



Bayes Investments

Q3 2018

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The Made in Italy Fund

- The **Made in Italy Fund (MIF)** invests primarily in publicly quoted Italian companies with a market capitalisation below one billion euro.
- The Fund's objective is to obtain a positive return in excess of the broad market index.
- The Fund normally holds around 30 stocks, selected on the basis of a rigorous Value Investing discipline.
- The Fund uses no leverage, has no short positions and can only use futures and option contracts for the purpose of hedging market risk.

Legal information

Fund Advisor	: Bayes Investments Limited
Domicile	: Luxembourg
Legal entity	: Sub-fund of Atomo Sicav, incorporated under the Law of December 2010
Investment Manager and Management Company	: Casa4Funds SA, Luxembourg
Custodian	: Banque de Luxembourg
Administrator and Transfer Agent	: European Fund Administration SA, Luxembourg
Auditor	: Deloitte Luxembourg
Liquidity	: Daily
Currency	: EUR
Inception date	: May 2016

Casa4Funds SA

- A Luxembourg-based independent authorised UCITS Management Company and AIFM, providing Governance, Compliance, Operations Oversight and Fund Operations Monitoring, Investment Management Monitoring and Risk Management.
- 2.7 billion euro Assets Under Management, 19 Funds, 68 Sub-funds, 120 signed distribution contracts, 31 professionals, 2 offices in Luxembourg and Lugano.
- Casa4Funds is controlled by Banor Capital Ltd. The Management team holds 1/8 of the capital.

Massimo Fuggetta

Bayes Investments Founder and CIO

Massimo started as a sector analyst in 1991 at **JP Morgan Investment Management** working between New York and London where he rose to become head of the Head of Global Balanced Group, with overall responsibility for international balanced portfolios. Then, in 1999 Massimo left JPMIM to become Chief Investment Officer and Director General at **Sanpaolo IMI Asset Management** in Milan and in 2000 he became Chief Executive Officer. He left the company in September 2001 in order to start **Horatius**, which was incorporated in 2004 as an advisory company and in 2007 became an asset management company. He has been a founding shareholder, a Board member and the CIO of Horatius. In 2012 Massimo left Horatius to go back to London and manage his personal wealth.

Massimo graduated in Economics at **LUISS**, Rome and holds a Master (M.Phil.) in Economics from the **University of Oxford** (Trinity College). Massimo also taught Behavioural Finance in the Master in Economics course at Bocconi University and served in the Editorial Board of the *Financial Analyst Journal*.

In 2012, Massimo started the **Bayes blog** at www.massimofuggetta.com, which has acquired popularity in the Value Investing community.



The Made in Italy Fund: Rationale

- The Italian stock market is small compared to the economy, and still largely neglected by international investors.
- Italy-focused funds are scarce and almost exclusively concentrated on a small number of large companies, comprising 3/4 of the Italian index.
- Domestic institutional investors are largely index-driven, opportunistic and short-term oriented. Stable institutional shareholding of Italian smaller companies is confined to a few non-domestic investors.

The Made in Italy Fund: Rationale

	All Shares			Small Caps		
	Number of companies	Market cap (m)	% Weight	Number of companies	Market cap (m)	% Weight
4800 Finance	74	170,384	27%	53	10,412	23%
4700 Utilities	23	93,033	15%	15	2,055	5%
2100 Energy Minerals	4	63,273	10%	1	105	0%
2400 Consumer Non-Durables	25	62,061	10%	18	2,865	6%
4600 Transportation	12	39,863	6%	7	1,443	3%
4900 Communications	6	13,887	2%	4	390	1%
1200 Producer Manufacturing	33	26,038	4%	27	7,099	16%
1400 Consumer Durables	23	63,130	10%	18	2,452	5%
2300 Health Technology	9	16,611	3%	6	748	2%
3400 Consumer Services	31	11,522	2%	28	4,437	10%
3100 Industrial Services	11	9,614	2%	7	521	1%
1300 Electronic Technology	13	11,128	2%	10	2,376	5%
1100 Non-Energy Minerals	7	24,558	4%	4	1,578	3%
3500 Retail Trade	5	634	0%	5	634	1%
3200 Commercial Services	21	3,914	1%	20	1,696	4%
3300 Technology Services	17	3,075	0%	16	1,296	3%
3250 Distribution Services	6	2,398	0%	5	810	2%
2200 Process Industries	10	4,122	1%	9	3,094	7%
3350 Health Services	3	355	0%	3	355	1%
6000 Miscellaneous	6	710	0%	6	710	2%
NA [Unassigned]	6	505	0%	6	505	1%
Total	345	620,816	100%	268	45,581	100%
Large Caps	77	575,235				
	22%	93%		78%	7%	

