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JUNE 2024

SHOULD WE FEAR A TECH BUBBLE?

Strong performance, higher than historical valuations, Nvidia – are the main topics investors want to discuss with us these days, with a follow up question on whether there is still upside for the sector from here.

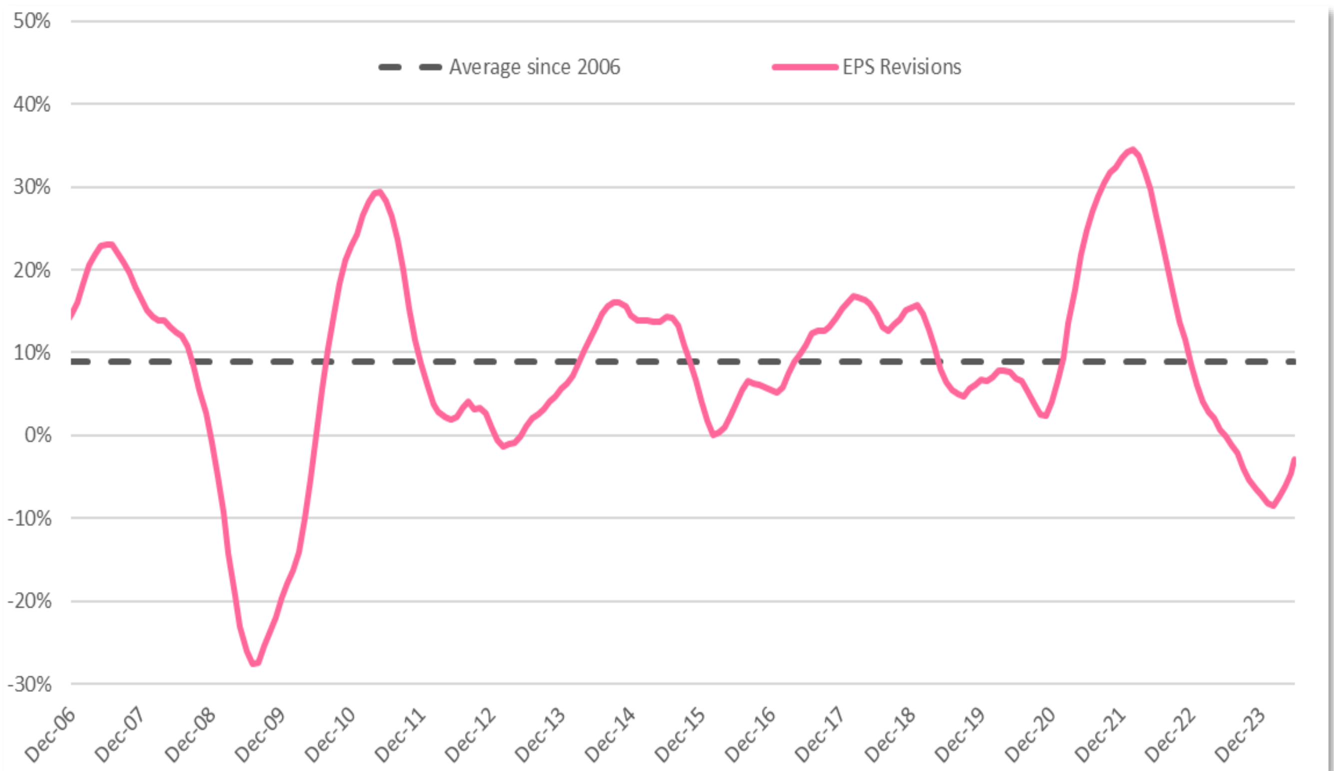
Our answer is simple, we believe there is still significant upside in the sector and would use any weakness as buying opportunities.

Why? We are coming out of one of the worst 18-month periods for tech fundamentals since the great financial crisis in 2008. With significant negative earnings revisions behind us, we think we can look forward to a strong cyclical recovery in technology – even when forgetting about the excitement around AI.

David Rainville, Luca Fasan, Marie Vallaeys,

Fund Managers of Sycomore Sustainable Tech

EARNINGS PER SHARE REVISIONS FOR THE TECH SECTOR SINCE 2006



Source: Bloomberg. Data as of 24/05/2024.

We are currently seeing real "green shoots" of demand in certain pockets of tech that we believe are leading indicators for the beginning of a strong earnings revision cycle in the sector. Particularly, we look at new spend on public cloud platforms (Microsoft Azure, Amazon Web Services, and Google Cloud Platform), which troughed in early fall last year, and has since been accelerating strongly (even when adjusting for AI spend).

