MIMS – Italian Equity PIR Fund

Portfolio Management Team

Report – May 2023

Fund Description

The Italian Equity PIR Fund is an actively managed fund by Minerva Investment Management Society, exclusively made of Italian Equity and following an investment solution known as PIR, *Piano Individuale di Risparmio* (Individual Savings Plan), which allows to benefit from considerable fiscal advantages. To qualify as a PIR fund, a portfolio has to follow different requirements. First of all, at least 70% of its assets has to be invested in financial instruments of companies with a long-lasting presence in Italy. Secondly, at least 25% of this 70%, that is at least 17.5% of the overall portfolio, has to be invested in financial instruments of companies which are not included in the FTSE MIB or equivalent foreign indices. Finally, at least 5% of this 70%, that is at least 3.5% of the overall portfolio, has to be invested in financial instruments of companies not belonging to either the FTSE MIB, the FTSE Italia Mid Cap or equivalent foreign indices.

The ultimate goal of the fund is to outperform its benchmark, which is made up by two indexes, the FTSE MIB and the FTSE Italia Mid-Small Cap PIR Index. Each stock was chosen keeping in mind both the requirements outlined previously and the macroeconomic outlook, with particular attention to the Italian one.

Italian Macroeconomic Outlook

On April 21, S&P Global Ratings confirmed its BBB/A-2 credit rating on Italy, reflecting a stable outlook for the country's economy. Italy's government debt to GDP is expected to decline in 2023-2026, as economic growth picks up next year, fostered by EU investments , external demand, and stabilizing terms of trade. However, this is balanced against the risk of a reversal in the delivery of critical reforms, including those embedded in Italy's National Recovery and Resilience Plan, leading to a delay of EU support. Economic growth is expected to decelerate in 2023 to 0.4% from 3.7% due to high inflation, tightening credit conditions and subdued growth in Europe, resulting in a big hit to private consumption, which at roughly 60% of GDP is a key growth driver. However, Italy's energy resilience should strengthen under the EU's joint energy initiatives and funds geared toward the green energy transition. Indeed, Italy has managed to diversify away from Russian gas, which now constitutes 10% of its gas imports compared to 40% prior to the Russia-Ukraine war. Moreover, an unexpected return to political calm, after grim expectations following the election of Giorgia Meloni as Prime Minister in September, and a lack of confrontation with Brussels, along with a warmer than expected winter, are promising signals for the future of the Italian economy.

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INVESTMENT APPROACHES

Top-Down Approach

Based on a comprehensive assessment of the current macroeconomic conditions, with emphasis on the Italian economy, the analysts identify the industries they deem with the highest growth potential and that are expected to perform well in the current environment.

Bottom-Up Approach

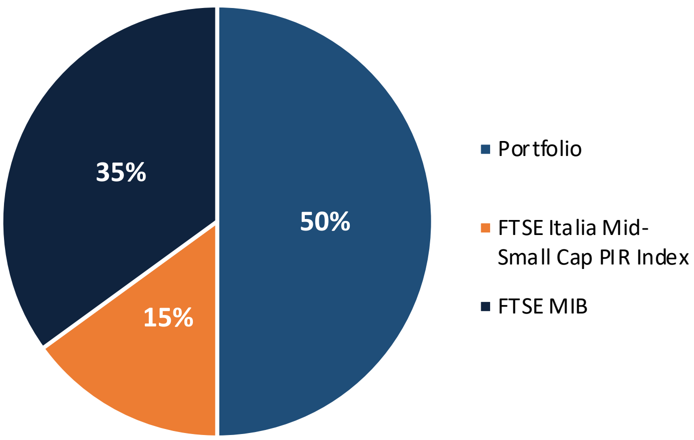
Once an Analyst identifies a security that appears promising, they will discuss their suggestion with the team. If the idea is approved, a detailed analysis will follow. The team will evaluate the security's long-term growth potential and conduct a thorough risk assessment on both a micro and macro level to gauge potential downside risks associated with the investment.

Allocation Breakdown

Portfolio Allocation

In order to limit the excessive volatility that would result from a portfolio made up of a limited number of Italian stocks, albeit diversified with reference to the sectorial exposure, 35% of Minerva Italian Equity PIR Fund is allocated to the FTSE MIB, and 15% to the FTSE Italia Mid-Small Cap PIR Index, which make up the benchmark against which the performance of the fund is measured.

