

Generali Investments Sicav Euro Bond & Euro Bond 1-3 Years Q&A with the Funds Manager

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Generali Investments SICAV (GIS) Euro Bond & Euro Bond 1-3 Years Funds invest mainly in Euro-denominated government bonds, the latter focusing on average portfolio maturity ranging from 1 to 3 years. The investment approach is active and implemented through duration strategies, yield curve positioning and decisions about countries exposure. The Fund Manager does not take bets on non-Euro currencies which, in case, represent a marginal share of the portfolios, both in terms of risk and performance contribution.

Interview with Mauro Valle, Fund Manager

- **What are the main drivers of performance last year? Can you provide us with some examples of what had performed in line with your expectations and what did not?**

Last year, Government bond funds profited from Central Banks' accommodative monetary policies. Aiming to achieve low and stable inflation to support economic growth, Central Banks' dovish attitude sustained a global decline in interest rates. Eurozone core rates reached deeply negative territory while the US Treasury rates moved closed to historical minimum levels.

Looking more closely at the Eurozone, the European Central Bank (ECB) fiscal policy supported the reverse movement of Germany rates starting from August 2019, whereas in Italy the impact was less effective due to political uncertainty (European elections) and its excessive debt (concern of an EU procedure). In the second half of 2019, instead, spread tightened due to the positive conclusion of the Italian conflict with EU – after the rates spike in August – and thanks to the establishment of a new pro-Europe government.

In Q1 the performance of the GIS Euro Bond Sub-fund was negatively impacted by the short exposure to core rates and the low contribution of Italian Bonds. The sub-fund fully recovered in Q2 as a clear exposure to Italian BTPs allowed the performance to benefit from the tightening of Italian spreads.

Achievements in 2019	2019	AUM
GIS Euro Bond Fund	6.26%	797.54 mil EUR
<i>Benchmark</i>	6.94%	
GIS Euro Bond 1-3 years Fund	2.04%	530.84 mil EUR
<i>Benchmark</i>	0.34%	

Past performance is not a guarantee of, and not necessarily indicative of, future results. Investment return and principal value may fluctuate so you may have a gain or a loss when the shares are sold. The performance of and income from the Units have to be reduced by costs and taxes. For more information of the funds including the 3rd and 5th year of performance, please refer to the factsheet of the sub-funds available from the newsletter. Source: Generali Investments Partners S.p.A Società di gestione del risparmio as at end of December 2019.

Over the summer, we kept a short duration in the portfolio regardless of the record level of the Bund (-0.70%) as we considered these negative levels not sustainable over the medium term. The investment strategy started to pay off from September 2019, when rates moved higher.

Our long exposure to Italian Bonds also contributed to the performance in September and October, due to a moderately positive performance of the Italian spread.

The performance of the GIS Euro Bond 1-3 Years Sub-fund followed a similar path, yet with a greater contribution by the shorter core rate position. The sub-fund, in fact, was not affected by the decline of the long core rate as our exposure on this segment of the yield curve was lower. Moreover, the sub-fund strongly benefitted from the tightening of the Italian spread on the short-medium maturities.

- **In the current environment – with a large part of the bonds investment offering negative returns – you need a high conviction approach to navigate. Could you tell us where do you see the main challenges or opportunities within the govies universe?**

A large part of the government bonds in the Eurozone are offering negative yields and this situation is not expected to change any soon. Today more than ever a high conviction approach is paramount to exploit all opportunities in rate movements.

The fast-spreading Coronavirus disease is challenging the 2020 global macro rebound, its impact on China and the global trade is unclear but has yet caused markets uncertainty and a broader sell-off risk. As first reaction, risky assets – especially equities – have not been affected and continued the rally, while interest rate responded with a globally spread fall. If this scenario persists, we expect to see this trend lasting, keeping the Euro interest rates in the negative territory and a further decline in the US.

▪ **How would you expect to position the portfolio in the current market environment?**

In the following months, we expect to further align the duration of both sub-funds to their benchmarks' (J.P. Morgan EMU Index and J.P. Morgan EMU 1-3 Years Index). In terms of duration, we will be more exposed to core countries (Germany) and we will prefer the long part of the yield curve as it offers a decent level of yields. Additionally, we should expect further accommodative monetary policy by Central Banks if the global economic scenario would start deteriorating.

Time will be very relevant; the challenge will be to understand the level of rates when the investment strategy of the sub-funds should turn more conservative and the portfolios' duration reduced.

We are moderately long on Italian bonds, especially on medium-term maturities that offer what we consider a good level of risk-adjusted yield. We also like long-term maturities (30y) that can better protect the portfolios in case of higher spread volatility. Our positive view on Italian Bonds is supported by the ECB's purchase program, yet we are monitoring the economy and political scenario.



Mauro Valle, CFA
Head of Fixed Income,
Fund Manager

- 24 years of experience
- Joined Generali Group in 1994. Mauro is Head of Fixed Income at Generali Investments Partners since October 2018. Before, he was Portfolio Manager of Third Party government bonds portfolios.
- Previously, Mauro worked at Banca Commerciale Italia (now Intesa Sanpaolo) in Milan and JP Morgan Asset Management in London.
- Education: Master in Business Administration, Clemson University (S.C., USA) and a Degree in Economics, University of Trieste; CFA Charterholder.

Mauro is rated «A» by Citywire as manager of the GIS Euro Short Term Bond and GIS Euro Bond 1-3 years Funds¹

¹Source: Citiwire.com, as of December 2019. Past performance is not a guarantee of, and not necessarily indicative of, future results. Investment return and principal value may fluctuate so you may have a gain or a loss when the shares are sold. GIS Euro Bond and GIS Euro Bond 1-3 years are sub-funds of Generali Investments SICAV (an investment company qualifying as a "société d'investissement à capitalvariable" with multiple sub-funds under the laws of the Grand Duchy of Luxembourg) managed by Generali Investments Partners S.p.A. Società di gestione del risparmio. The information contained in this document is only for general information on products and services provided by Generali Investments S.p.A. Società di gestione del risparmio. It shall under no circumstance constitute an offer, recommendation or solicitation to subscribe units/shares of undertakings for collective investment in transferable securities or application for an offer of investments services. It is not linked to or it is not intended to be the foundation of any contract or commitment. It shall not be considered as an explicit or implicit recommendation of investment strategy or as investment advice. Before subscribing an offer of investment services, each potential client shall be given every document provided by the regulations in force from time to time, documents to be carefully read by the client before making any investment choice. Generali Investments Partners S.p.A. Società di gestione del risparmio, periodically updating the contents of this document, relieves itself from any responsibility concerning mistakes or omissions and shall not be considered responsible in case of possible damages or losses related to the improper use of the information herein provided. Past performance is not a guarantee of future performance and the fund present a risk of loss of capital. No assurance is released with regard to the approximate correspondence of the future performances with the ones above mentioned. It is recommended to look over the regulation, available on our website www.generali-investments.com. The client shall carefully read the KIID, which must be delivered before subscribing the investment, and the prospectus which are available on our website (www.generali-investments.com), on Generali Investments Luxembourg S.A. (Management Company of Generali Investments SICAV) website (www.generali-investments.lu), and by distributors. Generali Investments is part of the Generali Group which was established in 1831 in Trieste as Assicurazioni Generali Austro-Italiche. Generali Investments is a commercial brand of Generali Investments Partners S.p.A. Società di gestione del risparmio.