

Made in Italy
Fund

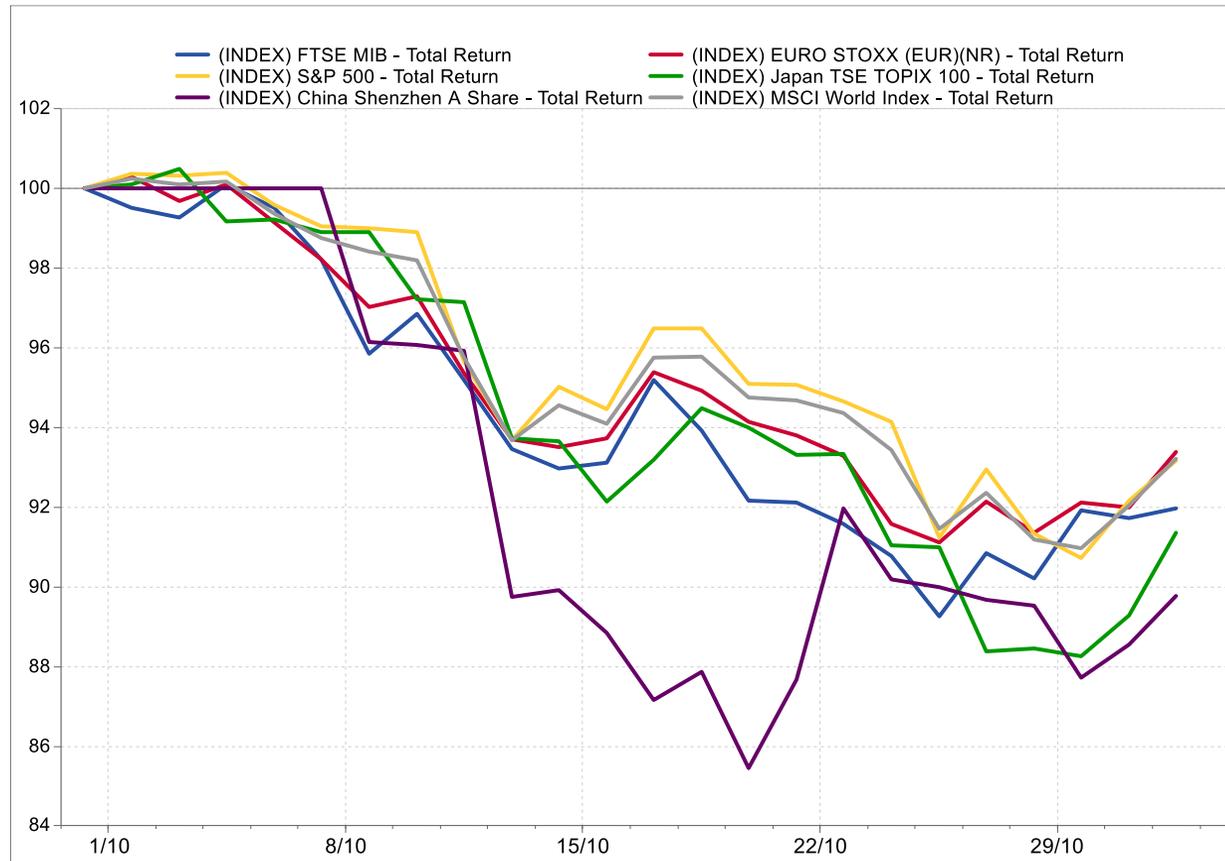
Bayes Investments

October market decline

5 November 2018

A tough month

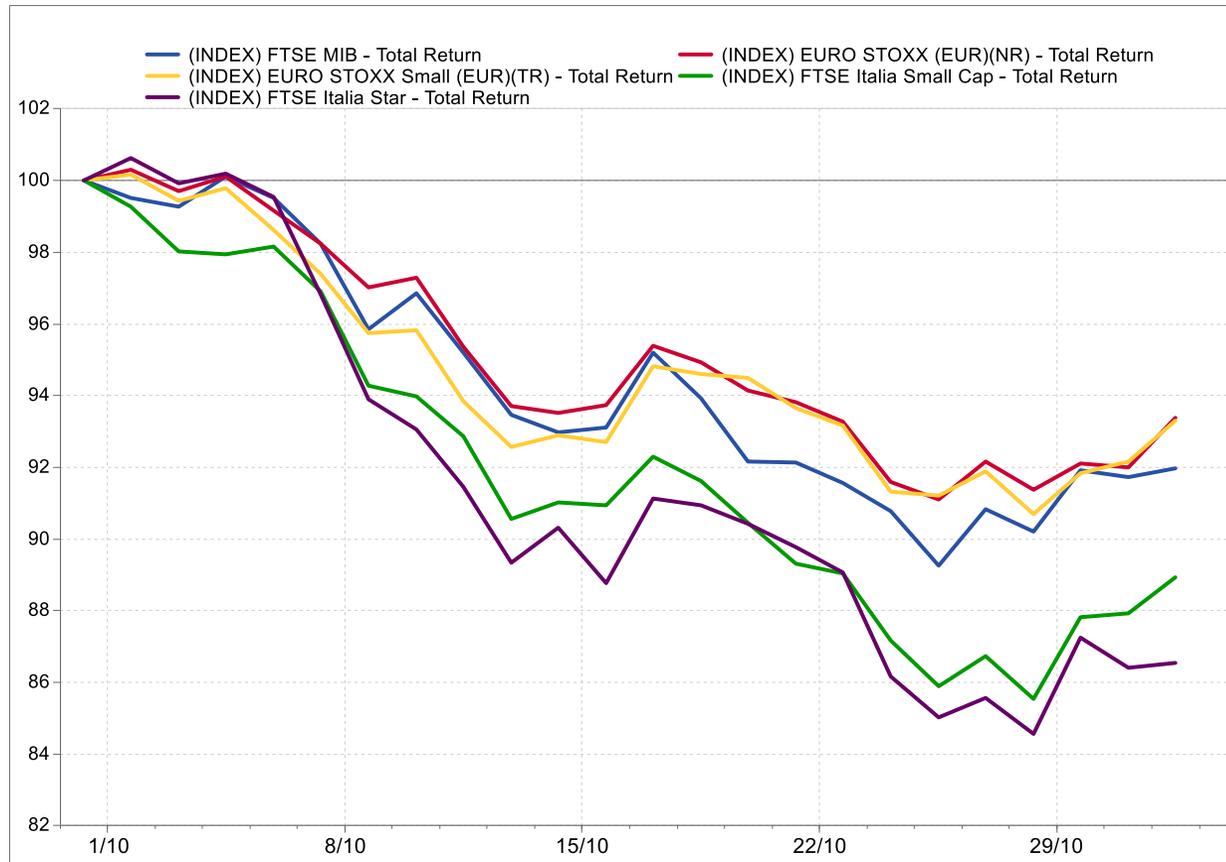
- October was a tough month for global equities.
- Italian equities fell broadly in line.
- While perceived domestically as a major contributor to the fall, political turmoil had a marginal additional effect.



| | |
