Made in Italy Fund

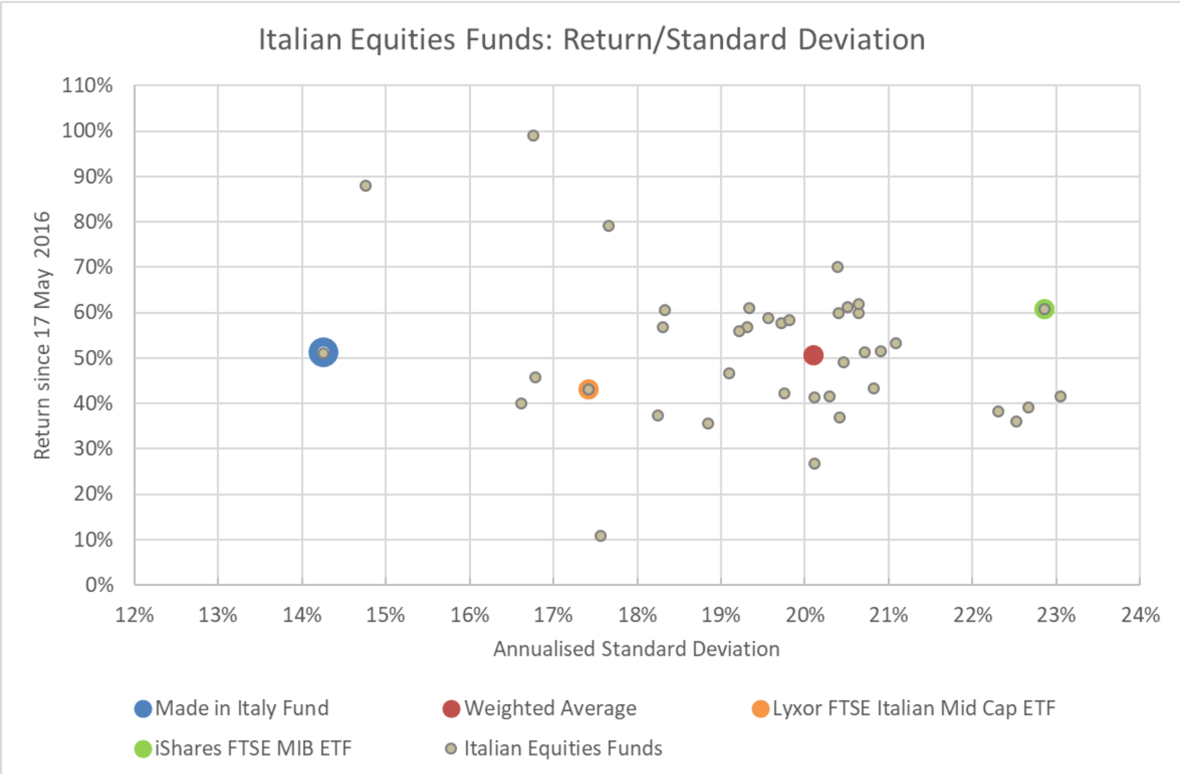
Bayes Investments

Investor letter – First Quarter 2021

Dear Fellow Investors,

The Made in Italy Fund (MIF) had a return of 16.8% in the first quarter of 2021. The return since inception (17 May 2016) is 51.1%. Returns are net of fees and all administrative costs.

In the quarter the MIF was ahead of the Italian Equities fund universe, whose weighted average return since MIF's inception is 50.6%:



Source: Factset

The MIF return is higher than the 43.1% return of the most comparable ETF – the Lyxor Mid Cap Fund – but is below the 60.7% return of the main Italian Equities ETF – the iShares FTSE MIB.

The MIF return continues to be accompanied by lower volatility. The annualised standard deviation of its daily returns is 14.3%, compared to 20.1% for the weighted average fund, 17.4% for the Lyxor ETF and 22.9% for the iShares ETF.

First Quarter 2021

Our 16.8% return for the quarter compares with a weighted average return of 11.3% for the Italian Equities universe, 12.5% for the Lyxor ETF and 11.2% for the iShares ETF.

The first quarter saw the upward move in small caps we have been making the case for in the last several quarters. As argued in the last Q4 letter, it is a move we had been expecting since the beginning of 2020, before it got derailed by the pandemic.

The Fund was up in January in a negative market, continuing the trend established in the last two months of 2020. It then accelerated in February and March, to end the quarter well ahead of all relevant comparisons.

