GENERALI INVESTMENTS

Disrupting the disruptors with responsible tech

As the Sycomore Sustainable Tech fund reaches its one year anniversary, portfolio manager Gilles Sitbon and ESG Analyst Marie Vallaeys explain why investing in responsible tech is an opportunity to combine compelling financial returns with a powerful social impact.

October 2021

Gilles SITBON

Gilles Sitbon joined Sycomore AM in 2010, he is the Portfolio Manager of Sycomore L/S Opportunities and co-manages Sycomore Sustainable Tech. Previously, Gilles spent three years at Proxima Capital, a special situations hedge fund and beforehand three years at Spinner AM, a technology oriented hedge fund. Prior to business school, Gilles worked in the Technology Risk Management division of Goldman Sachs. Gilles has an MBA from Columbia Business School, a Master's degree in Business Computer Information Systems from Baruch College and an undergraduate degree with majors in Finance and Economics from Dauphine University in France

The age of 'move fast and break things' is over

'Move fast and break things', the now infamous motto coined by Mark Zuckerberg, is the attitude that has defined the rapid tech disruption of the past decade. But while tech innovation has enabled immense progress and ease, the speed at which it is developed and deployed is also reshaping our societies in complex ways that may take years to play out.

Facial recognition is a good example of a technology that is being implemented faster than our ability to understand its social impacts. Facial recognition technology has often been shown to be inaccurate and often misidentifies non-White faces, which disproportionately and negatively impacts Black, Asian, and minority ethnic communities. Meanwhile, privacy advocates have raised concerns about how the biometric data is stored and used. Deciding whether or not to invest in a company that uses or produces facial recognition tech is therefore not just about making sure the systems are improved, but assessing if and how the tech is deployed, and whether it creates harm by doing so.

But technology in itself is only a tool, and we can use it many different ways. It has significant potential to contribute to, as well as damage, the creation of social and economic value. In our view, the future is created by humans and leadership in the private sector, in tandem with policy and regulation, can contribute to shaping a responsible, sustainable tech sector that benefits both society and the economy.

Unstoppable momentum

The momentum in tech is undeniable. For example, in the International Energy Agency's net-zero scenario, by 2030 the size of the global market for clean tech will surpass the value of the oil market, rising from $122 billion to $870 billion[i]; while the EdTech market is expected to grow at a compound annual growth rate of 19.9% per year from 2021 to 2028[ii].

The semiconductor and software market is another area where we see strong growth, in order to process the enormous amounts of data being created at a time when both humans and machines are digitally connected to the internet.

The electrification of vehicles is another strong trend, with the electric automarket becoming a mass market.

This creates opportunities for innovative vehicle makers and semiconductor producers that enable the technology. Assisted driving is a parallel development which exemplifies the idea that, in almost everything we do, we can use technology to extend our human ability. Artificial Intelligence or machine-learning is a huge trend currently driving software innovation; machine-learning is essential for developing autonomous, self-driving vehicles.

Our responsible tech framework

Every investment we make must meet our requirements in terms of sustainability or we will not invest. We consider the effects of business activities on society at large, including environmental impact, how well the company conducts its business internally, its control over supply chain, and its impact on customers and employees. We evaluate how credible the company is in its efforts to improve and become a force for good.

To identify the best opportunities, we have developed a 'Responsible Tech Framework' which forms the basis of our investment process. To be included in the portfolio, a company must satisfy at least two out of the three aims:

1. Tech for Good (the impact of the business model). Are company offerings intended and designed to have a positive social and environmental impact?

2. Good in Tech (responsible business practices). Is technology used in a responsible way to reduce negative externalities on individuals and the environment?

3. Improvement Enablers. What is the management's will and capacity to improve on the two previous dimensions in the near future?

For example, for the second pillar, 'Good in Tech', we may examine a company's cybersecurity policies and procedures. How do they manage and treat privacy and personal data; is it anonymised or encrypted? What is their process for performing simulated cyber-attacks to test for vulnerabilities? Or we may look at environmental and social factors. Does a company assess and mitigate environmental and human rights impacts before implementing a new technology? Does the company look at how to mitigate screen addiction? For us, these questions are about more than simply avoiding costly lawsuits, they're also about ensuring the business has a sustainable, long-term growth model which also benefits the world we live in.

Keep the FAANGs for Halloween

The outcome of our stringent investment process means the fund excludes all of the FAANGs – Facebook, Apple, Amazon, Netflix or Google. These companies do not pass our ESG investment criteria for a number of reasons, ranging from a lack of transparency about data privacy and digital rights (how and what personal data is collected, who it's shared with), to antitrust laws, to the risk of human rights violation in the supply chain.

