



HUMAN CAPITAL STRATEGY

SYCOMORE ASSET MANAGEMENT

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The aim of this document is to **share our philosophy and our research methodology in regards to human capital issues** with all of our stakeholders and in particular, with the companies we target as part of our investment process. This document summarises our viewpoints on the **main challenges that arise from the interactions between a company and its employees**, in order to be used as a basis for a **collaborative dialogue**. Offering a didactic interface with our community and encouraging the adoption of best practices, our corporate human capital strategy also pilots our own internal transformations and our investment strategies.



Overview

Sycamore AM's strategy is driven by a strong belief: **a company can only create long-term sustainable value if this value is shared with all its stakeholders**. These stakeholders include suppliers and civil society (S), people (P), investors (I), clients (C) and the environment (E). This present strategy specifies the P stakeholder of our SPICE research model - which is shown on the right and structures our entire ESG (Environment, Social and Governance) analysis.



Sycamore AM's Human Capital Strategy is a cornerstone of our mission - **“to make investment more human”** - and is crucial to our role as asset managers and to our ability to assess risks and opportunities. It is based on four principles:

- **An integrated approach:** via the P stakeholder, for **People**, of our SPICE methodology, the Human Capital Strategy is **completely integrated** to Sycoval, our **fundamental analysis model** enabling us to value companies;
- **A hands-on approach:** drawing on our own human and entrepreneurial experience, our approach is based on **meetings, on-site visits and discussions** with the staff focusing on how companies operate day-to-day;
- **Engagement:** on our own behalf or that of our clients, or as part of collective initiative, we engage with targeted companies on their social and managerial practices. In addition, we have been members of the **Human Capital Management Coalition**¹ since 2016 and of the **Workforce Disclosure Initiative**² since 2018 - two investor groups calling upon transparency and good practices regarding human capital issues;
- **Open governance:** in 2015, Sycamore AM created a **Human Capital Committee** which gathers qualified professionals from various backgrounds: investors, executives, human resources directors, academics and consultants. This committee, that encompasses a dozen members, meets twice a year to review and discuss aspects of Sycamore AM's strategy and more specifically how human capital issues are taken into account. Acting as a critical eye and source of inspiration, the committee is a unique venue for discussion and debate, where members can share their opinion freely *intuitu personae*;

History of our approach

Our 20-year experience with the corporate world has taught us the following: **companies that stand out over time** and that deliver outstanding stock market returns have a common ground - strong corporate cultures and engaged employees, keen to participate in the collective success of their company. This observation has been documented through extensive academic research, confirming that **ill-being at work carries a significant cost for a company** and that **fulfilled employees are both more engaged and high-performing over the long term**.

¹ American initiative, see: <http://uawtrust.org/hcmc>

² British initiative, see: <https://shareaction.org/wdi/>



One of the most recent surveys published by Glassdoor in 2015 shows for instance that \$ 1,000 invested in 2009 in a portfolio of 50 US companies ranked among the “best places to work” would have delivered \$3,470 by the end of September 2014, but only \$ 2,210 if it had been invested in the S&P 500 index. The 30 “worst places to work”, on the other hand, under-performed this index by almost 30% over the same period³. In 2015, the meta-survey conducted by the Harvard Law School as part of its Pensions and Capital Stewardship program also showed that most of the 92 studies under review demonstrated a clear link between qualitative human capital management and companies’ financial and stock market performances⁴.

In a nutshell, employees who are happy at work are more creative, more involved and perform better over time. Companies are more productive and can deliver sustainable growth whilst minimizing their risks, displaying lower employee turnover and less absenteeism, or by reducing the frequency and severity of workplace injuries.

In 2015, Sycomore AM applied this knowledge in two tangible ways. First, we made adjustments to the structure of our analysis on companies’ human capital practices, by strengthening and structuring the P pillar of our SPICE model - with 50% of our assessment now relying on what we qualify the **Happy@Work environment**. Second, we launched the **Sycomore Happy@Work** fund, investing exclusively in companies where particular importance is given to human capital. This SRI-certified (Socially Responsible Investment) fund is managed on the basis of sustainable development-driven research, where employee dimension is particularly emphasized.

International background

On a worldwide scale, the Global Reporting Initiative (GRI) introduced a first international framework for extra-financial reporting, starting in 1997. The launch of the Global Compact in 2000 and the Principles for Responsible Investment (PRI) in 2006 then set out new ambitions, particularly in the area of human rights, later strengthened in 2011 with the United Nations’ Guiding Principles on Business & Human Rights. In 2015, the United Nations adopted 17 **Sustainable Development Goals** (SDGs) as a global benchmark. Five of these address human challenges to which the corporate world - as an employer - can contribute:



³ See <http://www.marketwatch.com/story/happy-workers-mean-richer-stock-returns-study-finds-2015-03-11?mod=MethodStories&link=sfmw>

⁴ See Aaron Bernstein and Larry Beeferman, “The Materiality of Human Capital to Corporate Financial Performance,” Pensions and Capital Stewardship Project, Labor and Worklife Program, Harvard Law School, Apr. 2015.



The French regulatory framework - with the 2001 law on **New Economic Regulations** and **article 225 of the 2010 Grenelle II law**, together with European legislation, with **Directive 2014/95/EU**⁵ from 2014, spurred French and European companies to be more transparent in their extra-financial practices, particularly on labour-related issues.

