

Corporate Responsibility

Moment Of Truth

Sycomore Asset Management

May, 2020



Pushed to its very limits, mankind reveals its true nature. **As the health, economic and market crisis unfolds, and at a time when maximizing profits and shareholder returns is no longer the priority, the sincerity of corporate responsibility is being put to test.**

Which companies are demonstrating exemplary corporate citizenship? Which have taken emergency measures to ensure their resilience over the mid to long-term? Which have committed to protecting all of their stakeholders? Are they providing transparent communication on how the crisis is impacting their business? **The key is to be nimble and responsive: each company, at its own level, is now having to face up to its responsibilities.**

It is down to us, as engaged investors, to identify these responsible companies.

We are convinced that companies able to limit the negative impacts of the crisis for all of their stakeholders – employees, subcontracting chain, clients – regardless of the applicable regulatory framework or industry, are those that will emerge from the crisis with a larger market share, stronger brand image or improved relations with public authorities.

A holistic approach to corporate analysis, which involves looking beyond the business model and examining how companies interact with their stakeholders, is fundamental in evaluating the sincerity of their approach, but also the relevance and viability of the solutions implemented in these unprecedented times. External parameters should also be considered – geography, market capitalisation, sector – as these can affect companies or industries through no fault of their own. Of course, the allocation of resources must take the company's financial situation into account, as well as its ability to support its stakeholders, without jeopardising the survival of its business model.

Under the **SPICE** acronym (Society and Suppliers, People, Investors, Clients and Environment), **our 360° corporate analysis aims to offer a unique and comprehensive research framework enabling us to assess the actions taken on the basis of precise financial and extra-financial indicators.** In these unprecedented circumstances, which call for an exceptional response, this approach is a prelude to holding constructive dialogues with management teams, to map out and discuss best practices, or define clear and realistic objectives in order to navigate this crisis and anticipate negative impacts over the longer term.

Society

Determining whether a company acts as a responsible corporate citizen (Society) comes down to knowing if it can ensure its products and expertise serve the common good. Air Liquide is a good example, as the company has brought together industrial players with specialist skills in order to manufacture ventilators, and has even made alterations to its own production chain. LVMH, Arkema and Chargeurs have chosen to make their industrial tools available for the production of hydro-alcoholic gel and are hoping to produce 50,000 liters, 20 and 5 tons respectively, every week. Chargeurs has also committed to converting some of its textile industrial capacity in Spain for the manufacture of medical equipment and has made its logistics platform available to the Spanish government to facilitate the shipping of supplies arriving from China.

These initiatives are just a few examples of the positive practices observed recently – all the more as they are purely on a voluntary basis – that **demonstrate how companies can adopt responsible and federating practices.** They also reveal how nimble companies can be as they adapt their industrial tools in record time and **unite their staff around a new mission. Through leadership and creativity, a company can stand out from the crowd and show the way.** These examples serve to show that in the current crisis, the societal contribution of a company's products and services is under the spotlight. It remains to be seen whether investors will examine a company's purpose in more detail once business is back to normal.

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Our governments' ability to support its citizens, workers and entrepreneurs is also a determining factor for the Society pillar: while unemployment is rising in the US, other countries such as Norway or France are providing relief that is enabling companies to maintain the payment of wages, in full or in part. However, this ability is directly related to the means the governments can allocate to their social policy. **Companies, through a responsible approach to taxation, can and must contribute to these means by ensuring they redistribute an equitable share of their income to the regions in which they operate.** However, this support would not be possible without banks being proactive and assisting the most exposed companies. The banking sector is playing a crucial role by offering short-term solutions – deferred loan payments, immediate short-term funding – which are helping to keep the economy afloat.

