RAFFAELLO PIR

INVESTOR LETTER – Q3 2022

Alternative PIR Open UCITS fund providing liquidity to the customer, transparency and diversification and combining the tax benefits of an alternative PIR. The investment strategy is mainly equity-based with at least 70% of the securities in Italian listed companies not belonging to the FTSE MIB or FTSE Mid Cap indices. ESG analysis and ethical exclusions are integrated into the valuations and do not limit the investable universe.

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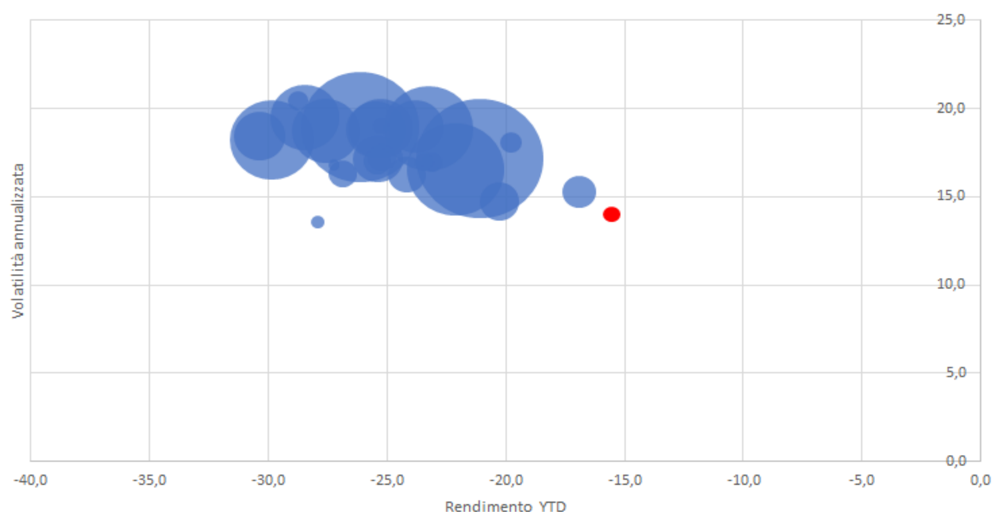
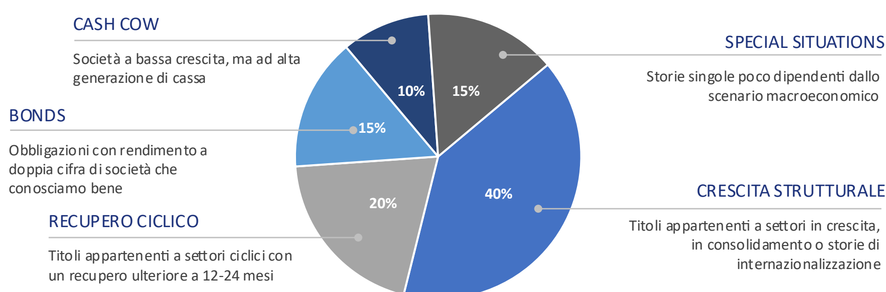
From the beginning of the year to 13 October the fund has shown a performance of **-15.6%**, better than all the Italian Stock Exchange indices: FTSEMIB -23.9%, FTSE MID CAP -29.8%, FTSE STAR -36.4% and FTSE Italia Growth -23.9%. Even comparing Raffaello (identified with the red colour) with the other main funds of the Italian PIR world or with the ETFs listed in Milan, the comparison is on average 10 percentage points in favour of Banor.



Source: Bloomberg. The size of the circles is linked to the AUMs of the funds under analysis.

In accordance with article 8 of EU regulation 2019/2088, the fund promotes environmental, social and governance characteristics in accordance with European regulation. Notably, the fund's investment process excludes companies having low practice or standards in these sectors, or those with a high long term sustainability risk.

This outperformance was equally due to Alpha (since the beginning of the year our stocks lost an average of 5 points less compared to the index) and Beta (we invested gradually, with an average weight in stocks of less than 65% since the beginning of the year). At the moment, we are fully invested as we see valuations already incorporating adverse recession scenarios in 2023; the portfolio is focused on 5 topics:



1) Structural growth (40% of portfolio)

The price inversion since the beginning of the year has allowed us to build positions on leading companies in their sectors, with high returns on capital (ROE > 20%, ROCE

> 15%) and potential for geographical or product expansion. We're referring to companies like Racing Force, Technoprobe, Tenax International and Revo, where our job is just to buy with a good margin of safety on the valuation side and let management work. At present, the average earnings multiple of these companies is less than 16 times, with double-digit growth expected in the medium term.

2) Cyclical recovery (20% of portfolio)

In this cluster we include companies that we believe are already experiencing adverse scenarios and that will be able to weather the oncoming macroeconomic storm, catching up quickly at the first signs of recovery. These are also leading companies, although they are part of cyclical sectors where structural growth is not high and depends on the economic cycles: stocks such as Biesse (woodworking machinery) or Sabaf (kitchen components) have already lost between 25% and 50% in 2022 and we believe they will recover very well in 2023.

3) Special Situations (15% of portfolio)

This part of the portfolio is invested in companies that should only marginally suffer from the uncertain phase of the economy: these are stocks special situations (spinoff, IPOs or possible M&A) where we see the possibility of a value increase. The two main stocks in this group are Autostrade Meridionali (liquidation value in the area of EUR 45, versus EUR 37 currently listed) and Telecom Italia Risparmio (where the network spinoff should generate a dividend payment of a dividend of about 30% of the current price).

4) Cash Cows (10% of portfolio)

These are companies from low/zero growth sectors (traditional media, food) but with a maniacal focus on cost control and cash generation. In this group we only have stocks with free cash flow yield (i.e. cash generated after all costs divided by capitalization) above 12% per year and with debt under control. We therefore expect a performance not much higher than the dividend, which is in any case expected to be close to 8% annually with low risk.

5) Bonds (15% of portfolio)

These are opportunities that opened up a few months ago due to the indiscriminate sale of some domestic high-yield bonds. In particular, we had the opportunity to buy issues from high-quality companies such as IMA or Engineering at yields close to 10%: these companies that are no longer listed maintain excellent fundamentals but generate fears due to less transparency on data and news. While we share these concerns to some extent (a listed company has a continuous market price, a level of analyst coverage, and more control from regulators), we believe that the fundamentals of the companies which have consistently generated cash in the last few years and have a leadership position in their segment, do not deserve such a high yield spread.

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We recognize that uncertainties currently reign supreme, mainly due to the global slowdown (driven by rate hikes) and energy prices (due to the Russia-Ukraine war), but we also believe that much of this is already reflected in current stock prices. We believe that the current portfolio structure is the best balance to capture the recovery and growth opportunities that will occur once clouds are cleared out and we return to a more normalized situation. This structure will also help keeping liquidity to increase riskier investments in the event of a further decline in prices.

ANGELO MEDA

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