GENERALI INVESTMENTS

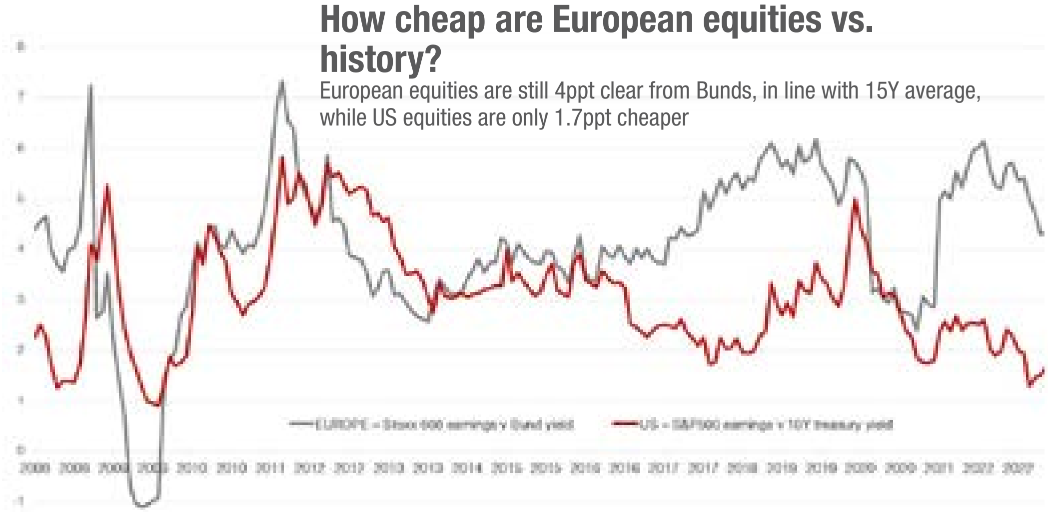
MARKETING COMMUNICATION FOR PROFESSIONAL INVESTORS IN ITALY, SPAIN, PORTUGAL, GERMANY, AUSTRIA AND LUXEMBOURG.

Three years of investing in European innovation

January 2023

How cheap are European equities vs. history?

European equities are still 4ppt clear from Bunds, in line with 15Y average, while US equities are only 1.7ppt cheaper



Source: Bloomberg as at 17 January 2023

KEY TAKEAWAYS

- In Europe, industrials, life sciences, energy, financials, healthcare, and transport are just a few sectors seeing a huge amount of innovation in their business processes.
- Looking ahead, there is no shortage of risks but there are more and more signs that inflation, rates and the dollar have peaked, and that a Fed pivot is in sight.
- There may still be a window of opportunity to catch "big lows" in European equities and take advantage of lower valuations.

Since launch in December 2019, the Aperture European Innovation fund has returned 25.1% in net euro terms[1], outperforming its benchmark, the MSCI Europe Net Total Return Index[2], which rose by 14.3%. In this article, portfolio manager Anis Lahlou discusses why Europe is an underrated hub of innovation, fund performance, and why now is the time to take advantage of lower valuations.

Looking beyond tech start-ups

Innovation is much more than just the technology sector. Instead, technology is an enabler of innovation, which can be found in every sector. That's why in the manufacturing continent of Europe, we are finding clusters of innovation thriving under the radar across almost all sectors. Industrials, life sciences, energy, financials, healthcare, and transport are just a few areas seeing a huge amount of innovation in their business processes.

Neither does investing in innovation mean accepting overpriced valuations. One example is the auto industry in Europe, which typically contains B-rated manufacturers that are investing in the future of mobility, which is autonomous, connected, and electric. Another example is banking. Large banks have benefited from the competitive pressures posed by fintech companies over the past decade as they have both the capital and capability to deploy digital innovation in their own businesses. In some instances, and given lower valuations and higher interest rates, some large European banks now present a more attractive opportunity than the pure play fintechs themselves as they will be able to accelerate new digital investment in areas where unprofitable fintechs are trying to save costs.