Suppliers

Beyond an exemplary civic approach, companies have to take into account the very short- term impact of the lockdown on their suppliers (Suppliers pillar), as some are feeling the full effect of the slowdown, and in some cases the closure of their businesses. For its most affected suppliers, L'Oréal has chosen to shorten terms of payment and systematically pay invoices upon receipt. Jouve, a player in the digital transformation industry, has decided to make upfront payments to all its small, mid-sized and independent service providers, representing around 100 companies and €500k. Unilever has released 500 million euros to honor the invoices of its most vulnerable suppliers so that they have the cash flow needed to survive. Similarly, Orange has chosen to support its more precarious partners, craftsmen, small and mid-sized companies by paying invoices upon receipt, unlocking 300 million euros. On the other hand, some companies have partially suspended some of their rent payments: measures of this kind must be justified and require a review of the company's and the owners' financial situation.

However, situations vary greatly from one company to another and it is important to assess these actions based on what can be reasonably be expected at individual level. A small sized company, though nimbler, may not have the means to implement systematic initiatives in support of its suppliers or clients, but may, given its scale, contribute to the fight against this health, economic and financial crisis.

People

The People pillar focuses on the attention companies pay to their staff in order to foster their well-being at work. Some companies stand out from the crowd. Nexans, for instance, has decided to cut the wages of its key executives by 30% in April and May and pay a monthly €750 bonus to employees who have continued to work in the company's production, logistics and installation facilities. In the US, Best Buy has allowed all employees that were reticent to work – through fear, or illness – to stay at home and continue to be paid. Shop floor workers who have to stay at home due to the closure of the stores will continue to be paid, based on the average number of hours worked over the past 10 weeks. In France, Bouygues has committed to furloughing less than 20% of its staff and offsetting the losses over 2 weeks; the Iliad Group has confirmed it would not place any of its staff on furlough leave in March or April.

Investors

If employees are key to the successful achievement of a company's mission, then the latter needs to ensure it has a robust and sustainable business model. A responsible company should also be absolutely faultless on the governance front, a key criterion within our Investors pillar. There are several ways in which we can measure the resilience of a business model; and the crisis we are going through is a useful test for assessing company strength and **identifying those that have drawn up long-term strategies in order to drive sustainable growth.** It is also important to take a closer look at how governmental aid is being used and at the measures taken in the very short-term to ensure businesses can continue to operate or face a looming recession. **As we enter the Shareholder Meeting season, decisions on the allocation of a company's capital and in particular, on shareholder return policies, now have societal implications:** these decisions are under the scrutiny of investors who are increasingly concerned over the distribution of value between different stakeholders – governments but also civil society. On this issue, companies are facing real reputational impacts. Some large groups have suspended their dividend payments, projects have been delayed, stock buybacks have been cancelled, executives have cut their wages, production chains have been transformed to address the pressing need for medical equipment and basic necessities...

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These are just a few examples demonstrating how management teams are striving to be exemplary in managing this crisis. **Agility and flexibility are essential. Companies that are able to adapt will emerge as the winners.**

Financial communication is also a major focal point for investors. In today's market environment, where each and every one is "playing by ear", companies have a duty to disclose the impact of Covid-19 on their business, while sharing information on their residual uncertainties and on adjustments that are being considered for their short, mid and long-term projects. Transparent and regular financial communication is essential in assessing their ability to withstand the crisis. While it is difficult for companies, at present, to evaluate the longer-term consequences of this crisis, it is crucial that they provide detailed information on the immediate effect the pandemic is having on their business, as did Thermador and SEB for instance.

Clients

A company's longevity is primarily down to its ability to attract and retain its Clients, whether these are other companies or individuals. Here again, communication is a key issue, particularly for end customers. This has become particularly prominent with the emergence of social networks as these convey information in real time, both positive and negative. Companies can no longer afford to make mistakes. The end consumer now has the "power" to dictate how a company will behave if it wishes to avoid the risk of a "bad buzz". **BtoC brands are very sensitive to public opinion and have to keep a very close watch on the potential impact of their actions on their brand image.** Hermès, Puma and Accor, for instance, have pledged to make donations and these gestures contribute to the global reach and positive reputation of these brands.