We expect these positive developments to start impacting spending in PCs, servers and eventually on enterprise software (more in the second half of this year), which will help broaden out a potentially strong positive earnings upgrade cycle.

Furthermore, despite the incredible start of the year in January and February for the tech sector, we remind investors that Tech is not driving most of the equity market performance YTD. Specifically, tech in the U.S. is up less than 10% vs. the S&P 500 at 10.4%. The best performing sector this year is Utilities, at 11%, not technology.

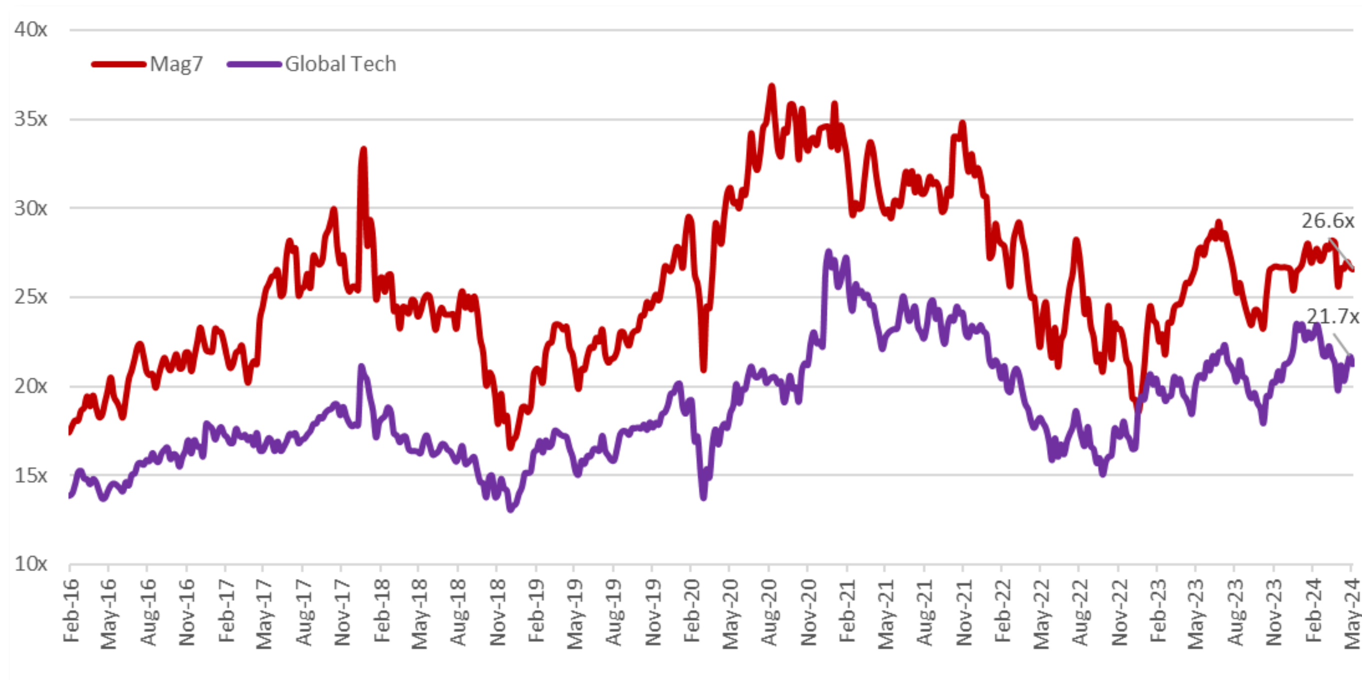
« We are currently seeing real "green shoots" of demand in certain pockets of tech »

When it comes to valuation, the median tech stock globally trades on 22x P/E, against a 5 year average of 20x[1]. However, when we look at the historical earnings revision cycles in tech, multiples do not have to expand higher for the tech sector to not only generate positive returns, but also outperform the rest of the market.

This means to us that **earnings growth matters most**. Hence, despite higher than historical multiples, we are upbeat about the prospects for the sector, based solely on the sheer earning power these companies can exhibit over the next 24 months.

[1] Source: Bloomberg. Data as of 24/05/2024.

PRICE/EARNINGS RATIO OF TECH COMPANIES SINCE 2016



Source: Bloomberg. Data as of 24/05/2024.

NVIDIA, THE ENGINE OF AI

Nvidia has not disappointed. On the contrary, the global manufacturer of microchips used to train and operate artificial intelligence models unveiled **spectacular quarterly earnings** on May 22nd. The company has once again beaten consensus estimates, reporting sales of 26 billion dollars (the consensus was expecting 24 billion dollars). Widely seen as **a barometer for the AI industry**, Nvidia has also published upbeat guidance for the next few months. The stock has topped the symbolic threshold of 1,000 dollars but is still trading at multiples that are not yet showing signs of exuberance, in our view.