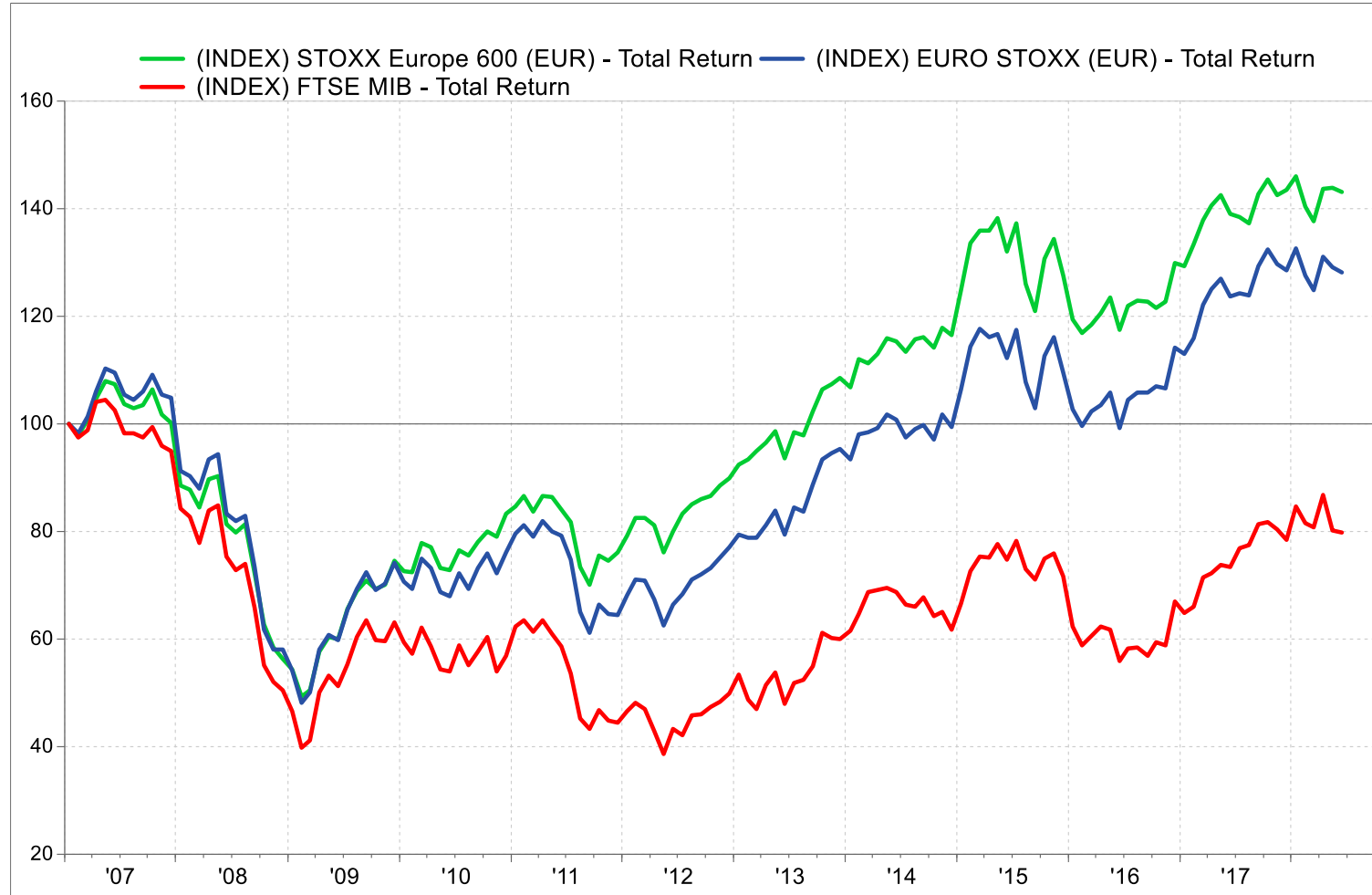
↓ **63%** of the All Shares market is concentrated in only **4** sectors.

→ Small caps are **78%** of all companies, but only **7%** of total market value.

↑ The total market value of the Small cap universe is **46bn**, of which about **1/3** is free-float.

