Made in Italy Fund

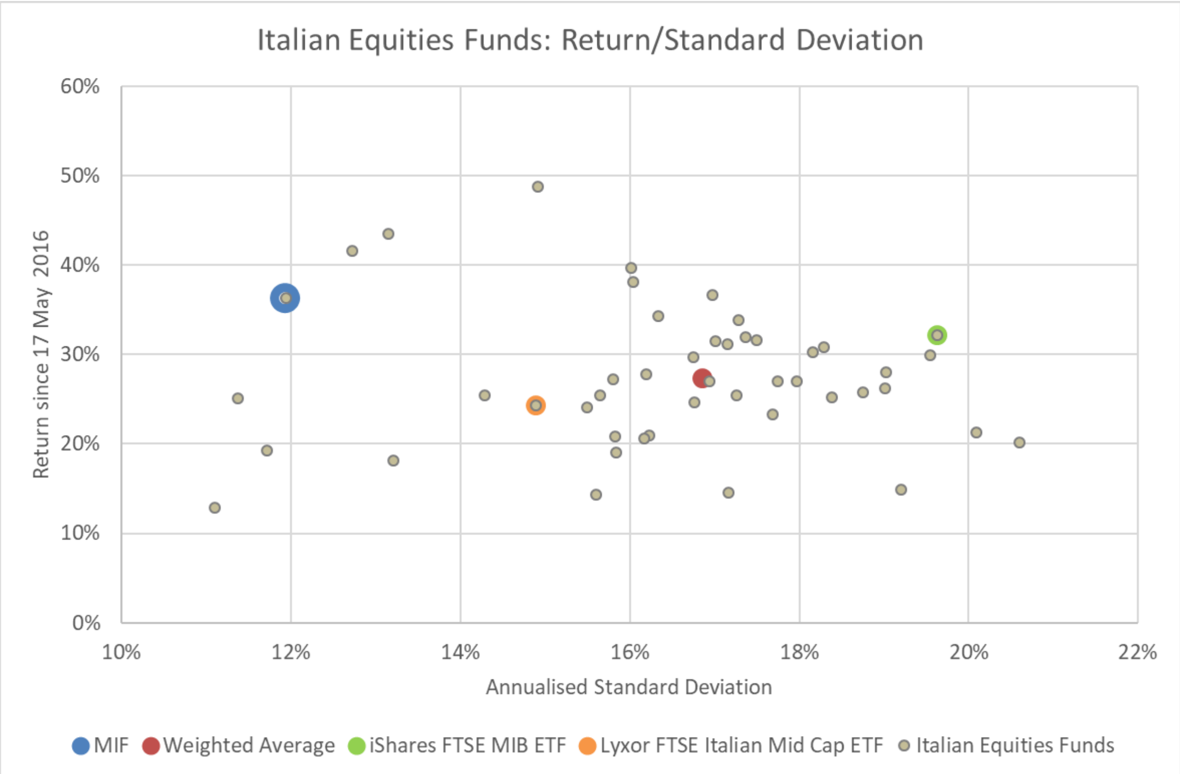
Bayes Investments

Investor letter – First Quarter 2019

Dear Fellow Investors,

The Made in Italy Fund (MIF) had a return of 10.8% in the first quarter of 2019. The return since inception (17 May 2016) is 36.3%. Returns are net of all fees and administration expenses.

During the quarter, the MIF reduced its advantage over the Italian Equities fund universe, whose weighted average return since MIF's inception is 27.3%:



Source: Factset

The MIF return remains well above the 24.3% return of the most comparable ETF – the Lyxor Mid Cap Fund – as well as the 32.2% return of the main Italian Equities ETF – the iShares FTSE MIB.

The MIF return continues to be accompanied by low volatility. The annualised standard deviation of its daily returns is 11.9%, compared to 16.9% for the weighted average fund, 14.9% for the Lyxor ETF and 19.6% for the iShares ETF.

First Quarter 2019

Our 10.8% return for the quarter compares with a weighted average return of 14.0% for the Italian Equities universe, 12.3% for the Lyxor ETF and 16.5% for the iShares ETF.

Defying the dire prognostications of many commentators, but not our expectations, stock markets around the world staged a strong recovery in the first quarter, following the unreasonable and indiscriminate debacle of the last quarter of 2018. The S&P500 was up 13% and the Nasdaq up 16% in the US, the Europe and Euro Stoxx indices up 12%, the Nikkei up 6% in Japan, the China Shenzhen up 34%.

Even more surprising to local pundits, the Italian stock market was among the best performers in the quarter, with the MIB index up 16%. In fact, the index ended the quarter less than 2% below the level reached a year earlier at the end of Q1 2018. This will sound strange and counterintuitive to investors who spent those twelve months agonising about the twists and turns of Italian politics following the March 2018 elections, and who could not resist the urge to take money out of the market. But it is just one more instance of a well-established phenomenon: investors' worldwide tendency to buy in rising markets and sell in falling markets – a major and widespread psychological drawback that significantly lowers the actual average of investors' returns versus the theoretical average of market returns.

As you well know, we have also been worried about the convolutions of Italian politics. But, as detailed in our Q4 2018 letter, we managed to steer clear of market timing. Not so for some of our investors, who over the past twelve months have taken out more than twice as much money as other investors put in the Fund, with a peak right in the throes of the Q4 plunge. Another significant batch of redemptions occurred in Q1 this year, despite or – who knows? – *because of* the Fund's rebound. Nevertheless, we are proud to acknowledge that a great majority of our investors kept their composure. Daily liquidity – the ability of investors to dispose of their money at short notice – is an important and proper feature of an open-ended mutual fund like the MIF. Ultimately, the best way to deal with the disruptive effects of redemptions is to attract investors who understand and subscribe to our long-term investment approach.