We expect Nvidia's share of the AI microchip market to remain above 80% for several years, thanks to the company's technological leadership over its rivals and the high barriers to entry within the industry. Going forward, the robust growth delivered by the company – in which we remain fully invested – will inevitably trickle down to the supply chain. We are therefore convinced that companies supplying components or services supporting AI graphics processing units also stand to gain.

Consequently, we recently initiated positions in **Asia Vital Components**, the Taiwan-based supplier of hardware components, **Astera Labs**, the US provider of semiconductor solutions, and **Vertiv**. The latter, which is based in the US, designs water-cooling technologies for data centers, which help lower the total energy consumption of these power-hungry facilities by 10%.

« The robust growth delivered by Nvidia will inevitably trickle down to the supply chain »

Furthermore, we strengthened our investments in **Micron**, the US-based and leading manufacturer of memories, and in **Wiwynn** and **Delta Electronics**, both Taiwan companies. The first, which supplies cloud computing infrastructure, offers products aimed at improving the energy efficiency of data centers and servers, enabling them to be more environmentally-sound.

Delta Electronics develops innovative energy-efficient power products. In 2022, the group's products helped to save 4.02 billion KWh of electricity and lower carbon emissions by 2,046 million tonnes. Delta's goal is to achieve 100% renewable energy consumption throughout its global operations by 2030, up from 63% in 2022. The group's founder and honorary chairman, Bruce Cheng, was hailed as "CEO - Chief Environmental Officer" and "The Godfather of Taiwan's Tech" by the Taiwan media in recognition of his commitment to preserving the environment.

A DIVERSIFIED PORTFOLIO THAT EXCLUDES GAFA STOCKS

We are aware that the risk of a bubble forming cannot be excluded and therefore remain **vigilant and flexible in our investment approach**. We select companies we believe offer the best upside potential, adjusted for financial and sustainability risks, within promising sub-sectors. These include new ways of working, the digitalisation of industries - such as construction, or cybersecurity. Considering the upbeat forecasts on AI, we have intensified our investments across the value chain.

In our view, the **Sycomore Sustainable Tech** fund is particularly well positioned to benefit from the cyclical recovery within the technology sector, supported by **the normalisation of corporate IT budgets and the unprecedented investments in artificial intelligence technologies**. The fund is mostly exposed to US companies, which account for 75% of net assets; **software publishers and semiconductor manufacturers** – our top fundamental convictions – weigh almost 90% of the portfolio.

We pay particular attention to valuations and have built **an ESG-approach based on three dimensions**:

- **Tech for Good**: companies offering goods and services with a positive social or environmental impact ;
- **Good in Tech**: refers to the company's responsible practices, where the technology that is used helps to reduce any negative externalities for individuals and the environment ;
- **Improvement Enablers**: companies that display strong intentionality and offer a genuine ability to drive improvement in the tow former dimensions.

« We select companies we believe offer the best upside potential, adjusted for financial and sustainability risks »

To build a diversified portfolio excluding GAFA stocks, the team applies **a thorough process based on tech-specific financial and extra-financial analysis which has proven particularly effective**. Deploying an active and conviction-driven approach, Sycomore Sustainable Tech has posted robust performances year-to-date. Since January 1st, the fund has returned +21.3% versus 18.8% for its benchmark, the MSCI ACWI Information Technology. Over 12 months, the fund is up +48% vs. 42.4% for the benchmark[2].

[2] Data as of 24/05/2024. RC share. Sources: Bloomberg ; Sycomore Asset Management. Past performance is no guarantee of future performance. Please note that the fund management team changed on 2 January 2023.

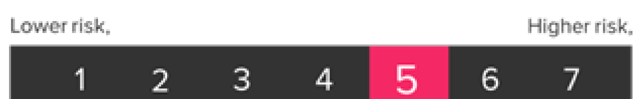
Past performance is no guarantee of future performance.

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. We believe that the information provided in this article is reliable, but it should not be considered exhaustive. Your attention is drawn to the fact that any forecast has its own limitations and that consequently no commitment is made by Sycomore AM as to the realisation of these forecasts.

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.

We recommend that you seek advice before making any investment decision. Any investment in any UCITS mentioned herein must be based on the key investor information document (KIID) or the current prospectus. These documents are available on request from Sycomore Asset Management.

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.