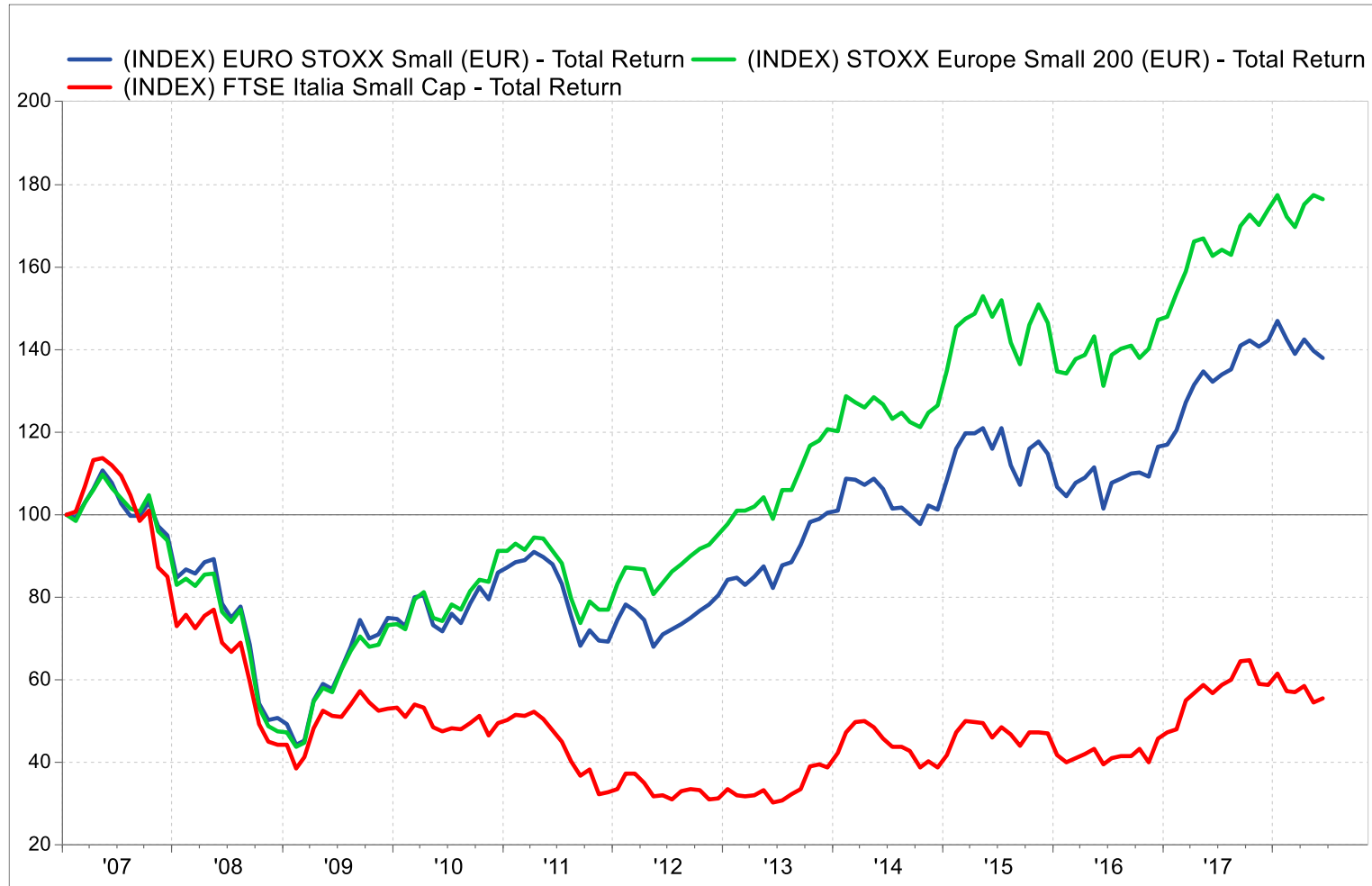
The Small cap universe is better diversified and is a **more accurate representation** of the backbone of the Italian economy.

