

Powering progress: the Sycomore Global Education Fund

Education is the engine of human progress. As a crucial source of social mobility, it is also a vital weapon in the fight against inequality. Through education, individuals can improve their skills and status, enhance the effectiveness of their organisations and make greater contributions to society at large.

For investors, education is an enormous opportunity – one that can combine compelling returns with a powerful social impact. The Sycomore Global Education fund is designed to achieve these dual goals.

May 2021

Education's growth engines

The education sector is growing at a compound annual rate of 5–6%. The education market is currently worth around US\$6 trillion, but it should reach US\$10 trillion by 2030¹. This growth has three main drivers.

The first is adult education. An estimated 1.5 billion jobs² are at risk from the ecological transition – the shift to cleaner energy, the “circular economy” and organic agriculture. Digitalisation and automation present further challenges, as do ageing populations and changing employment patterns. So many new jobs are required – and people will need new skills to fill those roles.

The second driver is the rise of the developing world's middle class. When households achieve middle-class status, they want the best education for their children. We have already seen a colossal increase in China's middle class, accompanied by a fierce appetite for education. But much more growth is to come from India and other emerging markets.

The third driver is education technology, or “Edtech” – products and services that improve access to education. Edtech companies tackle inequality by reducing the cost of education. And because Edtech is data-driven, it can address individual weaknesses and offer more immersive experiences. The Edtech subsector is expected to grow by over 16% a year³ – outpacing the broader sector.

Pandemic pressures

On top of these drivers, the Covid-19 pandemic has brought inequalities sharply into focus, leading to huge government spending programmes to address them. Much of this spending is targeted at education.

And by forcing educators online during lockdown, the pandemic has also accelerated the penetration of Edtech. We've seen massive investments in hardware, software, content and training, with the potential to improve billions of lives.

The market-cap gap

Compared with its role in the global economy, education is currently underrepresented in the equity markets. At present, the sector's market capitalisation of US\$300 billion is just 5% of its US\$6 trillion contribution to global GDP. But this should change over time.

Meanwhile, governments need help from private capital to increase investment in education. The world needs more than 1 million new teachers a year, for example, and some governments can't afford to pay for them. So as governments struggle to fund education, private capital is playing an increasingly important role in improving access and outcomes.

Our three pillars of education

So how do we capture this opportunity? Our investment process is simple and transparent.

From the 3,000 stocks that form Sycomore's investible universe, we distil down to a portfolio of around 40 to 60 stocks. Environmental, social and governance (ESG) considerations are fully integrated in our process. To measure these, we use our proprietary SPICE analysis. We look at Suppliers and Society, People, Investors, Clients and the Environment. By using a five-point scale to assess each company's treatment of these five groups of stakeholders, we are able to derive 35 ratings covering 90 different criteria. That gives us a robust framework for assessing each company's ESG credentials.

All the stocks selected for the Sycomore Global Education fund must conform to one of our three portfolio "pillars": *education providers, education enablers and lifelong education sponsors*.

Education providers constitute the biggest pillar and typically make up more than 50% of the portfolio today. Among these are companies providing after-school tutoring as well as educational publishing. Digitalisation and efficient second-hand sales have driven down demand for textbooks in the developed world – with the result that educational publishers have endured a terrible decade. But publishers have undergone massive transformation moving towards updatable digital content and subscription models. Pearson, for example, is considering a Spotify-style model that will allow people to sign up for the whole of their education, from kindergarten to university. This is just one example of how Edtech is helping traditional industries to adapt and grow.

Then there's adult education. Coursera is one of our holdings. As Facebook and Google struggle to find employees with the right skills, Coursera is working with them to create courses and certifications that will give people the competencies these companies need.

Education enablers make up our second pillar and constitute around 10% of the portfolio as we speak. Their contribution is less obvious but equally important. Xior, for example, specialises in student housing across Europe. Meanwhile, IDP helps students in emerging markets to study abroad – which is sometimes cheaper than studying at home.

Another enabler is EssilorLuxottica, which provides low-cost prescription spectacles. This is a crucial means of facilitating education in some emerging-market countries. Glasses can be very expensive in India, for example, so EssilorLuxottica is breaking down barriers that hold people back.

