Made in Italy Fund

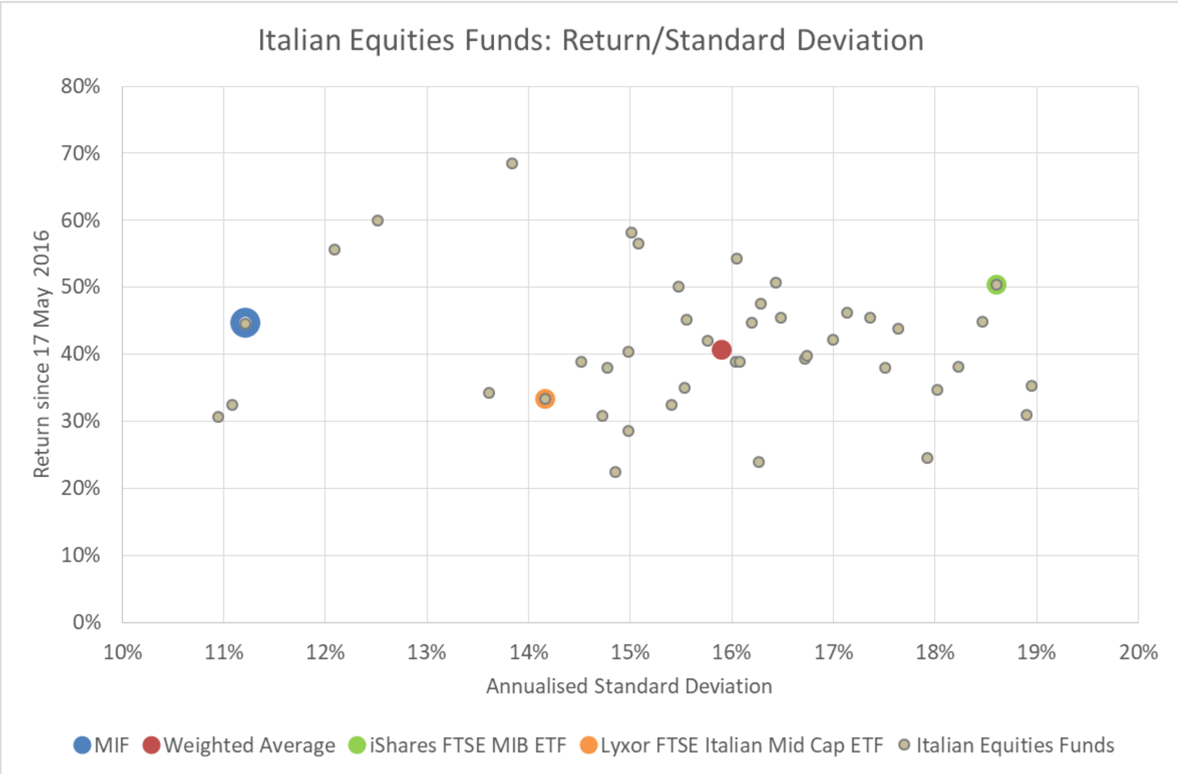
Bayes Investments

Investor letter – Fourth Quarter 2019

Dear Fellow Investors,

The Made in Italy Fund (MIF) had a return of 3.6% in the fourth quarter of 2019. The return since inception (17 May 2016) is 44.6%. Returns are net of fees and all administrative costs.

During the quarter, the MIF reduced its advantage over the Italian Equities fund universe, whose weighted average return since MIF's inception is 40.6%:



Source: Factset

The MIF return remains above the 33.4% return of the most comparable ETF – the Lyxor Mid Cap Fund – but is below the 50.4% 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 11.2%, compared to 15.9% for the weighted average fund, 14.2% for the Lyxor ETF and 18.6% for the iShares ETF.

Fourth Quarter 2019

Our 3.6% return for the quarter compares with a weighted average return of 6.4% for the Italian Equities universe, 6.4% for the Lyxor ETF and 6.4% for the iShares ETF.

For the whole year, the MIF was up 17.5%, versus 25.8% for the weighted average fund, 20.6% for the Lyxor ETF and 32.6% for the iShares ETF.

In line with what we envisaged in our 9 September note and reiterated in our Q3 investor letter, the fourth quarter saw a strong rebound of small cap stocks versus large caps, going partway in closing the vast performance gap accumulated since 2018.