Italian equities have yet to regain their pre-2008 level



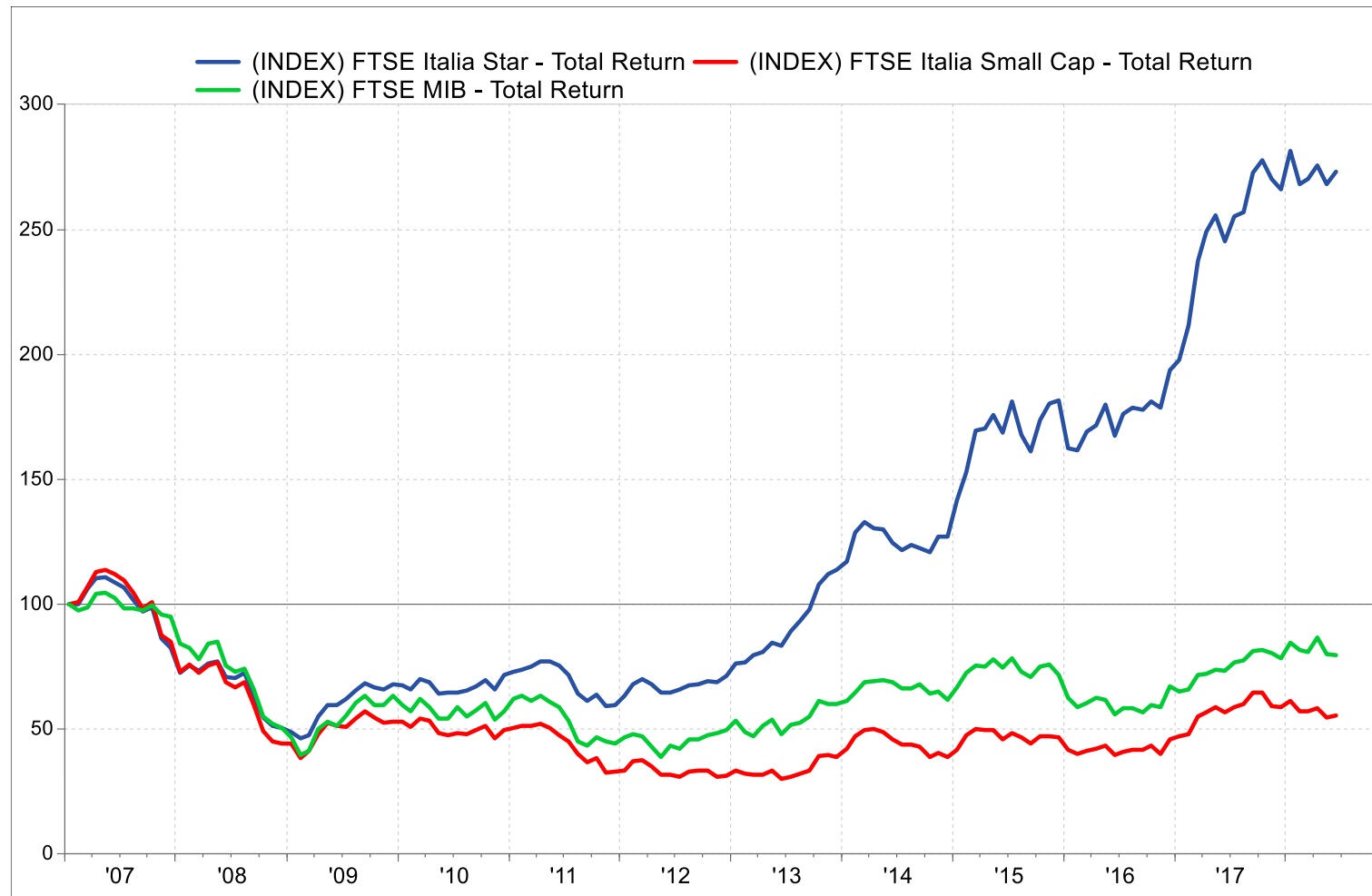
Source: Factset

There is still a large gap between Italian and European small caps



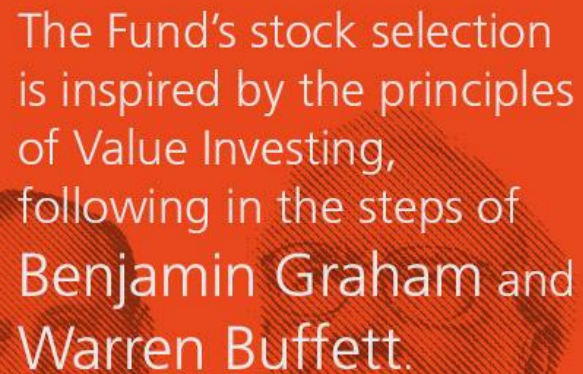
Source: Factset

But best companies do much better than market indices



Source: Factset

Investment Philosophy



The Fund's stock selection is inspired by the principles of Value Investing, following in the steps of Benjamin Graham and Warren Buffett.

- Markets are not efficient, but continually offer attractive opportunities to active investors who can take advantage of them through diligent analysis of intrinsic value.
- Stocks are not bits of paper in a trading game, but represent a fractional ownership of a company, allowing investors to share in the company's profits.
- The Fund selects stocks with the mind-set of a long term investor, who wants to participate in the success of the companies he owns. Its aim is to be a stable shareholder and a point of reference for the best companies in the dynamic Italian Small cap universe.

Stock selection: a 6-step process

Step 1: Company screening

Constant search for attractive investment opportunities, through a **systematic screening** of the Small Cap universe based on quantitative and qualitative rules, as well as through taking advantage of bargains offered by market volatility.

Step 2: Fundamental analysis

Selection is based on the history of financial reports and valuation, with emphasis on corporate governance and share ownership. Analyses are centred on a **direct relationship** with top management and **regular visits** to company headquarters.

Step 3: Valuation

The aim of the valuation work is to estimate the company's profitability and growth prospects in order to arrive at a reasonable assessment of its **intrinsic value**.



Stock selection: a 6-step process

Step 4: Selection decision

The Fund selects companies where there is a considerable gap between intrinsic value and market price. The magnitude of such **margin of safety** determines the size of the position.

Step 5: Selection monitoring

Once in the portfolio, companies are **constantly monitored** to ensure the validity of the selection thesis. Position weights are adjusted accordingly.

Step 6: Deselection decision

The Fund has a **low turnover**. Positions exit the portfolio once they close their value gap through appreciation, or in order to leave space to more attractive alternatives.



Risk Management

We take advantage of price volatility and are pleased with the low volatility of our return. However, we do not regard volatility as a reliable measure of risk. We look at risk as the danger of a permanent loss of capital. The Fund minimizes it by investing in companies where there is a substantial **Margin of Safety** between intrinsic value and market price.

We mitigate risk by:

➤ **Position monitoring**

The Fund continually ensures that the rationale of each stock selection is still valid, and stands ready to change its stance if, following new adverse developments, this is no longer the case.