As happy as we are that, unlike last year, 2019 got off to a good start, we are not happy that, like last year, the MIF's first quarter performance fell short of the iShares ETF and, to a lesser extent, of the Lyxor ETF. Part of the gap could be ascribed to the required sales following redemptions. But the largest component was due to some of our stocks failing to follow the general surge.

Starting with the positives, we like to highlight one of our most recent IPO purchases, **EdiliziAcrobatica**, which rose 48% over the quarter, from 3.3 euro at year end (close to the November IPO price) to 4.9 euro at quarter end (we added to our position in March at around 4.5). The company (www.ediliziacrobatica.com/en), founded and led by CEO Riccardo Iovino, provides outdoor construction works – façade and wall clean up and painting, balcony repair, roof renovations – using a double safety rope access technique, thus avoiding scaffolding. It had 2018 revenues of 26 million euro, up 51% from a year earlier and expected to double to around 50 million in the next couple of years, as the company expands in Italy and abroad (it just bought a competitor in the south of France) and continues to expand its highly scalable business model. EBIT of 3.7m vs. 2.0m in 2017 is likely to double by 2020 and so is net income of 2.3m vs. 1.1m in 2017, to around 5m. Such explosive growth has a current market value of 36 million, i.e. 16x current earnings and 7x expected 2020 earnings – very low for a business with a 14% EBIT margin and low capital absorption. Free float is 26%.

Another successful investment has been **MailUp** (www.mailup.com), which we also bought in November. The stock ended the quarter up 36% at 3.2 euro and 28% above our 2.5 euro purchase price. The company, founded and led by CEO Nazzareno Gorni and his partners, provides a cloud-based digital platform for mass emailing, newsletters and text messaging (here is a link to their latest presentation). It had 2018 revenues of 39 million euro, up 48% from a year earlier and expected to grow to 60m by 2020. EBIT of 1.9m vs. 1.3m in 2017 is likely to more than double to 4.5m in 2020 as net income grows from current 1.3m vs. 0.6m in 2017 to 4.5m in 2020. The company's market cap is 48 million, or 11x expected 2020 earnings. Free float is 37%.

Expert System (www.expertsystem.com) has been in our portfolio since inception, where we bought it at 2.1 euro per share, subsequently adding at 1.9. The company is a world leader in Artificial Intelligence and semantic technology, where its flagship product Cogito delivers text analytics and language understanding that facilitate the unstructured extraction of information from Big Data. The stock had been a poor performer until recently, as the company struggled to convert its intellectual assets into a profitable business model. The stock price reached 1.2 euro at year end, but it grew 30% to 1.5 in Q1, as the company finally delivered improved financial results and delineated a clearer strategy for future growth (here is a link to their latest presentation). The market cap is 55 million and free float is 65%. 2018 revenues were 29m, up from 26m a year earlier, and EBITDA moved from 1.0m to 4.6m. The company is still loss making, but after our latest meeting with CEO Stefano Spaggiari we believe it has finally embarked on the right track to profitability. The upturn has been lately validated by a reserved capital injection. Expert System was one of the latent False Positives we mentioned in our Q2 2018 letter. It looks as if our patience is finally being rewarded.

Last but not least, we like to mention **Circle** (www.circletouch.eu/en), another IPO we bought in October at 2.4 euro per share and added to in February at 2.9. The stock ended Q1 up 25% at 3.2. This is a very small company – market cap is 10 million and free float is 20%, with 2018 sales of 4.6m and EBIT of 0.8m. It provides technological services and software solutions for the automation, digitalisation and optimisation of supply chains for ports, maritime and intermodal transport logistics and infrastructure (here is a link to a recent presentation). This highly scalable business, led by founder and CEO Luca Abatello, is set to expand at a rapid pace across the Mediterranean basin and beyond, internally as well as through M&A.

Many other stocks in the portfolio rose in the quarter, but less than the main index, thus contributing to the Q1 relative shortfall. One of them was **Landi Renzo**, up 7%, on which we recently gave a presentation at this year's Value Spain Conference in Madrid and is one of our top holdings.

On the negative side, **Openjobmetis** was down -11% in the quarter, hit by worries about potential changes in legislation in the temporary job market; **Indel B** was down -8% despite reporting strong results; and **Banca Ifis** fell -5% on the back of the resignation of its long standing and very successful CEO, who came at loggerheads with the majority shareholder on company strategy. We exited the position in February, ahead of the resignation, as it became clear that it was impending.

The current sector composition of the Fund is as follows:

	Number of companies	% Weight
Producer Manufacturing	6	18.7%
Electronic Technology	2	6.1%
Process Industries	5	18.9%
Consumer Non-Durables	1	2.5%
Consumer Durables	2	7.3%
Industrial Services	1	3.8%
Commercial Services	3	10.2%
Distribution Services	1	2.6%
Consumer Services	1	3.8%
Technology Services	5	13.6%
Finance	1	2.6%
Communications	1	4.9%
Utilities	1	4.6%
Total	30	99.7%
Cash		0.3%

Notice the reduction in the number of companies back to 30 (from 36 in the last quarter) following sales due to redemptions.

We have no reason to doubt that the performance gap accumulated this quarter will not be redressed in the coming months. In the meantime, we would like to thank all our investors who stayed the course over a difficult 2018 and reaped the Q1 rebound.

Please do not hesitate to contact us at mf@bayesinvestments.com, info@bayesinvestments.com, or Tancredi Cordero di Montezemolo at tm@kurosassociates.com with any questions or information requests. Interested and motivated investors can also reach us for direct contact with the top management of our companies.

We remind you that monthly Factsheet updates will be available on http://www.atomosicav.com/made-in-italy/.

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