The main market itself powered ahead in the quarter and was among the best performers in 2019, with the FTSE MIB index ending the year up 33.8%, ahead of the STOXX Europe index (+27.6%) as well as the S&P500 index (+31.5%). This was in sharp contrast with consensus expectations at the beginning of the year, which – as we remarked in our Q1 letter – remained anchored to the Q4 2018 global equity downturn and, specifically for Italy, idled around the chronic shambles of Italian politics. The flawed equation: macropolitical conditions=stock market performance is a persistent illusion, impervious to contrary evidence – an instance of first-level thinking (as Howard Marks calls it) that affects all kinds of investors, including professionals who should know better.

But small caps did even better than the main market in the fourth quarter, pulling the FTSE Small Cap index up 15.2%, and 31.0% for the whole year. The MIF – which, as we reported in the Q3 letter, had kept pace with the index in the first nine months and was vastly ahead since inception – participated in the upturn but lagged behind, especially in November.

Some of our stocks did very well: employment services provider **Openjobmetis** was up 27%, thus recouping previous weakness and ending the year up 12%; business consulting provider **BE TSE** was up 23% – half of its 46% appreciation in the year; financial software vendor **Piteco** and refrigeration and air conditioning manufacturer **LuVe** were up 22%, ending the year up 68% and 39% respectively; recently quoted **Pattern** was up 20% in the quarter and 37% above its July IPO price; **SeSa**, mentioned in the Q3 letter, continued its rise, up 19% in the quarter and 109% in the year. Other stocks did well – notably our top holdings **Finlogic**, **Intred** and **MailUp**, up 10%, 11% and 13% respectively – though not as well as the Small Cap index. **Expert System** recouped some of its previous quarter loss and ended this quarter up 4%.

On the negative side, **Renergetica** was down -10%, **EdiliziAcrobatica** -8% and **Neodecortech** -13%. In fact, another large gap opened up – most notably in the second half of the year – between small cap stocks quoted on the main market and the *smaller* cap stocks quoted on AIM Italia. As the Small Cap index surged in the fourth quarter, the AIM index *fell* 2%. And in the third quarter small caps were up 3% whereas AIM stocks were down 11%.

A good portion of the gap is explained by the notorious Bio-On debacle: the stock – then the largest component of the AIM index, with a weight of more than 10% – lost three quarters of its market cap in July and was finally driven to zero in December, as Gabriele Grego of Quintessential Capital Management published a report showing widespread fraud in the company's accounts. We had steered well clear of Bio-On, as even before the report came out the stock was absurdly priced and the company's business flagrantly dubious.

The rest of the gap came from the strong fourth quarter performance of the largest components of the Small Cap index – companies such as El.En. +38%, Saes Getters +31%, Biesse +40%, Fiera Milano

+31% and A.S. Roma +33%. In addition, GEDI Gruppo Editoriale was up 84% in the quarter, as Exor offered to buy a large stake in the company from CIR at a high premium.

In the second half of the year we increased our exposure to AIM by participating in six IPOs: three in the third quarter – Marzocchi Pompe, Pattern and Friulchem, as described in the Q3 letter (here is a link to a Friulchem presentation, not available at the time) – and three in the fourth quarter:

Websolute, a fast-growing digital communication and marketing service provider. The company has a market cap of 19 million, 12 million revenues and a 1.7 million EBITDA.

Matica Fintec, a new and fast-growing product manufacturer for the secure ID and payments industries. Market cap is 20 million, with estimated 15 million sales and 3 million EBITDA in 2019.

Doxee, a successful provider of IT solutions for customer communication management. The market value is 26 million, with estimated 2019 revenues of 20 million and 5 million EBITDA.

Our increasing exposure to AIM-quoted companies since 2017 has provided many strong contributions to our performance: Finlogic, Intred, Renergetica, Circle, MailUp, EdiliziAcrobatica and, most recently, Pattern are significantly above the IPO price we originally paid, and we believe are set for further growth. Other companies, however, such as Neodecortech, Longino & Cardenal, Esautomotion and Askoll EVA, have not done as well. But we are confident that, together with the most recent additions to our portfolio, they will do so in the future.