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> ”

In the Aperture European Innovation fund, we focus on fundamental, bottom-up stock-picking to select the companies that we believe are leading global innovation and are set for shareholder returns, whatever the sector may be and regardless of whether they are start-ups or older, established blue-chips. I see the 'old continent' as a rich soil in which we can discover mispriced companies.

The Aperture European Innovation fund: Diversified returns

In line with our flexible approach, we didn't shy away from holding half of the portfolio in tech stocks before and during the height of the Covid crisis in 2020-2021, given technology was the answer to many of our challenges in a locked-down world. However, we were also happy to reduce technology exposure over 2022 as it became clear the global economy was entering a fundamental regime shift

6.20%[3] → 3 years annualized return

3.16%[3] → Annualized outperformance over 3 years vs. the benchmark

7-18%[3] → Potential valuation upside of European equities to 10Y and 20Y averages

[3]Source: Generali Investments Partners S.p.A. Società di gestione del risparmio as at 31.12.2022

Past performance does not predict future returns. [1]Since Inception figures are cumulative for Class LU2077746936. Performances are net of all fees except entry and exist fees. Dividend reinvested for accumulative classes. The Fund is denominated in a currency other than the investor's base currency, changes in the exchange rate may have a negative impact on the net asset value, performance and costs. When the reference currency of the Fund / Share differs than yours, returns and costs may increase or decrease as a result of currency and exchange rate fluctuations. There is no guarantee that an investment objective will be achieved or that a return on capital will be obtained. The Fund does not benefit from any guarantee to protect the capital. Fund launch date: 17/12/2019, Share Class launch date: 17/12/2019. [2]The performance of the Benchmark does not predict future performances of that Benchmark and of the performance of the Fund. The fund is actively managed and references the Benchmark only for the purpose of performance fee calculation.

into higher inflation and higher interest rates. As it stands, healthcare is now the largest sector in the fund at around 15%.

Over the three years since launch, we are pleased that the Aperture European Innovation fund has returned 25.1% in net euro terms, outperforming its benchmark, the MSCI Europe Net Total Return Index, which rose by 14.3%. The fund's top performers over the first three years reflect a diverse range of sectors including a global Danish pharmaceutical making huge advancements in diabetes and obesity treatment, a Dutch semiconductor creating the equipment that enables AI, an IT services company that is enabling digitalisation across Europe, and one of Europe's largest banks.

Of course, the last three years have been a dramatic ride for investors of all stripes, and 2022 was a challenging year for the fund. However, we find it reassuring that the key detractors from performance since launch were companies that were taken by surprise during the unprecedented global lockdowns in 2020.

A window of opportunity to catch the "big lows"

Looking ahead, there is no shortage of risks as financial conditions continue to tighten and geopolitics remain highly uncertain. That said, there are more and more signs that inflation, rates and the dollar have peaked, and that a Fed pivot is in sight. The much-feared winter energy crisis in Europe now seems increasingly averted.

We understand that part of this is captured in the strong price action of the fourth quarter and that ahead of us lies a delayed response to the Fed's restrictive interest rate action in terms of economic slowdown. However, we believe nominal revenue growth will still drive operational leverage and that an earnings reset is unlikely to be anywhere similar to 2000 or 2008 precedents, nor drive stock prices given a central bank pivot is increasingly within sight, at least in the near term.

Global investor positioning remains light in international/non-US assets and risk, which bodes well for more easing in risk aversion and European equities where valuations remain supportive even when compared with higher domestic government bond yields. More than any other time, this could provide a helpful tailwind to smaller, less-owned, more discounted European innovation stocks.
In the fund, we favour a barbell strategy of balancing some expensive higher growth innovation stocks to

> **"Big lows" are the ideal opportunities to take advantage of lower valuations ”**

mitigate risk with cheaper cyclical stocks that may benefit from China's re-opening and higher-for-longer rates. We are taking into consideration the potential for improvement in the business cycle should inflation peak. A possible peak of Fed hiking and higher-for-longer rates give us comfort for a more sustained re-rating in cheaper sectors such as financials.