It has now been more than a year since the March 2020 market bottom, and we must say are pleased with the result. Over the last quarter not only have we recouped the entire 2020 loss, but we have also risen above our High Watermark. A revisit to the Q1 2020 letter – together with the 9 March and 12 March notes – raises sobering thoughts. The brave investor who bought at the bottom is now more than 50% ahead – a timeless lesson that is hardly ever learned.

Most of our stocks showed strong advances in the quarter. We mention the first three.

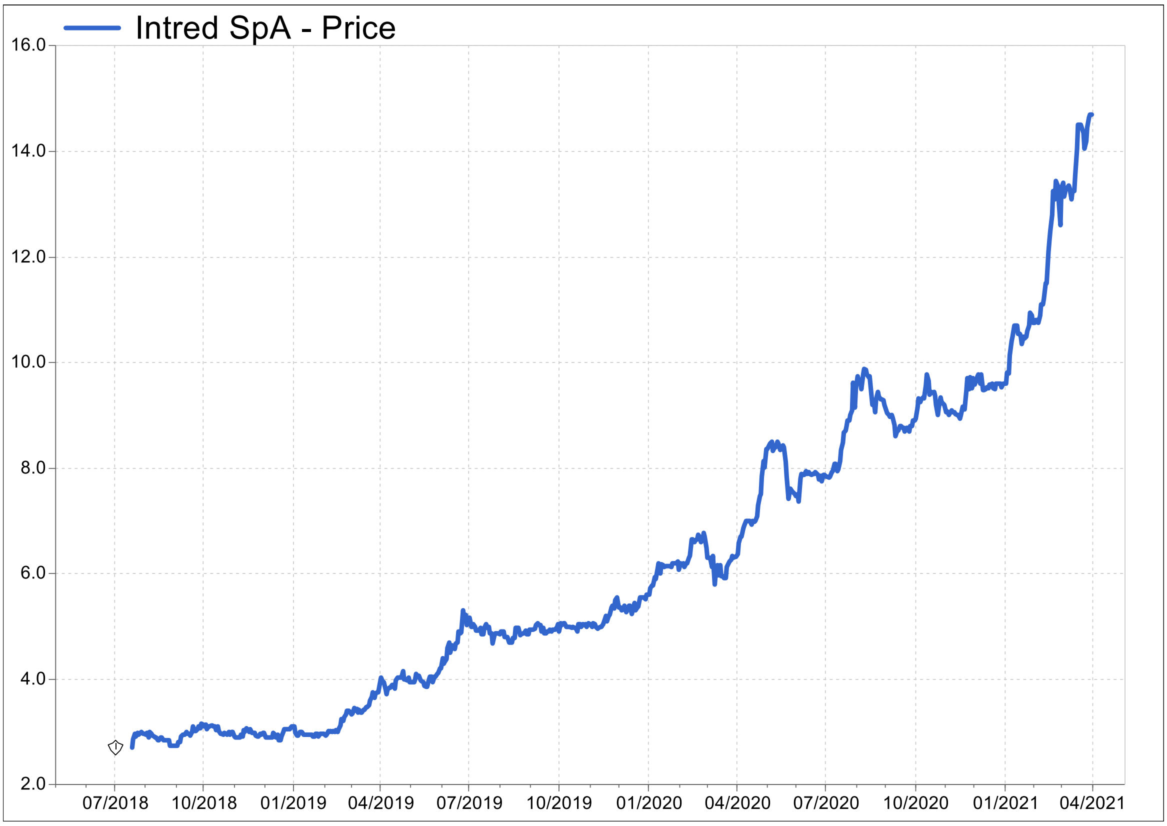
The top performer was **Doxee**, up 72%.

The company provides solutions for customer communications management and digital customer experience systems. It operates through three product lines: 1) Document Experience, producing and distributing digital document storage systems 2) Paperless Experience, offering electronic billing, digital archiving and electronic ordering systems 3) Interactive Experience, developing interactive micro websites and customized videos (here is their own). The company came to the market just before the onset of the pandemic in December 2019 at an IPO price of 3 euro. After stalling for most of 2020, the stock price took off at the start of the new year and it is now double what we paid at the IPO. The current market cap is 46 million euro, with 2020 revenues of 18 million and EBITDA of 5.6 million. We added to our position at the start of the quarter at an average price of 3.8 euro.