It's our third pillar, **lifelong education sponsors**, that really distinguishes our fund from its competitors. This pillar consists of companies that create value for their shareholders by improving the educations of their staff, suppliers and communities. These holdings usually account for up to 30% of the portfolio.

One case in point is Fielmann, which operates Germany's leading optician chain. The company struggled to find trained opticians. So it set up apprenticeships through a local university. Fielmann also now offers a master's degree for those who want to run one of its branches – giving it a clear competitive advantage.

MasterCard is another example. Since 2006, it has distributed more than \$3 billion through educational programmes to 44 million people living in poverty. The company has also trained 8,000 teachers and supported 300,000 students in Africa. By 2030, MasterCard will have helped 30 million young people to find decent work. This makes sound business sense: Africa is the next frontier for payment cards, and MasterCard is gaining strong government support.

A compelling combination

All of this results in a well-diversified portfolio that covers every sector except for energy and basic materials. Today, our investments are also broadly spread geographically, with 40% in the US, 15% in the UK and 10% in China – and the fund is further diversified by revenue. The portfolio has a beta of below 1 (against the MSCI ACWI index) and a tracking error of 6.6%.

So the Sycomore Global Education fund represents an attractive investment opportunity in its own right. And that's quite apart from the considerable social impact we aim to achieve through our investments. Investing in education offers a compelling combination of robust returns and positive social outcomes – precisely the combination that our fund is designed to deliver.

Source:

1. Holon IQ

2. International Labour Organisation

3. Holon IQ

Sycomore Asset Management is part of the Generali Investments' multi-boutique platform

Sycomore AM*, founded in 2001 and based in Paris, is an entrepreneurial asset management company significantly-owned by its founding partners and employees and specialised in listed company investments.



Since its launch, Sycomore's mission has been to deliver sustainable performance; this is achieved by identifying companies' long-term levers for value creation. Sycomore AM's expertise is driven by a field-approach and a proprietary fundamental research methodology including financial and extra-financial criteria.

The firm's 24 fund manager-analysts, including 9 ESG specialists, assess the overall performance of a company in relation to its stakeholders: shareholders, clients, employees, suppliers, civil society and environment.

www.generali-investments.com

The fund comes with no income or performance guarantees and carries a risk of capital loss. Prior to investing, please read the fund's KIID which is available on our website www.sycomore-am.com. Sycomore Global Education Fund is a fund managed by Sycomore Asset Management, who appointed Generali Investments Partners S.p.A. Società di gestione del risparmio to promote the fund. The information contained in this document is only for general information on products and services provided by the asset management companies belonging to the multi-boutique platform of the Generali Group, coordinated by Generali Investments Partners S.p.A. Società di gestione del risparmio. The opinions and estimates herein are based on Sycomore judgement and may change without prior warning as may assertions on financial market trends which are based on current market conditions. To the best of Sycomore knowledge, the information herein is reliable but must not be considered as exhaustive. This document is not an offer or a solicitation to buy or sell any financial instrument whatsoever. References to specific securities or their issuing companies are merely for illustrative purposes and should not be construed as recommendations to buy or sell these securities. Past performance is not a reliable indicator of future returns. Opinions and strategies described may not be suitable for all investors. Returns and valuations for investments in any funds that might be mentioned may rise or fall and investors may receive more or less at redemption than the sum initially invested. Investors are warned that they could suffer capital losses. The performance of the funds and companies mentioned may partly stem from ESG indicators on portfolio holdings although these may not play a decisive part in performance trends. The funds do not guarantee returns or performance and might entail capital loss. Before investing, please consult the Key Investor Information Documents (KIID) which are available on our site www.sycomore-am.com. Generali Investments Partners S.p.A. Società di gestione del risparmio and Sycomore relieve themselves from any responsibility concerning mistakes or omissions and shall not be considered responsible in case of possible damages or losses related to the improper use of the information herein provided. Generali Investments is part of the Generali Group which was established in 1831 in Trieste as Assicurazioni Generali Austro-Italiche. Generali Investments is a commercial brand of Generali Investments Partners S.p.A. Società di gestione del risparmio, Generali Insurance Asset Management S.p.A. Società di gestione del risparmio, Generali Investments Luxembourg S.A. and Generali Investments Holding S.p.A.