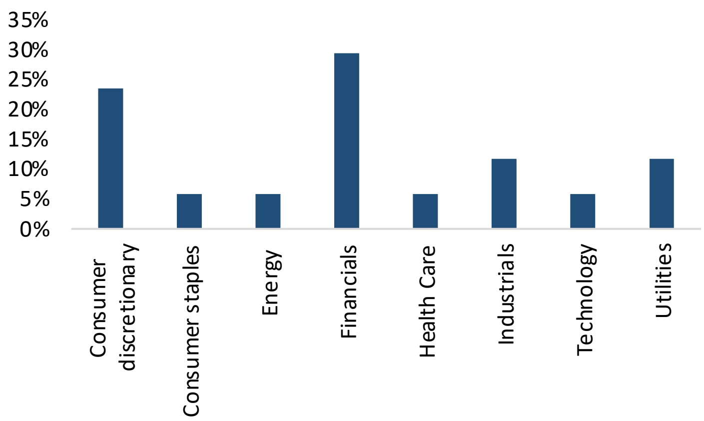
The other 50% is divided among 17 stocks, carefully selected in line with our analysis of the macroeconomic outlook and their long-term growth potential. Furthermore, we believe these stocks will have limited risk downsides both on a micro and macro level. The weight of each stock in the portfolio is considered on the basis of the PIR requirements outlined before, which are thoroughly respected. As shown on the side, the base weight is 2.50% for every stock. Then, the stocks which we think are going to significantly outperform the benchmark for the next 6 months are overweighted and assigned a 2.50% bonus weight, for a total of 5.00% (so-called best picks).

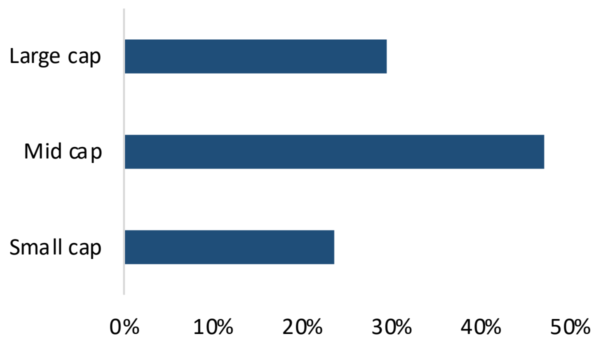


Holdings

Security	Weight
FinecoBank	5.00 %
Terna	2.50 %
Interpump Group	2.50 %
Stellantis	2.50 %
ERG	2.50 %
LU-VE	2.50 %
Mondadori	2.50 %
Sanlorenzo	2.50 %
MARR	2.50 %
doValue	2.50 %
BFF Bank	2.50 %
Iren	5.00 %
Antares Vision	2.50 %
RCS Mediagroup	2.50 %
Banca Profilo	2.50 %
Equita Group	2.50 %
Garofalo Health Care	5.00 %

Sector Breakdown





FinecoBank

Company Overview

FinecoBank SpA engages in the provision of banking, trading, and investing solutions. It offers multicurrency accounts, payment cards, mortgages, loans, and financial consulting services. It operates exclusively in Italy.

Investment Case

Considering the recent turbulence in the banking system, we believe that the stock is now pricing a sector-related pessimism not in line with the firm's real value.

Since 2018, FinecoBank's revenues have grown by +14.9% YoY in 1Q23, supported by the improvement in the NII. Profitability has been convincing as well, with average net margins of 43.5%, well above the sector average. Furthermore, the company has a high equity-to-total-assets ratio, which can represent a competitive advantage in the medium run, given the current high interest rates. Finally, the bank is really solid also, and most importantly, in terms of capital adequacy. In fact, it has a CET1 ratio of 21.8% (against a sector average of 14.7%) and a loans-to-deposits ratio of only 0.2 due to its particular business model (against an average in the 0.8-1.0 area).

The main risk we identified is the possibility that the crisis in the banking sector keeps on creating uncertainty in the medium run, resulting in a weak sentiment for the entire banking and financial industry. However, even if that were the case, we believe that FinecoBank would still outperform its competitors, thanks to its peculiar capital-light business model, its solid position in terms of growth, profitability, capital adequacy, and financial strength.

Terna

Company Overview

Terna Rete Elettrica Nazionale SpA is responsible for the transmission of electricity in Italy. The firm operates through three segments: Regulated, Non-Regulated, and International.

The main segment is the Regulated one, which includes the development and maintenance of the National Transmission Grid and the construction of storage systems.

Investment Case

We believe that the two main growth opportunities at the moment are represented by a possible investment in Calabria to renew and boost the region's electric grid and the creation of a submarine energy bridge between Italy and Tunisia. In particular, the second project (which is partially funded by the EU and aims at reducing electricity supply risks for Europe) would be important for the firm to strengthen its international presence.
Terna's revenues have been growing steadily in the last three years and the firm has strong profitability. The company's level of debt is in line with the competitors' (debt-to-EBIT ratio of 10.0x vs. 10.4x), but the interest coverage (11.0x) is well satisfactory, also compared with peers. Furthermore, a very positive aspect is the cash conversion cycle.

A relevant risk factor could be identified in the recent hikes in interest rates by the ECB, given Terna's considerable amount of debt. This means that the firm will need to refinance its operations at worse conditions than before. However, Terna seems to be in a good spot as the average duration of its debt is approx. five years and almost the entirety of it is made of fixed-rate loans.