Another outcome of our bottom-up investment process is that the fund has no exposure to Chinese tech stocks, as these companies also fail to pass our strict investment criteria due to many of these same issues, notably around data privacy and human rights violations.

High conviction, responsible investing without sacrificing returns

Excluding FAANGs and Chinese tech does not mean sacrificing financial performance. In fact, since inception, the Sycomore Sustainable Tech fund has delivered returns of 39.7% in euro terms[iii], slightly outperforming its benchmark, the MSCI All Country Information Technology Total Return Index, which returned 39.4%.

We have a high conviction approach, with a fairly concentrated portfolio of around 43 stocks as at 30 September 2021. It is a truly active fund, with only around 33% of stocks overlapping with that of the benchmark.

The Sycomore Sustainable Tech fund invests in global all-cap tech stocks. It has a number of investment themes ranging from EdTech, MedTech, eco-design, cybersecurity, digital payments, digital infrastructure, mobility, new ways of working (such as remote IT services), and 'industry 4.0' (which includes tech like IoT).

One of the fund's largest holdings is in Microsoft. Microsoft is one of the most proactive tech giants, a pioneer in addressing the negative externalities of technology. Microsoft is among the best in class for human rights engagement and policies: the company is ranked third among companies in the internet and mobile ecosystem in the 2020 Ranking Digital Rights (RDR) Index for communicating more information about its commitments and policies affecting user human rights than other listed companies. Microsoft has improved its security policies and pledged to refrain from legal action against those who report security breaches, and the company is also among the best in its category when it comes to the transparency of its privacy protection policy. Among the companies ranked by RDR, Microsoft is one of only four companies to disclose data on the actions it takes to enforce its advertising content and targeting rules. On some of its services, like Outlook and Skype, user data is end-to-end encrypted. Finally, Microsoft is able to improve its freedom of speech practices, including the way it handles requests from third parties to remove content or restrict accounts, as well as its policies for notifying users of these restrictions. Indeed, if the company still has room for improvement on these topics, Microsoft is already a leader in governance and respect of privacy (RDR 2020), with a gain in transparency year over year.

Another important holding for the fund is MasterCard. With 50 billion transactions per year and a management capacity of 160 million transactions per day, data security is the priority issue for the company. The company fosters continuous data security training for its employees, it does not share data with their partners, and cybersecurity is overseen at board level.

The fund also holds a number of innovative small and mid-cap companies. For example, we participated in the IPO of the French record company Believe, which distributes digital music in Europe for independent artists and labels. Within the EdTech theme, we hold companies like online learning platform 2U, which democratises higher education and has been especially important over the pandemic.

One important differentiator for the fund is its relatively high geographical exposure to Europe, which makes up around 25% of the portfolio. This is the simply the result of our bottom-up investment approach, but we think it's an interesting outcome. Many European tech companies lead the way in terms of their approach to responsible tech, from GDPR practices to employee rights. To this aim, we engaged with Meltwater on the need not to provide social influence analysis services to clients who are controversial or involved in politics.

A turning point

The growing attention on the tech industry's impact on civil liberties, human rights, our physical and mental health, the environment, and even our democratic process, means that supporting the emergence of a sustainable technology sector is both a necessity and an investment opportunity. In addition to benefiting individuals, society and our planet, we believe that responsible companies are the ones that will create the most sustainable value for all stakeholders in the years to come, without sacrificing performance.

---

[i]Source: IEA, 'World Energy Outlook', October 2021 https://www.iea.org/reports/world-energy-outlook-2021/executive-summary

[ii]Source: Grand View Research, 'Education Technology Market Size, Share & Trends Analysis Report by Sector' as at April 2021.

[iii]Source: FactSet, Sycomore AM, 30/09/2020 to 30/09/2021. The fund does not guarantee returns or performance and might entail capital loss.

Key features

ISIN	LU2181906269
Inception date*	09.09.2020
Benchmark	MSCI AC World Info. Tech. NR
Fund Currency	EUR
Management fees	1.00%
Performance fees	15% > benchmark
Management Company & Investment Manager	Sycomore Asset Management

Performance analysis

	YTD	1Y	3Y	5Y	SI cum.
USD I Acc.	17.1%	32.5%	n/a	n/a	35.0%
Benchmark	*19.4%*	*31.9%*	-	-	*34.4%*

Source: Generali Investments Partners S.p.A. Società di gestione del risparmio as of 30.09.2021. Past performance provides no guarantee for the future. No express or implied liability or guarantee is assumed that the future performance will correspond to the performance described above. The value of and income from fund units or sub-fund units ("Units") may rise or fall. No guarantee can be assumed that the investment objectives of the fund will be achieved. The performance of and income from the Units have to be reduced by costs and taxes.