The current sector composition of the fund is the following:

	Number of companies	% Weight
Producer Manufacturing	6	12.7%
Electronic Technology	3	8.3%
Process Industries	5	17.5%
Consumer Non-Durables	1	2.9%
Consumer Durables	2	6.8%
Industrial Services	1	4.0%
Commercial Services	4	10.2%
Distribution Services	1	2.0%
Consumer Services	1	3.5%
Technology Services	6	19.1%
Finance	1	1.7%
Health Technology	1	1.0%
Communications	1	4.8%
Utilities	1	3.9%
Total	34	98.4%
Cash		1.6%

Taking stock

Around this time last year, we concluded our Q4 Investor letter with an invitation to leave worries behind and face the new year with renewed confidence. We are glad to say we were right: in 2019 the MIF recouped most of the 2018 loss and did even more for those savvy investors who resolved to increase their position in the first quarter.

We would have done even better if small caps had not lagged behind large caps until this quarter – a trend that, as we documented in the Q3 letter, had been in place since the beginning of 2018. In addition, our increased focus on AIM stocks resulted in the Fund missing strong rebounds in stocks like El.En., Biesse, Digital Bros, Reply and Datalogic, which we had to sell over time in order to raise liquidity.

New IPO investments as well as the strong performance of many of our AIM stocks resulted in an increased exposure to AIM to more than 60% of the portfolio at the end of the year. On balance, this has probably been a drag on performance – the AIM index ended the year down -6.3% and would have lagged the other indices even before the zeroing of Bio-On.

But we believe the reverse is likely to occur in the new year, as AIM stocks catch up with the rest of small caps.

This will occur in a positive context of renewed interest in both, following recently approved changes in PIR legislation. These resolved last year's impasse by 1) eliminating any reference to uninvestable venture capital funds and 2) extending the obligation to invest a minimum 3.5% of PIR accounts to small caps as well as AIM stocks. This is wider than last year's requirement, which too narrowly restricted the 3.5% to just AIM stocks; but stricter than the original dictate, which only referred to non-MIB stocks. With the new rule, at least one sixth of required non-MIB investments (3.5% out of 21%) must be non-Mid Cap as well. This is precisely our universe: small caps and AIM.

The Made in Italy Fund is a perfect embodiment of the inspiring goal of the PIR law.

It has been a challenging two years. 2018 started off with a global stock market downturn in February. Then in May came Italian political turmoil, which accompanied us throughout the year, culminating in a steep global market drop in the fourth quarter. We regarded this as an excellent investment opportunity for 2019 and invited our investors to rise above 'stagnant prudence' and discern the sunny outlook ahead. Indeed, 2019 turned out to be one of the best years on record for Italian equities.

We are now saying that 2020 will be another good year, especially for Italian small caps. We shall see if we will be right again.

Happy New Year.

DISCLAIMER

This document has been prepared by Bayes Investments Ltd, registered in England and Wales. Bayes Investments Ltd is an Appointed Representative of New College Capital Ltd. New College Capital (FRN 430986) is authorised and regulated by the UK Financial Conduct Authority (FCA).

This document is not intended for retail customers or any person or entity that is a resident of or located in any jurisdiction where such distribution or use would be in contravention of law or regulation. This document is intended for Relevant Persons, i.e. those who benefit from an exemption under Rule 4.12 of the FCA's Conduct of Business Sourcebook ("COBS"), or from an exemption under FSMA (Promotion of Collective Investment Schemes) (Exemptions) Order 2001.

Investments are subject to a number of significant risks. Investors should refer to the Atomo Sicav Prospectus, which contains details of these risks. Any past performance contained herein is not an indication of future performance. The value of investments and income from them may fluctuate. Investors should have the financial ability and willingness to accept such risks for an indefinite period of time, and the loss of the entire investment.

This document may contain forward looking statements, terms and expressions. These contain certain risks and uncertainties that could lead to significant variations against expectations. No assurances can be given in this regard. Whilst Bayes Investments Ltd has taken all reasonable steps to ensure that the information contained within these pages is accurate and up to date, no liability can be accepted for any error or omissions appearing in this document. If you are in any doubt as to the validity of information made available within these pages, you should seek verification and/or contact us.

Nothing in this document is intended to constitute a financial promotion for the purposes of section 21 of the Financial Services and Markets Act 2000. The contents of this document are provided for general information purposes only and is not investment advice. In addition, nothing on this document amounts to a personal recommendation or advice on the merits of any transaction or service. Bayes Investments Ltd is therefore not responsible for providing you with protection and you should seek your own legal, investment and tax advice before acting on anything contained in this document.

Professional advice should always be sought before acting or relying on any of the information, and we accept no responsibility for any loss which may arise from reliance on the information in our document.