Finally, a large number of managerial and sociological theories provided unprecedented structured thinking on the importance of human capital for the corporate world. We were inspired by several of these when defining our own methodology, namely:

- The **stakeholder theory** developed in 1984 by Edward Freeman⁶: this theory considers that a company plays a broad economic and societal role; it is used extensively today with the ISO 26000 standard and the concept of overall corporate performance.
- The concepts of **Liberation Management**, made popular in the 1990s by Tom Peters⁷ and later by Isaac Getz and Brian M. Carney⁸, and of **holacracy** defined in 2010 by Brian Robertson⁹, and based on employee empowerment and team self-organisation.

In this environment, we have structured our approach to **P - People** by focusing on two kind of questions:

- How does a company manage its human capital - from executive spheres to the most operational level? Does human capital feature among the company's strategic priorities?
- Does the company create an environment that fosters self-motivation and fulfilment for its employees in their daily work, beyond their well-being?

Integration of human issues at company level

This integration can be assessed at various levels: it starts with the **executive team** and stretches to all **employees**. In tangible terms, integration is about how a company manages the growth of its staff, its **health and safety results** as well as its **listening skills** and engagement.

Executive vision

Executive involvement in the management of human capital is a particularly revealing indicator: it is crucial for a corporate culture that urges employee fulfilment to effectively leach. We therefore keep a close watch on how executive management addresses the issue of human capital and assesses their ability to embody this culture, provide leadership or set an example from the top.

Managing growth and crises

A company's human capital will naturally evolve over time in **headcount**, **employee profiles** and **team diversity** according to its own growth cycle. We therefore assess the headcount growth, and whether it is organic or external, as well as the company's ability to manage changing environments, the **integration of takeovers** and the **support provided to employees in times of restructuring**.

⁵ See <https://eur-lex.europa.eu/legal-content/FR/TXT/?uri=CELEX:32014L0095>

⁶ Author of *Strategic Management: A Stakeholder Approach*, 1984, R. Edward Freeman, is an American mathematician and philosopher born in 1951.

⁷ Author of *Liberation management*, Dunod, 1993, Tom Peters is a US consultant – formerly at Mc Kinsey – author, specialised in management and particularly famous for his book *In Search of Excellence*, 1982, written with Robert Waterman.

⁸ See also <http://liberteetcie.com/>

⁹ See <https://lexcellenceenhocracy.com/la-revolution-holacracy-revue-du-livre-de-brian-j-robertson>



Health and safety

Guaranteeing safety and protecting the health of its employees - both physical and psychological - is one of the employer's main duties. In industries exposed to risks, the company's performance in terms of **workplace safety** - including **temporary workers and sub-contractors** - is also a meaningful gauge of **field management quality**. Widespread implementation of prevention, a strong safety-driven culture and the **results obtained in the frequency and severity of injuries** are therefore critical criteria for assessment.

Listening and employee engagement

Considering that "if you can't measure it, you can't manage it", we pay considerable importance to initiatives that will enable employees to voice their concerns and be listened to and that measure their degree of engagement - such as internal studies or surveys. These initiatives help companies measure employee motivation over time, capture signs of weakness or tension and react promptly. They can come in different forms and be adapted to various contexts: regional, cultural, economic, industry or company size. On-site visits and external comments are also valuable sources of information in this analysis process.

Happy@Work environment

We then analyse the results and means allocated by each company to support employee fulfilment and self-motivation. Our research process is structured around **five pillars: Purpose, Autonomy, Competence, Working Environment and Fairness**.



Purpose

We believe that the **purpose** given to one's own work, beyond the financial aspect, constitutes the first pillar of an employee's personal commitment to the company's project. As a result, the manner in which the company expresses its mission, its ambition and its strategy, and the way these are shared and experienced daily, create a bedrock enabling individual employees to adhere to the common purpose. Furthermore, a strong **corporate culture** able to bond the teams around specific identities, shared **values** and joint actions can favour further cohesion.

Autonomy

Autonomy is the cornerstone for agility and **proactivity**. It allows for **empowerment** - which is essential for performance. In its simplest form, autonomy also addresses a basic need for recognition, which in turn feeds self-esteem. In this regard, we look for atmospheres of **trust** and organisational structures that encourage **subsidiarity**, enabling the company to solve problems and make decisions as **close to the operation field and to the client** as possible. Although we have no preference for specific types of organisation, we attach particular importance to the **readability of the structure** and to the clarity of the missions.

Competence

The word "capital" makes perfect sense considering the means spent on employees as "investments" designed to develop their skills in the mid to long-term - whether **behavioural or technical**. We therefore analyse investment in **training, career management, internal mobility** - geographic, role or job. Together, these resources and policies strengthen how a company shares and spreads its knowledge and skills and improves people's **employability**, whether internal or external.



Working environment

Working environment is a key challenge for companies, both because of the major disruption they can cause when relations deteriorate and generate open or simmering conflicts, and for the opportunities they can provide by fostering employee well-being and facilitating transformation within the company. As a result, we analyse the **working environment**, **appreciation** schemes and any measures that can impact the **work/life balance**. We strive to identify the positives/negatives in **employee representation**, trade unions, employee representative bodies or professional elections, down to the availability of minutes and records.

Fairness

We define fairness in the business context as the pragmatic application of the fundamental human right to **equal opportunity** and fair treatment, on the company's scale. The field of fairness is vast considering individuals are so different and perceive themselves as such. It touches upon the notion of diversity, which in itself, is a driver for human capital wealth and the resilience of any organisation. We research a company's attitude to **diversity** as well as the mechanisms in place for sharing the value it creates, paying particular attention to **profit sharing schemes** and **wage differentials** between management and employees. In this respect, we added a **moderation** criteria to assess **executive compensation** at Shareholders Meetings. These principles are described in further details in our Voting Policy¹⁰.

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¹⁰ See https://en.sycomore-am.com/5ab3d8b3-Sycomore_AM_Voting_Policy_March_2018.pdf