➤ **Diversification**

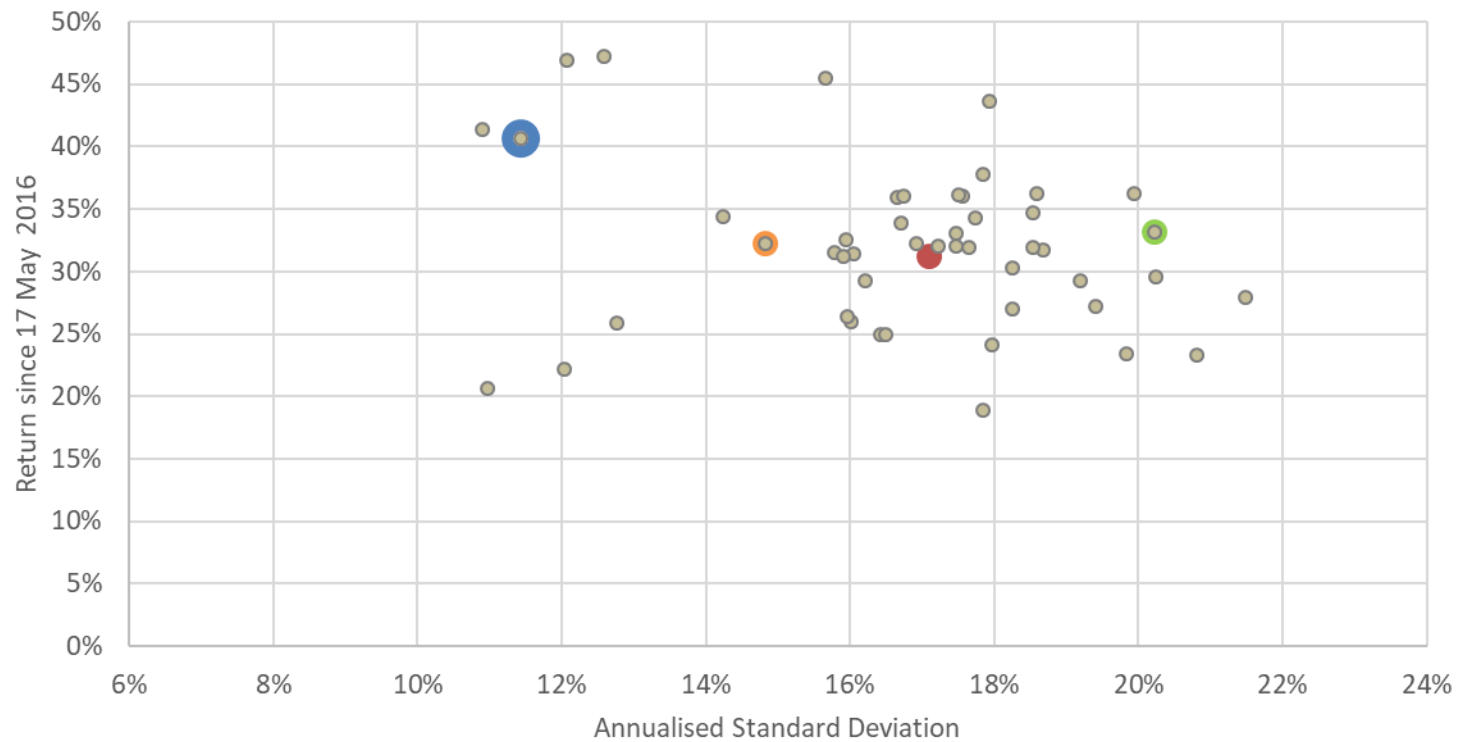
Following UCITS rules, individual positions are capped at 10% of Fund value, and positions above 5% are collectively capped at 40% of Fund value. Adequate sectoral diversification is also pursued.

➤ **Hedging**

While the Fund is normally fully invested, it reserves the occasional possibility to use futures and option contracts to hedge market risk.

Our track record: Higher return, lower volatility

Italian Equities Funds: Return/Standard Deviation



● MIF ● Weighted Average ● iShares FTSE MIB ETF ● Lyxor FTSE Italian Mid Cap ETF ● Italian Equities Funds

Return (17/5/2016 - 30/6/2018)

MIF: 40.6%

Universe Average: 30.5%

Lyxor ETF: 32.2%

iShares ETF: 33.2%

Standard Deviation (annualised)

