SHORT TERM

INVESTOR LETTER – OCTOBER 2022

This fund invests mainly in deposits in European credit institutions with the aim of obtaining returns in line with interest rates on deposits with maturity equal to or less than one year. Investment decisions are based on a meticulous analysis of the banking institutions' creditworthiness during the deposit period and on the level of interest paid on the deposits.

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Strategy

The sub-fund is invested in deposits up to 12 months. Up to 30% of the sub-fund can be invested in short term bonds, with a maturity up to 18 months. In line with UCITS regulation, all deposits have early redemption clauses, enabling the investment manager to recall the full amount on an immediate basis. This feature guarantees liquidity for the sub-fund investors, but - at the same time - enables the investment manager to quickly switch counterparties in the portfolio. While the portfolio has a very limited duration, the credit exposure is deliberately unconstrained: the portfolio is typically exposed to regional banks, in most cases with a non-prime credit rating or with no formal credit rating at all. All credit exposures are monitored by dedicated in-house analysts. The portfolio has been and is likely to remain heavily exposed to the Italian banking sector: a number of local banks (regional or speciality finance) continue to pay a premium for institutional liquidity. After the introduction of Mifid regulation Italian banks have seen a reduction in retail funding: retail bond issuance has decreased and retail clients are offered a wider set of investment opportunities, diversifying away from a concentrated position to a single bank. In most cases, banks can cover liquidity needs accessing ECB Repo facilities. On the other side, banks are actively looking for alternative sources of funding, with unsecured deposits offering them the opportunity to improve regulatory ratios such as LCR and NSFR. Investors should be reminded that Italian regulation offers unique protection, granting the so called "depositors preference": in the event of resolution or liquidation, senior bonds will rank junior to deposits and will be subject to bail-in before any loss is imposed on depositors. This protection is not limited to retail customers but extended to any amount deposited by institutional investors (Law Decree 181/2015: art. 1, c. 33, letter b; art. 3, c. 9).

Monthly comment for October 2022

The Sub-fund monthly return was a positive 0.05%, much higher than the modestly positive return of the past few months. An acceleration in the speed of ECB tightening has helped our fund renewing deposits at a higher interest rate. On the other side, our exposure remains concentrated on deposits in order to keep volatility very contained, in an otherwise very volatile month for short term securities.

We continue to find decent investments in bonds (with a maturity, in most cases, lower than 6 months). These two portfolio components (deposits and bonds, up to 30%) will allow us to deliver positive returns into year end.

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