Flash Notes – Fund update

November 2020

Sycomore Shared Growth

Dear Partners,

We have recently talked to **Frédéric Ponchon, lead Portfolio Manager (PM) of the Sycomore Shared Growth fund.** Please find below a YTD performance update on the strategy, its positioning, portfolio activity and outlook.

While this actively managed Eurozone equity funds posted slightly negative returns YTD, **it has nicely outperformed its benchmark, i.e the EURO STOXX NR Index, by almost 10%**. The fund has performed in line with expectations, delivering alpha in the Q1 2020 extreme sell-off and very atypical 2020. We are happy to share with you the PM's thoughts and actions taken since the beginning of the year.

We will try to communicate as regularly as possible whenever we deem it is relevant and insightful for the funds selected in our OpenList and for your clients. We strive to be as close to you as possible giving you this update, do let us know should you have any questions related to this fund or any other in the OpenList.

WS Partners view

Since Frédéric Ponchon took over the fund in 2005, its performance has been very **robust and consistent, both in up and down markets**. The strategy has navigated trough all stress-tests (2008 GFC, 2011-2020 UE and Grexit crisis, Q4 2018, Q1 2020 among others) with a **very solid risk-adjusted profile and limited drawdown** which is its main investment objective. We hold Frédéric Ponchon in high regards for its **strong track record as growth manager in the European equity markets** for more than 20 years. He is a very seasoned investor with indisputable stock picking skills across many market regimes. We like the depth of his fundamental research, strict adherence to the fund's process and philosophy, with no drift over time and an anchored valuation discipline. Impact and ISR integration are an additional alpha generator since inception.

Sycomore Shared Growth is a core building block to play Eurozone equity markets in a diversified portfolio. Key features of the strategy are very stringent, and they trigger clear alpha sources. It results in a predictable performance pattern and fund's behaviour over time.

WS Partners maintains the **Sycomore Shared Growth fund** with the **"Selected"** status initiated mid-2018**.**

Performance update

As of November 4th 2020, Sycomore Shared Growth's outperformance versus the DJ Euro Stoxx TR index was around 9.4% (-1.4% vs. -10.7%), and it has been built mainly in the first half of the year. Indeed, since the beginning of Q3 2020 the fund has been broadly in line with the benchmark with very good months of July and September, the month of August with a very significant underperformance, and the month of October where the fund slightly lagged the index.

During the strong sell-off in the first quarter of the year, the fund displayed very good downside protection and it ranks in the 1st decile of the most limited drawdowns in February-March within its Eurozone peer group. It then recovered in line with the benchmark until beginning of May before lagging in the second part of the month until beginning of June.

During the sell-off, certain stocks were excessively/massively affected by fears of the pandemic's impact on their activity and revenues' stream, i.e healthcare and food & beverages mainly. The panic sell-off in March allowed to redeploy the cash in stocks with good entry points such as ASML, Hermès, Brunello Cucinelli, Sartorius Stedim, Amplifon, Carl Zeiss Meditech, amongst others. Those companies strongly recovered in the first phase of the rebound, contributing positively to the strategy.

At the end of May and in June, central bank support and the announcements of stimulus plans fueled attempts of a cyclical rebound. Above all the technology sector and stocks benefiting from the climate transition began to take more clearly the leadership in the rise of equity markets. Sycomore Shared Growth is globally underweight in those sectors and it was a drag for relative performance. In addition, the investment team sold too quickly the stocks bought at the bottom of the market, their valuation having returned to pre-crisis levels or even beyond, but it also illustrate the strong valuation discipline embedded in the process of the fund.

In the course of the 2nd half of the year, the fund's relative performance was strongly impacted in August (-0.5% vs. + 3.5% for the Euro Stoxx TR) by the underweight in technology and climate transition themes, which benefited from massive inflows. This underexposure is explained by the strong focus and valuation discipline, to some extent, these sectors can be considered in a bubble situation. In September, however, risk aversion linked to the increase in Covid-19 contaminations in Europe was back and benefitted to the fund's positioning (+ 0.6% vs. -1.8%). This risk aversion increased in October again but the fund was not able to be as defensive (-5.3% vs. -5.7%) as in past market corrections. It is due to a strong pressure on the healthcare sector (37% of the portfolio in October) and in particular on pharmaceutical companies ahead of the US elections with an expected victory for Joe Biden.