MIF: 11.4%

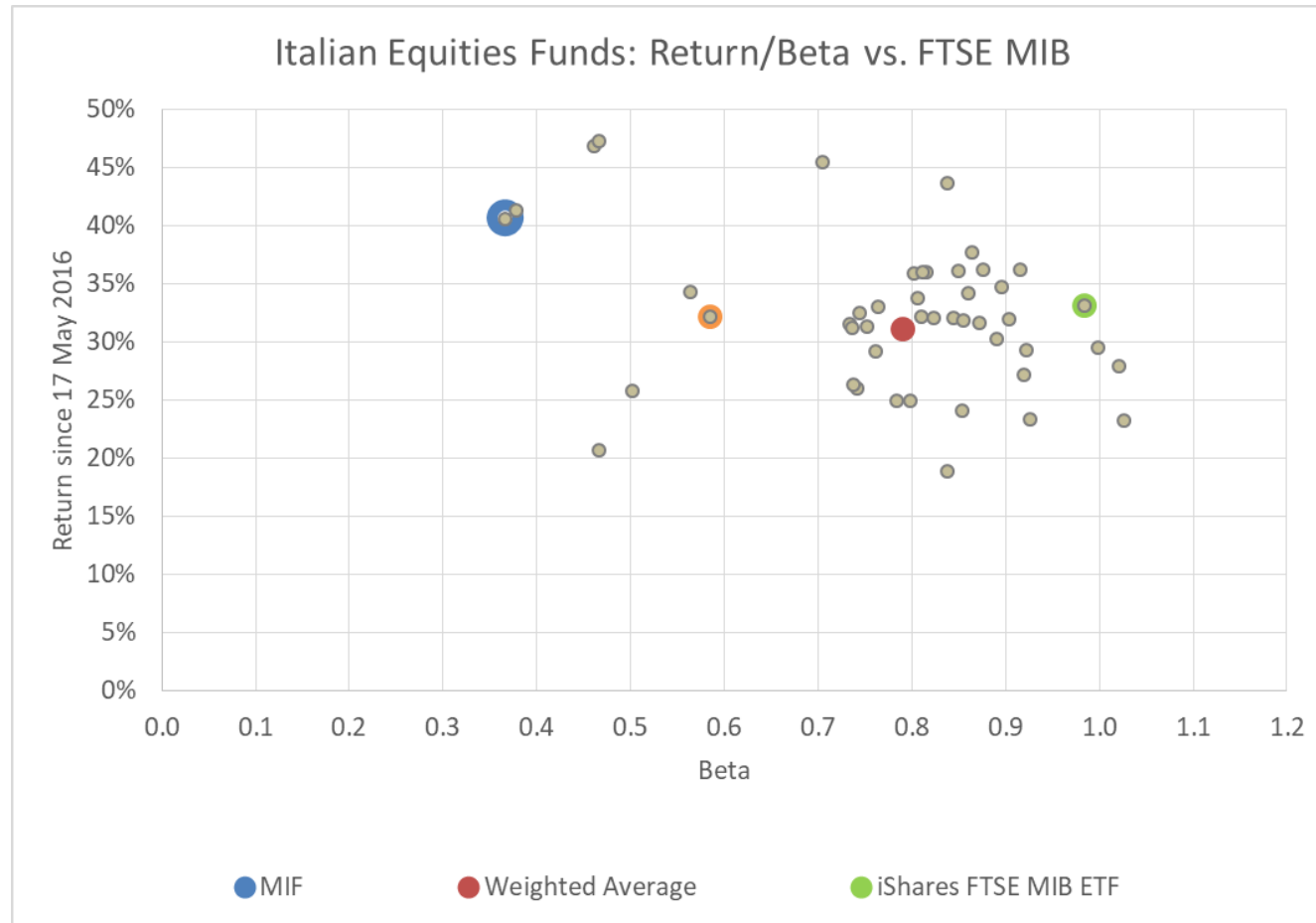
Universe Average: 17.2%

Lyxor ETF: 14.8%

iShares ETF: 20.2%

Universe: Italian Equities Funds, Morningstar Italy

Our track record: Higher return, lower Beta



Return (17/5/2016 - 30/6/2018)

MIF: **40.6%**

Universe Average: 30.5%

Lyxor ETF: 32.2%

iShares ETF: 33.2%

Beta vs. FTSE MIB

MIF: **0.37**

Universe Average: 0.79

Lyxor ETF: 0.58

iShares ETF: 0.98

Universe: Italian Equities Funds, Morningstar Italy

Some of our winners (among many more...)