|----------------|--------|
| FTSE MIB | -8.0% |
| EURO STOXX | -6.7% |
| S&P 500 | -6.9% |
| Japan TOPIX | -8.6% |
| China Shenzhen | -10.2% |
| MSCI World | -6.8% |

Small Caps excess reaction

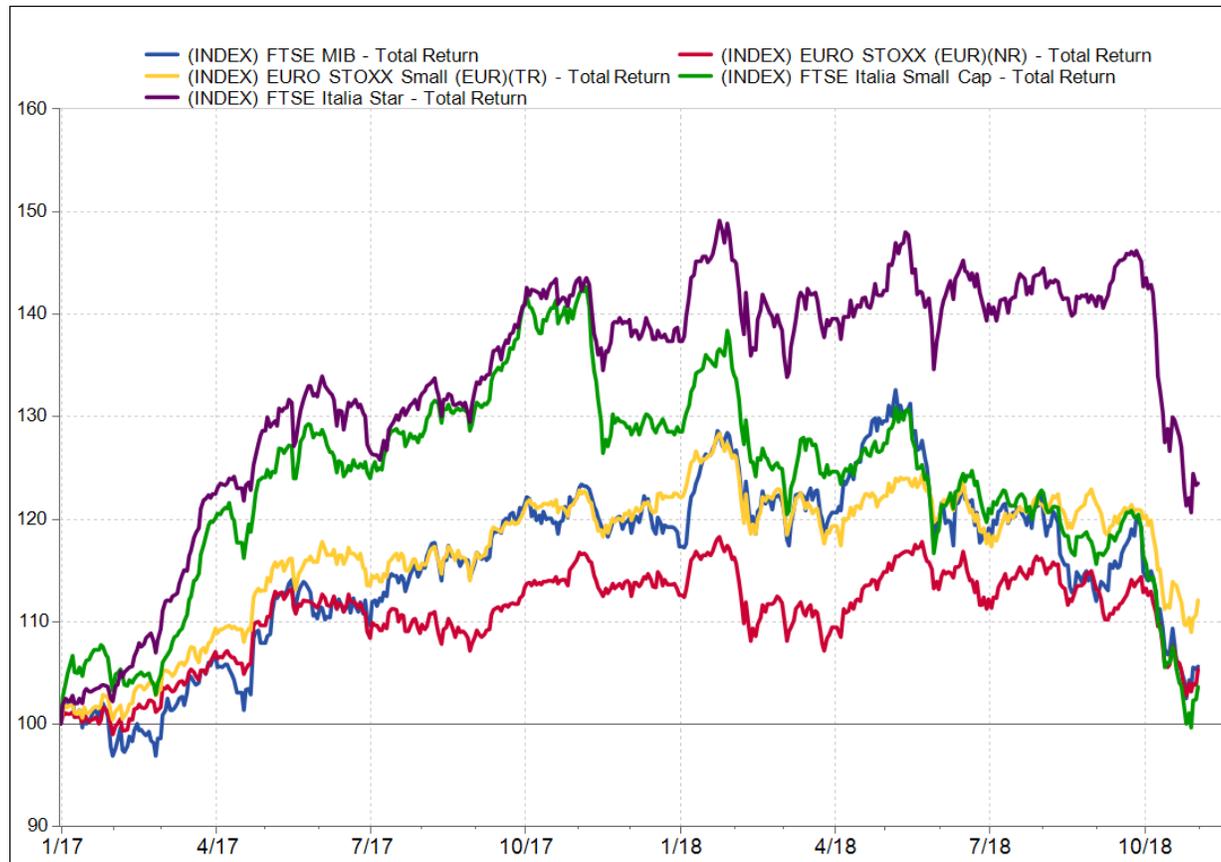
- However, the effect was more pronounced on Italian Small Caps and, even more so, on the STAR segment.
- There was no Small Cap underperformance in Euro area equities.