The second top performer was **Sebino**, up 57%.

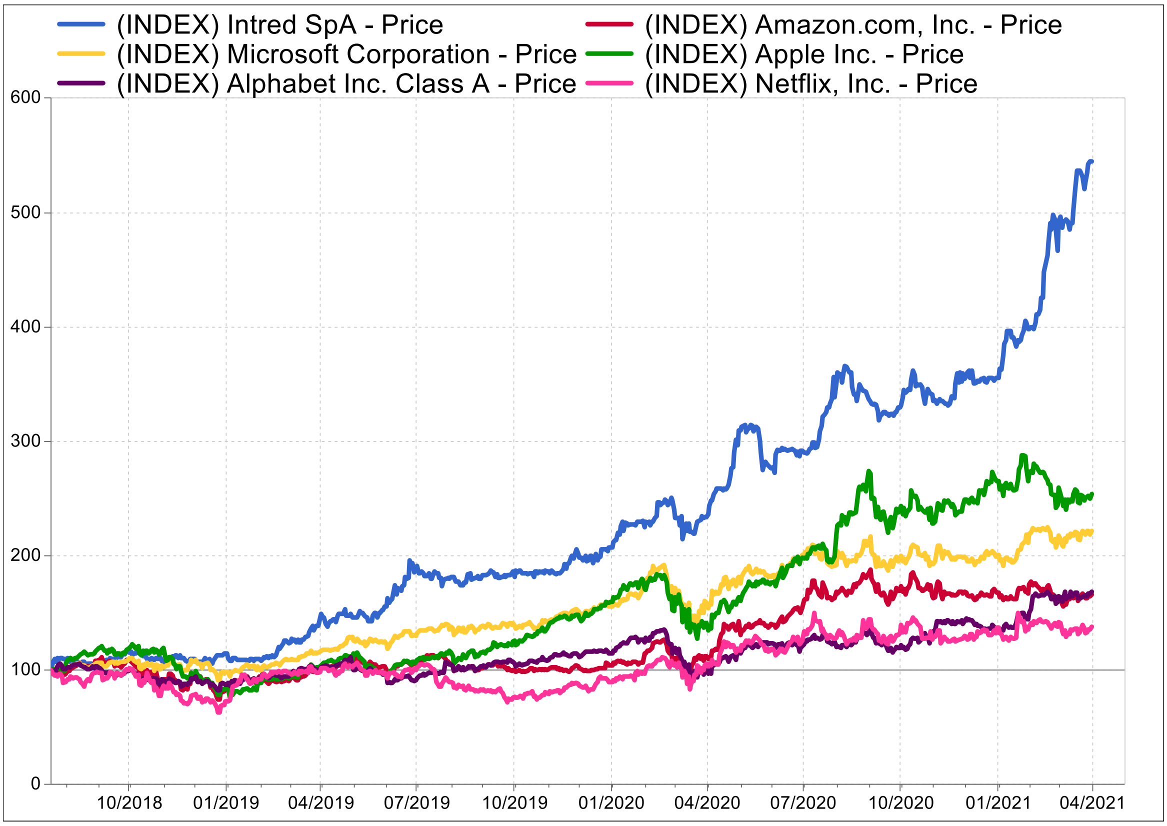
The company – a supplier of fire protection and security systems – came to the market in the middle of the pandemic in June 2020 at an IPO price of 2 euro. It closed the quarter at more than double that level at 4.4 euro. It has currently a market cap of 77 million, 2020 revenues of 49 million and EBITDA of 11 million. We increased our position in July 2020 at 2.5 euro and at the start of the quarter at an average price of 3.3 euro.

The third top performer was **Intred**, up 53%.



As our regular readers will remember, this came on top of a return of 72% in 2020 and 82% in 2019. At 14.7 euro, the stock price at the end of the quarter is 6.5 times the 2.27 euro IPO price we paid in July 2018.

Nothing better than this graph exemplifies what we try to do in the Made in Italy Fund. Everybody has heard of FAANG – Facebook, Amazon, Apple, Netflix and Google (now Alphabet). Virtually nobody – international investors who 'stay away from Italy' as well as Italian investors with their equity portfolios full of FAANGs – knows Intred. We do.



During the quarter we exited one position and participated in three new IPOs.