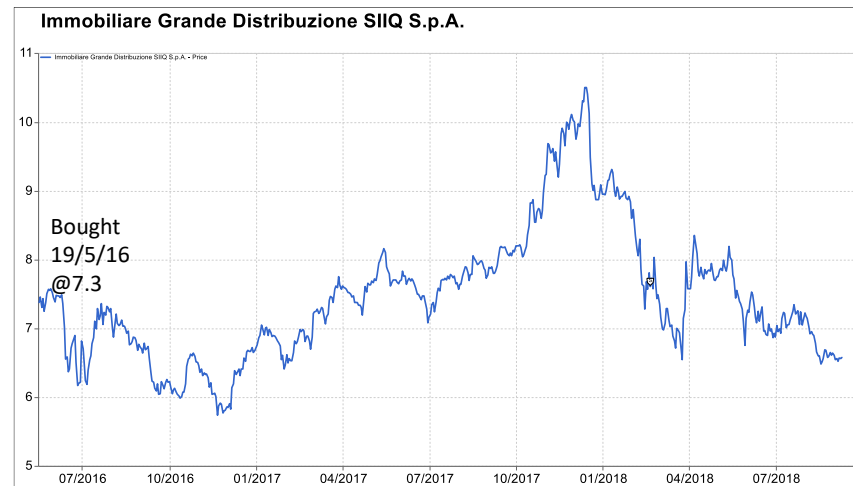
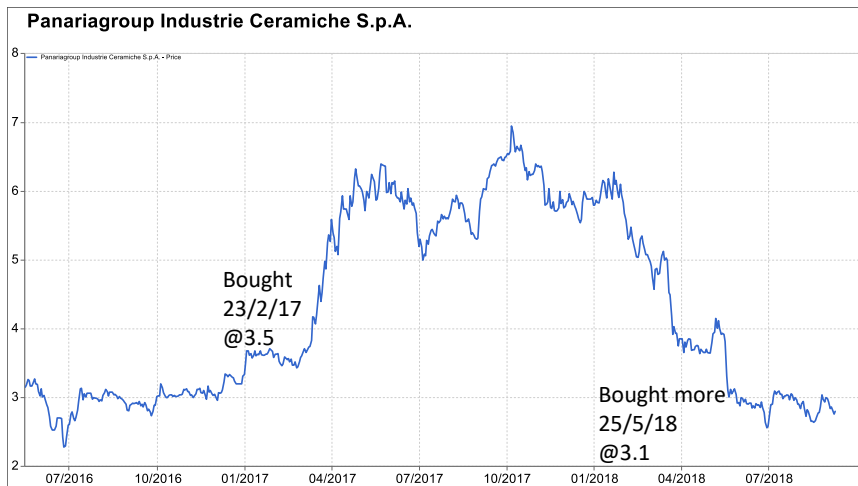
Datalogic
First bought at
inception @ 15.1