| | |
|-----------------------|--------|
| FTSE MIB | -8.0% |
| EURO STOXX | -6.7% |
| EURO STOXX Small Cap | -6.7% |
| FTSE ITALIA Small Cap | -11.1% |
| FTSE ITALIA STAR | -13.5% |

Small Caps excess reaction

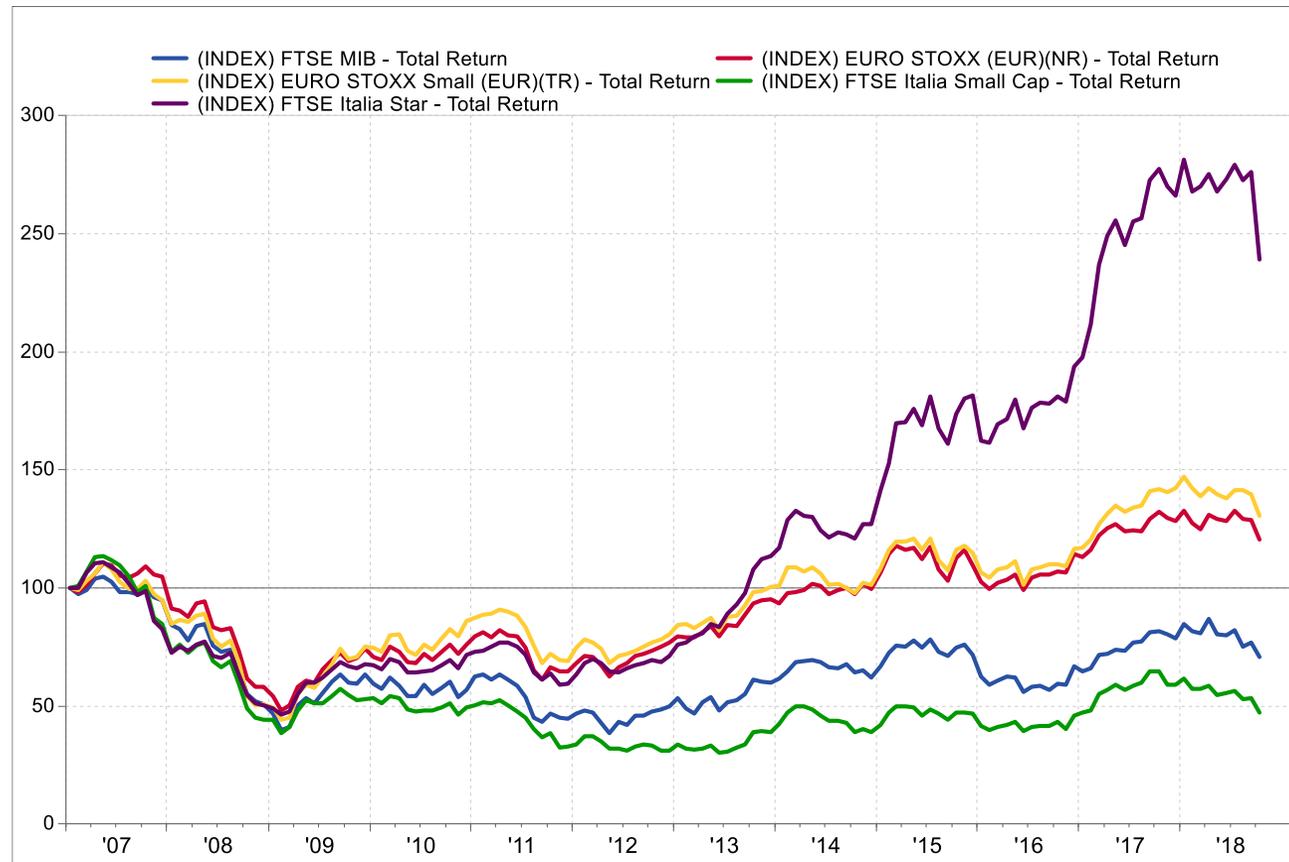
- Why? Ex-post rationalisations abound (slowdown in global/European growth, increased 'risk aversion' due to political uncertainty, redressing of STAR and Small Cap 'overvaluation', outflows from PIR accounts).
- None stand to reason. A longer time perspective helps:



- Since the introduction of PIR funds in January 2017, the Italian Small Caps and STAR indices vastly outperformed the MIB index as well as the Euro area indices.
- But since November 2017, the Small Cap index entered a downward trend that drove it behind all other indices by the end of October 2018.
- Not so for the STAR index, which kept steady until the October fall and remained above all other indices.

A Star performance

- A longer time horizon explains. The STAR segment has vastly outperformed Italian large and small caps since 2009 and Euro area large and small caps since 2013, long before the introduction of PIR funds.
- This has happened through a variety of economic and political environments.



Volatility creates opportunity

- The STAR performance underlies a key guiding principle of the Made in Italy Fund: **Italian equities are better seen from a bottom-up rather than a top-down perspective.**
- The long term outperformance of the STAR segment does not imply overvaluation but reflects better fundamentals. It is therefore set to continue. The Small Cap universe is highly heterogeneous and in need of careful active selection.
- There is no rational reason for the sharp fall in the STAR and Small Cap indices in October.
- While taking more time and more convoluted ways than [we expected](#), the stand-off between the Italian government and the EU will eventually reach a mutually agreeable compromise.
- With price drops in full swing, many Star companies were meeting investors at the annual [London STAR Conference](#). We saw many of them. None of those in the Made in Italy portfolio gave us any reason to lower our valuations. Business conditions are strong and are expected to remain so in 2019.
- **The only difference is that their price was much cheaper at the end of October than it was at the beginning.**

The Made in Italy Fund – according to plan

- As recently reported in our last quarterly [investor letter](#), since inception (17 May 2016) the Made in Italy Fund has largely outperformed the weighted average of Italian Equities funds, the Small Cap and the MIB indices, as well as their ETF closest trackers – the Lyxor Mid Cap Fund and the iShares FTSE MIB.
- Incidentally, it has also done much better than the Euro Stoxx and the Euro Stoxx Small Cap indices.
- So far, it is behind the STAR index, mainly because of the very strong performance over the period of the three largest stocks in the index – Amplifon (+133%), Interpump (+118%) and BB Biotech (+61%) – in which the MIF, following its maximum one billion market cap rule, does not invest.

| | MIF Class | Italian Equities Funds Weighted Average | FTSE Italia Small Cap | Lyxor FTSE Italia Mid Cap PIR (DR) UCITS ETF | FTSE MIB | iShares FTSE MIB UCITS ETF EUR (Acc) | FTSE Italia Star | Euro Stoxx | Euro Stoxx small | |
|-------------------------|-----------|---|--------------------------|--|----------|---|---------------------|---------------|------------------------|-------|
| 17/05/2016 - 30/09/2018 | A | 42.4% | 28.2% | 28.7% | 31.0% | 30.9% | 28.1% | 60.5% | 27.0% | 30.2% |

A great entry point

- As often stressed since our [first quarterly letter](#), the MIF has no benchmark and does not track any index. Stocks are in the portfolio solely because of their valuation gap versus their market price and independently of any index weight.
- The MIF's aim over time is to be ahead of any relevant market index and fund average. So far it has done so, except for the STAR index. We believe it will continue to do so in the future, including moving ahead of the STAR index, as the smaller companies in the portfolio – including those currently quoted on the Aim Italia market – grow to become the Amplifon and Interpump of tomorrow.
- **October irrational and indiscriminate price fall has given investors an excellent opportunity to start or increase a position in the Made in Italy Fund.**