At the start of the year we sold **SeSa**, for no other reason that it was the last stock in the portfolio included in the FTSE Mid Cap index. The sale made the fund non only PIR-compliant, as it has been all along, but also Alternative PIR-compliant, for the reasons we expanded on in our last quarterly letter. We had initially bought the stock in October 2016 at 15.9 euro per share. We sold the position at 100.2 euro per share, 6.3 times the initial price and 4.9 times the average purchase price of 20.5 euro at which we had accumulated the position over time – an outstanding performance, again significantly above what FAANGs returned over the same period.

The new IPOs are:

Vantea Smart. The company operates four interrelated business units: 1) Cybersecurity, providing Identity, Access Management and Security Operations 2) Food & Beverage Digital marketplace for the HoReCa sector 3) Cloud-based ERP services for small and medium enterprises 4) Concierge Services. The company has a current market cap of 45 million euro, with 2020 revenues of 18 million and 2 million EBITDA, which we expect to grow rapidly over the next few years. We paid 2.2 euro per share at the IPO at the end of January. The stock closed the quarter up 84% at 4.1 euro.

Almawave. The company provides software for artificial intelligence, natural language analysis and big data management. It offers solutions for text and speech analytics, knowledge management, multi-channel contact management and virtual agent, customer experience management and automatic speech recognition. It has a current market cap of 120 million euro, 2020 revenues of 27 million and 6.2 million EBITDA, which we also expect to show rapid growth in the coming years. We bought the stock in mid-March at the IPO price of 4.25 euro per share. It closed the quarter at 4.4. euro.

ABP Nocivelli. The company is active in the construction of technological, mechanical, and electrical plants, civil and industrial buildings, and the provision of facility management services. It sets up and operates Public-Private Partnerships, concessions and traditional tenders in the public sector, particularly healthcare and hospitals, where it provides turnkey solutions. Its current market cap is 110 million, with 2020 revenues of 61 million and 11 million EBITDA. The IPO price at the end of March was 3.2 euro per share.

The current sector composition of the Fund is the following:

	Number of companies	% Weight
Producer Manufacturing	5	15.2%
Electronic Technology	1	2.0%
Process Industries	3	9.6%
Consumer Non-Durables	1	2.3%
Consumer Durables	2	5.8%
Industrial Services	2	7.0%
Commercial Services	4	12.7%
Consumer Services	2	5.6%
Technology Services	9	26.3%
Health Technology	1	2.5%
Communications	1	3.8%
Utilities	2	4.8%
Total	33	97.6%
Cash		2.4%

A good start

We are particularly pleased with our first quarter result, as it coincides with the onset of our alliance with SCM SIM and the launch of their Alternative PIR investment line, which we advise and is in part directly invested in the Made in Italy Fund.

As detailed in our last several quarterly letters, we have been progressively adjusting the portfolio towards the current Alternative PIR-compliant configuration. SeSa was the last of the mid cap stocks we sold over the past two years, as we steered the Fund towards smaller capitalisations. Most of these larger stocks, many belonging to the STAR segment – such as **Mutui on Line**, **Reply**, **El.En.**, **Technogym**, **TIP**, **SOL –** had done well for us, and continued to appreciate after the sale. Similarly, like Intred, Doxee and Sebino, many of the smaller stocks we subsequently bought with the proceeds – such as **Renergetica**, **EdiliziAcrobatica**, **MailUp** and, more recently, **CY4Gate**, **Tecma Solutions**, **Vantea Smart** – have also done well, and we believe will continue to do so in the future. They joined other small cap stocks that we have been holding for longer – such as **Reno de Medici**, **Be STF**, **Piteco, Cembre**, **B&C Speakers**, **Expert System** – whose current price is significantly above what we originally paid, and well above the average purchase price at which we have been accumulating our positions. However, other stocks – the newer IPOs as well as older positions we have patiently been hanging on to – have yet to start expressing their potential.

Overall, our move towards smaller caps in the last two years has harmed our relative performance versus the Italian Equities universe and the main market index. But we believe a reversal is now firmly in place. It goes without saying that not all our stocks have performed as well as Intred and SeSa, and it is unlikely they will all do so in the future. But we hold each of them for the sole reason that we believe there is a substantial gap between their intrinsic value and their current price, irrespective of how well or poorly they have performed so far. Some will probably disappoint, and we will be ready to replace them, as we have done for a few in the past. But many, hopefully most of them, will show substantial appreciations, this year and in the years to come. And for the savvy Italian tax resident investors who can hold them for five years in a PIR account such appreciations will be tax-free.

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