sycomore am

MAY 2024

EUROPEAN EQUITIES REMAIN WRONGLY OVERLOOKED

The trend persists in 2024 as investors continue to show a marked preference for the United States over Europe. Since the end of 2019, European equity markets have underperformed their American counterparts. Yet European companies have delivered superior earnings growth and are displaying increasingly attractive characteristics, as the global economy lands softly and the ECB seems increasingly likely to lower its key rates in June.

The trend observed over the past few years has led to compelling valuations for many Old Continent companies. As an example, the 2023 Price Earnings Ratio (PER)[1] for the Euro Stoxx, the index representative of the Eurozone stock market, stands at 13.5x on 28/03/2024 versus 24x for the S&P 500.

European equities are currently trading at a 35%[2] discount relative to the US and offer attractive opportunities in many sectors, notably within cyclical industries such as **banks, auto manufacturers and consumer discretionary**[3]. Tech, which is rather expensive overall, remains an exception.

High valuations now appear to be threatening the supremacy of Growth, although rising interest rates should have compressed prices. In contrast, **the Value style**, which involves investing in undervalued stocks, may soon be back in favour with investors.

> « European equities are trading at a discount relative to the US and offer attractive opportunities in many sectors »

[1] The PER is the ratio between a company's market value (stock price) and its earnings (net earnings per share).
[2] Source: Bloomberg. Data as of 28/03/2024. [3] All goods and services considered to be non-essential.

RENAULT AND SOCIÉTÉ GÉNÉRALE, STRONG INVESTMENT CONVICTIONS

We consider that Growth stocks are now trading at excessively rich valuations and are therefore turning to undervalued stocks in all sectors (excluding energy and real estate). Our exposure to banks was strengthened at the beginning of the year, amid rising yields and restored confidence fuelled by recovering European growth; **we also chose to massively overweight the automotive sector**.

Despite the recent turmoil affecting Stellantis' share price[4] after the company reported disappointing sales, Renault remains – more than ever - one of our strongest convictions. Due to their regional mix, we prefer the latter company which also benefits from a positive product cycle. Furthermore, the gradual reduction in production costs will help lower the price of vehicles, while the possible credit upgrade could provide a major catalyst.

Within financials, we believe in Société Générale's rerating potential. The group, which is undergoing a full transformation led by its new CEO, Slawomir Krupa, is now trading at a sizeable discount of around 60% on its tangible equity capital[5]. Last autumn, we strengthened our positions exposed to **the themes of electrification** (Siemens, Schneider, Prysmian) **and digitalisation** (ASML, SAP, Infineon) before taking some profits in February and March 2024 after these stocks outperformed by a large margin in just a few months.

A RESPONSIVE AND OPPORTUNISTIC APPROACH

To seize opportunities in today's volatile European equity markets, we deploy active management based on convictions, demonstrate **great discipline** and have **flexibility** within Sycomore Sélection Responsable. In our view, the strategy, which invests in Eurozone companies[6] operating in all sectors, with a focus on large capitalisations[7], is well positioned to generate alpha.

The core fund invests in around 40 positions with no structural, style or sector bias. Sector wise, **Sycomore Sélection Responsable is principally exposed to financials, discretionary consumer spending, industry, tech** (to which we are gradually returning) **and healthcare**.

Within our selection process, we conduct a thorough fundamental analysis of underlying companies and pay considerable attention to valuations. Meanwhile, we have also developed **a strict SRI approach** aligned with Sycomore Asset Management's DNA. This is founded upon the SPICE methodology that combines financial and ESG criteria, enabling the team to assess companies based on their relations with various stakeholders (Suppliers & Society, People, Investors, Clients, Environment).

« We pay considerable attention to valuations »

As of April 26th, 2024, **over 12 months, Sycomore Sélection Responsable has returned +18.3%, versus 14.7% for the benchmark** (Eurostoxx Net Return)[8]. Year-to-date, the fund has posted a performance of +11.5% versus 9.2% for the benchmark (at end April). Since inception (22/12/2011), the fund has returned 184.05% versus 211.07% for the benchmark. The strategy's annualised performance since launch is 8.8%, versus 9.6% for the benchmark.

[4] Not held by Sycomore Sélection Responsable.
[5] Source: Sycomore Asset Management ; Bloomberg.
[6] Up to 10% of the fund may be invested outside the eurozone.
[7] Capitalisations of over €10 billion.
[8] Source: Sycomore Asset Management ; Bloomberg. R share data as of 26/04/2024.

Past performance is no guarantee of future performance.

The fund offers no guarantee of return or performance and presents a risk of capital loss. The fund's objective is based on Sycomore AM's market assumptions and does not constitute a promise of the fund's performance. Opinions, estimates or forecasts regarding equity market trends or changes in the risk profile of issuers are based on current market conditions and are subject to change without notice. Sycomore AM makes no commitment that they will be achieved. The performance of the FCP may be partly explained by the ESG indicators of the stocks in the portfolio, without these alone determining the evolution of this performance. References to specific stocks and their issuers are for illustrative purposes only and should not be construed as recommendations to buy or sell these stocks.

Synthetic risk indicator

The risk indicator assumes you keep the units for 5 years. The actual risk can be very different if you opt for an exit before maturity, and you could get less in return. The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay you. The product has been classified as risk class 4 of 7, which is a medium risk class. This rates the potential losses from future performance at a medium level, and poor market conditions can impact our capacity to pay you.