ECB is crucial.

  The banking sector has also suffered from this situation, which is usually the case when Europe fails to provide a common response.

- Central bank responses appear to be escalating. The BoJ, which was already the first central bank to buy its own domestic equities, has lifted the limits on its sovereign debt asset purchases. The ECB is now accepting to hold bonds that are not eligible for its asset purchase programmes (fallen angels in particular) as collateral.

  The current trend is clearly pointing to an easing of rules and an increase in central bank intervention. It is estimated that with the measures that have already been announced in response to the crisis, central bank balance sheets – which were already at historical highs and twice the size they were 10 years ago – are still set to grow by 40%!

  We are well aware that this situation could potentially lead to a bubble in the mid-term. Following action by central banks, yields on sovereign debt are much lower today than they should be (considering the risk that is carried, but also the risk of future inflation due to the huge money supply being created). This is currently disrupting allocations between different asset classes.

- The massive capital flows from central banks have led to a particularly unusual market situation, notably in the United States: while the economy is undergoing its worst recession in a hundred years, stock markets have only lost between 0% (Nasdaq) and -15% on a YTD basis (only small-caps have plunged by over 20%)! Growth /quality large caps - within the Tech sector in particular - have become "safe-haven" stock for investors, similar to gold, due to the lack of alternative investment solutions.

II. The markets

- Markets are no longer reacting to the epidemic-related news flow, as growth curves and statistics appear to be generally in line with what was forecast (plateau reached). Investors are now looking further ahead, and in particular at two major uncertainty factors that are receiving considerable attention: **post-crisis consumer behaviour** (and the adjustments that will have to be made by a number of companies) and the **risk of a second epidemic wave**, including the possibility of new lockdowns being enforced.

  Performance discrepancies are currently very high across different sectors. Some industries are particularly hard hit and this will remain the case for some time – for example air travel and live entertainment (though the weight of the latter in market indices is rather limited). However, baskets of “Stay at Home” stocks, which include entertainment (Netflix), video games, delivery services (Amazon) and technology are clearly outperforming.

  Telecoms companies, despite playing a crucial role during lockdown - particularly in the context of remote working - have not benefited that much from the crisis, so far. We also believe that once the crisis is over, developed countries will generally re-allocate their budgets, a trend that will involve reducing military expenditure and increasing investments in healthcare.

  Indices are currently stuck within a trading range, particularly in Europe, before lockdowns start to be lifted and companies issue guidance.

- The first-quarter earnings season has now begun.
  - Within the luxury retail sector, considering the situation, LVMH has reported decent data for its post-lockdown sales in Asia (although many of these purchases will not make up for the loss of sales from overseas Asian tourists, particularly the Chinese). The situation is more challenging for Kering, whose largest brand is Gucci. Gucci enjoyed strong growth over the past three years driven by an updated range that attracted younger consumers (25-45 years), notably in emerging countries. As a result, the slowdown appears more severe for the company due to very high comparison points.
  - As far as air travel is concerned, in light of the relief measures announced by the government, it seems that the recovery will be very slow and that international flights may only return to normal in 2022 (back to their 2019 levels).
  - Capgemini has released robust earnings, having successfully steered its takeover of Altran (following a deal completed ahead of the crisis) and reporting continued growth for the rest of the group. Capgemini has nevertheless cancelled its guidance for 2020. This has been the case for most companies, which are being extremely cautious in the current circumstances.
  - American banks have reported very limited losses for the time being; however, they have made massive provisions.

III. Our Investment Strategy

- Within Sycomore Allocation Patrimoine, we reduced our equity exposure to under 20% in the wake of the rebound in early April (18% net exposure on 15.04.2020), before reinvesting on the back of corporate earnings publications (22% net exposure as of 28.04.2020).
    - We added a new position in Ulta Beauty after the company's earnings release (the US equivalent of Sephora in the US): its closed stores are starting to open again and as other typical occupations (parties, travel) remain unavailable, this type of consumer spending could boom. We also initiated new positions in Capgemini and Roche, and strengthened Sanofi, as valuations remain reasonable and the outlook for growth within healthcare appears to be robust.
    - Microsoft and Amazon will release their earnings this week: we have started to trim these stocks, as although these companies are undisputed leaders, their valuations are also reflecting the strength of their business models.

- The drop in volatility - the VIX has moved back down to 32, which remains high (long-term average of 16 to 20%), though it did rise to 80 in the middle of March – seems to be pointing towards a gradual return to normal operating conditions across the markets.

- We shall be using the earnings publication season to make our **stock and bond picking** choices. The convertible bond market is currently offering attractive opportunities after suffering from forced selling in the wake of the equity market sell-off. For example, we added Korian's 7-year CB to the portfolio (high visibility and property assets). The convertible bond, issued in January and offering a coupon of 0.87%, is currently yielding 4.8%. We also took part in a very short-maturity CB issued by Unibail (18 months), offering a compelling yield (2.8%, a 3.4% spread with equivalent-maturity sovereign bonds) for a single A- rating. These movements have mainly enabled us to reposition the portfolio, focusing on assets that were particularly hard hit and have not yet rebounded.

Risk/Return Profile

The fund may suffer capital losses.

Potential risks

- Risk of capital loss: 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.
- Risk incurred by convertible bonds investments, given that the fund may be exposed for up to 30% of its net assets to convertible bonds. This is the risk that the value of one or more convertible bonds fall, influenced by the level of interest rates, changes in the prices of the underlying equities or changes in the price of the derivative instrument embedded in the convertible bond. In the event of a fall in the value of one or more convertible bonds, the net asset value may fall.
- 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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