Reno de Medici
First bought at
inception @ 0.3

Technogym
First bought in
Nov 2016 @ 3.8

Cembre
First bought at
inception @ 13.8

Different stocks, different decisions



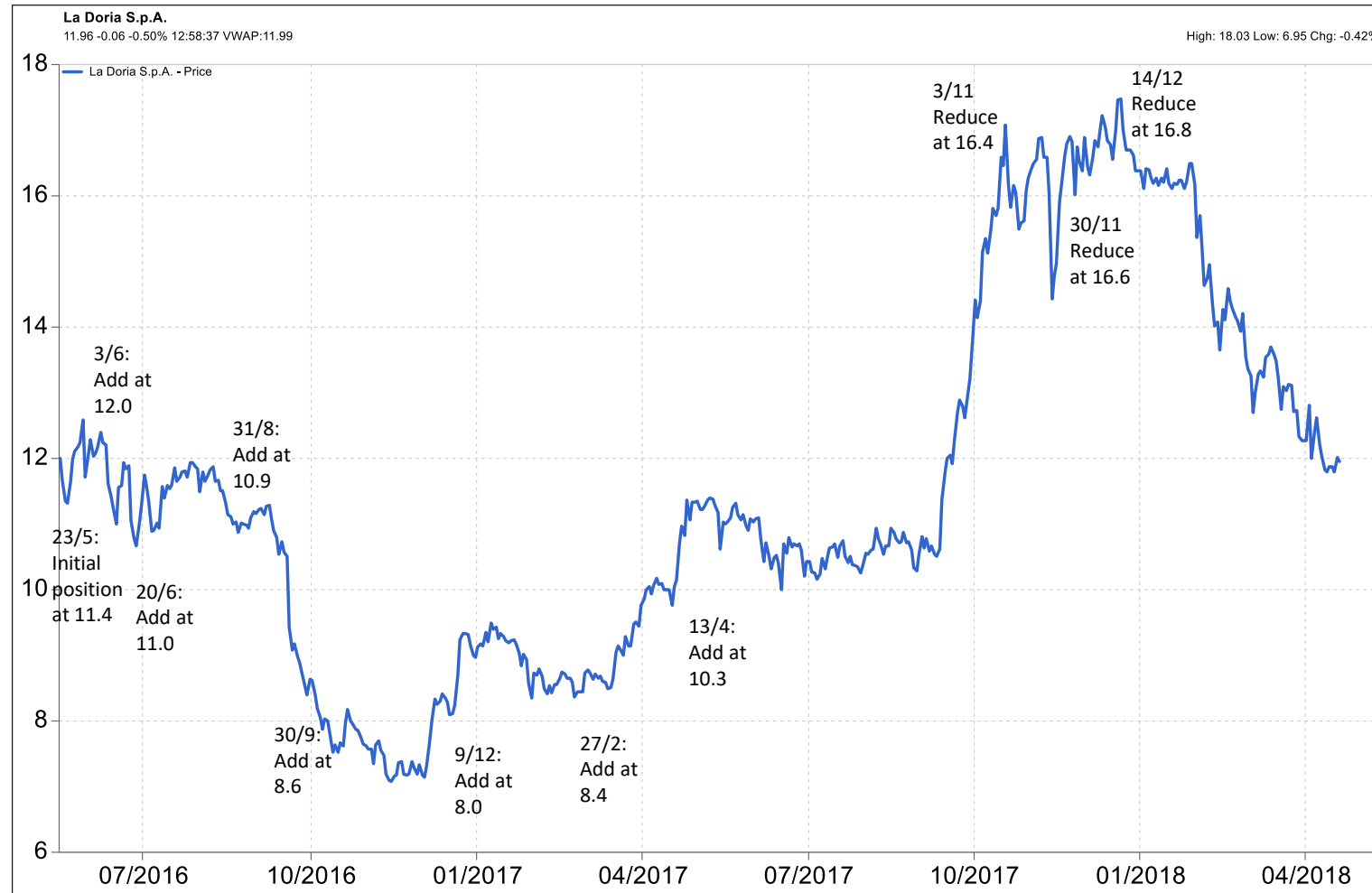
Sogefi
Selling at a profit

Esprinet
Selling at a loss

Panaria
Doubling up

IGD
Holding on

Volatility creates opportunities



Source: Factset

La Doria

Increased position following a major drop (-30%) after Q2 2017 results. We had detailed discussions with management and felt confident that problems were temporary and market reaction excessive. The stock ended the year at 16.4.

New opportunity after H1 drop.

Fund features

Fund Class	All Investors (A)	All Investors, Listed (L)	Retail (R) *
ISIN Code	LU1391064745	LU1391064828	LU1391064661
Liquidity	Daily		
Currency	Euro		
Minimum Initial Investment	€100,000	1 share	€1,000
Minimum Subsequent Investment	€25,000	1 share	€1,000
Investment Management Fee	1.25%	1.5%	2%
Performance Fee	15% of annual return, if above 4%, with High Watermark		

* The Retail class is reported for illustration only. This presentation is not intended for retail distribution.

General risks and recommendations

Being invested in small stocks, with limited free float and daily liquidity, the Fund can be subjected to periods of heightened volatility.

Price volatility can be used to the Fund's advantage, as it gives an opportunity to accumulate positions at particularly convenient prices. However, the Fund may be adversely affected by periods of extensive and prolonged equity market downturns, which may trigger a wave of redemptions that may be difficult to meet in an ordinary fashion.

Therefore:

- Investing in the Fund requires a **long term orientation**
- The Fund is **unsuitable for highly risk-averse investors**
- The Fund should account for a **limited portion** of an investor's overall financial wealth

Board of Directors

Massimo Fuggetta, Chairman

Alessandro Ciravegna

has 31 years experience in financial markets. He began his career at Merrill Lynch in London and subsequently joined Citigroup in various investment advisory and business management functions in London, Milan, Athens and New York. In 2002, he founded New College Capital Ltd to provide specialist investment advice to European investors.

Guido Manca

is the Chief Executive Officer at Independent Strategy. He runs the company and looks after global marketing and distribution of the firm's products. He started his career at Salomon Brothers (fixed income) followed by Morgan Stanley (equities). He co-founded Independent Strategy in 1994. He holds an Honours degree in Economics from Trinity College, Cambridge.

Alexandros Rammos, Secretary

has 20 years experience in financial markets. In 1990, his family founded Pegasus Securities in Athens, a brokerage company which rose to prominence by eventually becoming one of the largest privately-owned retail brokerage houses in Greece. Alexandros was the company CEO between 2009 and 2011. In 2014 he became Managing Partner of Versal Investment Services, an independent investment advisor in Athens. He joined New College Capital in October 2015 mainly focusing on compliance and business development.

Strategic Advisor

Giulio Antonello

Giulio is a graduate from the Wharton School of Finance of the University of Pennsylvania, where he received a Bachelor of Science (Finance) in 1990. In 1996 he completed a Masters degree at Columbia University's School of International and Public Affairs with an Economics Major.

He started working in New York in 1990 as an investment banker for Credit Agricole. In 1993, he joined Société Suisse de Ciment Portland in Switzerland. Soon after, he was instrumental to the creation of the IBI Group, an advisory and merchant banking boutique with offices in Milan, Zurich and Lugano. From 1997 to 2005, he led several advisory and investment projects. In 2006 he became CEO of Alerion, with the objective of focusing the company on the renewable energy sector. He left Alerion in 2015 and currently operates as an independent investor. His family holding company, Financiere Phone 1690, has stakes in a number of listed and private companies in the real estate, industrial, energy and agricultural sectors.

Giulio is currently on the board of Eurotech SpA, a listed leader in the "Internet of Things" space. He has also served on the board of Italcementi SpA, a leading listed cement operator for which he was the leading independent director and member of the remuneration and strategic committees. In the past, he has served on the board of other numerous listed companies besides Alerion Clean Power and namely: Reno de Medici, SIAS, Realty Vialog and Erg Renew. He was also a board member of Campisi Sim (now Banor Sim) and Tel lombardia.

Contacts

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Made in Italy
Fund