Portfolio activity

New additions to the portfolio

- Convatec, the company operates in medical technologies (wound and skin care, ostomy, continence, infusion equipment, etc.) and it has implemented a strategy that will enable it to accelerate its organic growth and increase its profitability. This strategy and the solid execution of the management convinced the investment team to buy it. The stock is benefiting from long-term structural trends and should re-price as the results of this strategy become tangible.

- Linde: portfolio manager already has a position in Air Liquide, but Linde also has significant upside potential in the short, medium and long term. The two players are very resilient due to their economic model (long-term contracts with customer commitments on volumes), their presence in healthcare (medical gases benefit from the trend of aging population and related chronic diseases) and will benefit from the explosion in the use of hydrogen (activity which should double, from 2 to 4 billion euros, by 2030 for the 2 players). Both stocks could benefit from investors' enthusiasm for this new energy. The small players and competitors in the hydrogen sector, which are purer but much less solid and visible, posted outstanding performances but they exhibit valuations disconnected from their fundamentals.

Participation in two IPOs

- Nyxoah: company developing a disruptive technology in sleep apnea. The IPO was highly oversubscribed, and the fund only had 0.3% stake in the portfolio. The stock jumped +15% in the very first trading days, and it was then sold out, the rest of the upside potential will likely take longer to materialize.

- UnifiedPost: company developing software in the cloud for managing invoicing, orders, working capital financing, payments ... Again, this is a small line. They could strengthen it, growth trends are very dynamic and the group could be an attractive target for M&A.

Exited or trimmed positions

On the other hand, lead PM reduced the exposure to large pharmaceutical companies ahead of the American elections by selling Roche and almost the entire position in AstraZeneca. He remained invested only in Sanofi, whose exposure in the United States is among the most limited in large laboratories and whose transformation and growth acceleration prospects are absolutely not reflected in valuations, remaining at very low levels.

Performance attribution (2nd half of 2020)

Sector and market cap allocation

Sector allocation cost a relative 1.3% (healthcare exposure: -1.9%, almost entire absence of financials: + 1.2% in particular). Stock picking made a positive contribution of + 1.5%.

From a market capitalization standpoint, positioning contributed positively +1% (+1.2% for small caps below € 1bn). Stock picking within this smaller names made a positive contribution of +0.8%

Stock selection

Tinexta, Merck KgaA, Corbion, Shop Apotheke, Stratec, Va-Q-Tec, Ipsen were the main positive contributors. The strong underweight in SAP and the absence of Total and Bayer also contributed positively in relative terms.

Conversely, Sanofi, Korian, Danone, Veolia and Orange weighed on relative performance, as the absence in the portfolio of Siemens, Daimler, and LVMH.

Outlook

Healthcare sector performances, due to the weight of the large pharmaceutical companies, are pricing a Democratic victory in the White House and the Senate, which is the most negative scenario for the sector. The sector barely outperforms in 2020 when downward revisions have been very limited (around 10%) compared to those of the market (-40%). The PE premium over 2022, considered as the next standardized year, is half of the historical premium (5% vs 10%) with, moreover, visibility on the results much higher than that on the rest of the market. Frédéric Ponchin remains very convinced by the outlook for the sector as a whole (healthcare exposure is divided between many sub-segments such as diagnostics, medtech, retirement homes, biotech, etc.). The pandemic crisis should support the healthcare budgets for several years, reminding the societal and economic impact of a population in poor health (obesity, diabetes, etc. are aggravating factors of the epidemic) and of under-equipped healthcare systems in Western or in developing countries. He anticipates a long and sustained investment cycle that will benefit the sector.

The portfolio retains a significant portion of cash, i.e 16%. The valuations of many growth stocks seem too high or even stretched. There is also a clear complacency of the markets on the rate of recovery of the economy and the arrival of a vaccine (the road will be long, we need convincing safety and efficacy data but then it will be necessary to produce, distribute, administer massively and finally the vaccine must be accepted by the population). The American elections could also be a source of volatility and therefore of opportunities to find structural winners at more attractive prices.