Looking beyond reputation risk, a company must consider how its decisions will bear on its clients and show a degree of solidarity, for instance, with regards to its distribution networks. Today, many small and mid-sized companies are struggling due to the lockdown measures that have put their business at a standstill. Unilever and L'Oréal have chosen to freeze all of their debts until business kicks off again. The Garnier brand, more specifically, has offered to distribute several million units of hydro-alcoholic gel to all of its clients within the food retail industry, free of charge, so that their employees

– who are working to ensure the essential needs of customers are being met – can apply the recommended protective measures. **It is important to assess a company based on its ability to take appropriate and sometimes complex short-term decisions that will ensure its value chain can continue to operate in the long run.**

Environment

Although today's crisis has moved social and societal issues to the forefront, the **Environment** – and climate change, whose effects are measurable and scientifically proven – has been a priority for responsible investors in recent years, as demonstrated by the rising popularity of green funds. On the regulatory front in Europe, sustainable finance, the circular economy and the fight against climate change have enjoyed considerable support over the past few years.

The current crisis will not call these environmental priorities into question and companies that are actively addressing the energy and environmental transition through the nature of their business and/or products and services could do well. Today, companies within the renewable energy sector are proving particularly resilient thanks to the long-term energy purchase agreements (the "PPAs") they have signed with their clients. As a result, Neoen or Orsted, for instance, have very little exposure to the market's daily fluctuations. Once the crisis is over, it is unlikely that their growth plans will be called into question, notably as the price of electricity produced from renewable sources has become increasingly competitive. Climate issues remain as urgent and critical as ever. The European Commission is still considering tightening the CO2 emissions target for 2030 (-50% vs 1990 instead of -40% which is the objective today). **Electrification and greener electricity have a key role to play in achieving these targets.**

The partial closure of the economy due to the lockdown measures has prompted changes in our habits and behavior... Priorities have shifted, at least in the short-term. The slowdown is proving positive for the environment: reduced pollution (drop in carbon dioxide and fine particle matter, for instance) and a massive drop in greenhouse gas emissions. It would be a great shame if the economic stimulus programmes that will be implemented to end the crisis annihilate these positive effects; the current situation is an opportunity to rethink our lifestyles, in mobility for instance.

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By combining a 360° review of the company and by paying closer attention to the sector and country in which it operates, it is easier to distinguish a “real” responsible company from a “fake”. And this is particularly true in the context of a sudden and unprecedented crisis, which calls for important short-term decisions on matters closely related to governance and raises major social and societal issues that nevertheless have to fit into a long-term approach.

While none of us can forecast the actual impact of Covid-19, many would agree that the corporate world will need to undergo deep transformations to ensure the exit from the crisis is sustainable and that companies are in a stronger position to deal with another disaster, of whatever type: new ways of working, consuming, producing, new product and service offerings? Companies will be on the front line. To ensure their resilience, will they switch to more sustainable production methods? Will they exploit their resources differently? Will they relocate some of their essential strategic production? Will companies that were doubtful about telework review their organisational structure to ensure the company can operate in the event of a strike, or improve staff well-being? Will others become more agile and flexible to adapt their business in the event of exceptional circumstances? Will they rethink their relations with suppliers?

As citizens, we can also question our own habits, our relations with others and with the environment... Will we adopt a healthier and more sustainable lifestyle; will we embrace the “slow life”?

Questions that will provide plenty of food for thought in the next few months. And the answers will be the key to our planet’s future.

Fund in focus

Sycomore Shared Growth

Fund Manager	Frédéric Ponchon and Sara Carvalho de Oliveira (SRI Analyst)
Management Company and Investment Manager	Sycomore Asset Management
AuM	€358 mln
ISIN	FR0010117085 (Eur I Acc.)
Launch of sub-fund	24/06/2002
Benchmark	Euro Stoxx Total Return
Fund Currency	EUR
Domicile	France
Management fees	1.00%
Performance fees	20% > benchmark

30/04/2020	YTD (%)	12M (%)	3Y (%)	5Y (%)	SI ann. (%)
Sub-fund (Eur I Acc.)	-6.9%	1.8	3.3	18.0	6.1
Benchmark	-19.8%	-14.1	-9.4	-2.4	3.9

To find out more on the strategy
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Source: Sycomore AM, as at 30/04/2020

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Sycomore Asset Management

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