In my view, "big lows" are the ideal opportunities to take advantage of lower valuations. European and US markets have already corrected by 20-25% peak-to-trough. Catching the lows is always challenging as seen in the fourth quarter bounce, but we may still have a good window ahead of us.

Anis Lahlou
Fund Manager of the Aperture European Innovation sub-fund

Performance since launch

As at end of December 2022

	YTD	12M	3Y ann.	5Y ann.	10Y ann.	Since launch (ann.)
Aperture European Innovation sub-fund	**-16.21%**	**-16.21%**	**6.20%**	**n/a**	**n/a**	**6.34%**
Benchmark	-9.49%	-9.49%	3.04%	n/a	n/a	3.10%

Source: Generali Investments Partners S.p.A. Società di gestione del risparmio as at 31.12.2022
Investments involve risks. Past performance does not predict future return. There can be no assurance that an investment objective will be achieved or that there will be a return on capital. You may not get back the amount initially invested. Before making any investment decision, investors must read the Prospectus, and particularly the specific risks contained in section 6, as well as the Key Information Document (KIID).The value of and income from fund units or sub-fund units ("Units") may fluctuate, rise or fall, so you may have a gain or a loss when the Units are sold. The performance of and income from the Units have to be reduced by costs and taxes. Current performance may be higher or lower than the quoted and no guarantee can be assumed that the investment objectives of the fund/sub-fund will be achieved.

KEY FACTS as at 31 December 2022

Fund Manager	Anis Lahlou
ISIN (I, EUR, Dis)	LU2077746936
AUM	€444 M
Inception Date	17 December 2019
Benchmark[4]	MSCI Euro Net Total Return
Currency	Euro
Domicile	Luxembourg
Entry / Exit charge (%)	5% / 1%
On going charges	0.60%
Management fee	VMF minimum 0.30
Performance fee[5]	Variable
Investment Manager	Aperture Investors UK, LTD
Management Company	Generali Investments Luxembourg S.A.
Risk Profile[6]	4/7 (medium-risk class)

aperture investors

Based in New York and London, Aperture offers actively managed investment strategies and a unique fee model that aligns fund manager incentives with client performance.

The firm charges low, ETF-like fees when performance is at or below stated benchmark. A performance-linked fee is charged only when returns are generated in excess of a strategy's benchmark. Investment teams are therefore compensated primarily on outperformance.

Aperture Investors is part of the Generali Investments platform.

[4] Used for performance fee calculation only
[5] Performance fee: For its services to the Sub-fund, the Investment Manager is entitled to a variable management fee ("VMF"), which is calculated and accrued daily, at a rate of 2.85% (the "VMF Midpoint"). The VMF Minimum portion of the VMF will be calculated and accrued daily based on the Sub-fund's NAV. The rest of the VMF amount, if any, will be calculated and accrued daily based on the Sub-fund's daily Modified Net Assets, adjusted upward or downward by a performance adjustment (the "Performance Adjustment") that depends on whether, and to what extent, the performance of the Sub-fund exceeds, or is exceeded by, the performance of the Benchmark plus 8.5% (850 basis points) (the "VMF Midpoint Hurdle") over the Performance Period. For a full description of the VMF please see the applicable section in Appendix A contained in the Prospectus.
[6] The summary risk indicator level is 4 (which is a medium-risk class). Investments involve risks. Past performance does not predict future return. There can be no assurance that an investment objective will be achieved or that there will be a return on capital. You may not get back the amount initially invested. Before making any investment decision, investors must read the Prospectus, and particularly the specific risks contained in section 6, as well as the Key Information Document (KID). The inherent main risks of the sub-fund (non-exhaustive list): Sustainable finance risk, Market risk, Volatility risk (due to the exposure of the Sub-fund to financial derivative instruments the volatility can at times be magnified), Equity, Investment in smaller companies, foreign exchange, short exposure risk, Derivatives, OTC financial derivative instruments, Rule 144A and/or Regulation S securities.