Interpump

Company Overview

Interpump Group SpA is engaged in the manufacturing of piston pumps and hydraulic products. It operates through the Water Jetting and Hydraulic segments. The Water Jetting segment composes mainly of high and very high-pressure pumps and pumping systems. The Hydraulic segment includes the production and sale of power take-offs, hydraulic cylinders, hydraulic distributors and valves, and other hydraulic components.

Its revenues come mainly from Italy (19.1%), the United States (15.6%), Canada (9.9%), and Germany (5.3%), but it has clients in Asia and other European countries as well.

Investment Case

The company has shown strong resilience during the recent highly inflationary period, managing to grow in terms of revenues (on average 5.05% quarterly since Q1 2022), while maintaining margins constant (13.6% on average). Interpump's level of debt is good in relation with the firm's EBITDA (FY22 ND/EBITDA at 1.2x). Debt is not critical as there is no apparently imminent wall of refinancing, allowing the firm to benefit from the low interest rates previously negotiated.

Interpump usually engages in a relatively intense M&A activity to achieve external growth. It recently acquired an 80% stake in Eurofluid (October 2022) and a 70% stake in I.Mec (April 2023). The management has already anticipated that other acquisitions are being evaluated. This might represent an interesting catalyst for stock prices since previous deals drove considerable growth and the market has therefore generally reacted positively to similar announcements.

A possible threat to the business is the growing adoption of drip irrigation systems, which guarantee more efficient water usage and do not use hydraulic pumps. However, we believe that Interpump's high diversification of clients and the long-term nature of the issue will make the threat easily manageable in the portfolio's time horizon.

Stellantis

Company Overview

Stellantis is a global automotive company formed in 2021 as a result of a merger between Fiat Chrysler Automobiles (FCA) and PSA Group. Headquartered in Amsterdam, Stellantis operates in over 130 countries and has a strong presence in North America, Europe, and Latin America. The company's brand portfolio includes a diverse range of automotive brands.

Stellantis is also involved in a range of other related businesses, including financing and insurance services.

Investment Case

We believe investing in Stellantis could be a promising opportunity for a variety of reasons. Indeed, Stellantis has achieved consistent revenue growth, with net revenues of € 47.2bn in 1Q23, an increase of 14% YoY, while maintaining steady margins despite the inflationary environment (8.9% on average).

STLA's PE ratio (3.1x) makes it cheap also with respect to the sector (average 7.1x), maybe excessively penalized by the perception of a lagged EV offer and little presence in China. However, STLA delivers constant dividend payments (yield approx. 7.8%), which makes it an appealing value pick.

As the growing trend towards electric vehicles could impact demand for traditional combustion engines, Stellantis has strengthened its position in the EV market. The company plans to invest $155 million to support North American Electrification goals: the announcement aligns with Company's long-term strategy to reach 50% US battery electric vehicle sales by 2030, starting with the first fully electric Ram vehicles from 2023 and Jeep from 2024.
For all these reasons, we think that including this stock in our protfolio would be a worthwhile investment.

ERG

Company Overview

ERG is a leading renewable energy company headquartered in Genoa, Italy, with a strong presence in Europe. The company is focused on the development, production, and distribution of energy from renewable sources, including wind, solar, and hydroelectric power.. The company has a strong focus on innovation and has invested heavily in research and development. storage systems.

Investment Case

There are a number of reasons that we believe make ERG an interesting opportunity.

First of all, the company has a strong presence in the renewable energy sector and is well positioned to benefit from the increasing demand for clean energy solutions.

ERG's revenues have grown by 18.7% last year, benefitting from higher prices for gas and electricity. Furthermore, it regularly pays dividends, with a dividend yield of 3.6%. According to ERG's latest financial reports and stock price the company's current price-to-earnings ratio is 15.9x, which we deem appealing considering growth opportunities.

The company is also consolidating its presence in Europe, which will help diversify the revenue stream. For all the above-mentioned reasons, along with the company's leadership in the renewable energy sector and its commitment to innovation and sustainability, we believe it would make it a compelling investment opportunity for long-term investors looking for exposure to the growing clean energy market, which is also strategic in light of the strategic independency from foreign suppliers.

LU-VE

Company Overview

LU-VE SpA engages in the manufacture and sale of heat exchangers, air cooled equipment and close control products. The firm operates through two main segments: Components and Cooling Systems. The Components segment includes heat exchangers and special glass doors for refrigerated counters and display cabinets. Instead, the Cooling Systems segment offers air cooled equipment and close control air conditioners.

Investment Case

Investing in LU-VE SpA could be a promising opportunity for several reasons. First of all, the company has a solid financial position. Indeed, its margins have been increasing steadily since the Covid-19 outbreak and are expected to expand further in the next years. Moreover, the liquidity situation of the firm is also very strong, with current ratio, quick ratio and cash ratio all above the 1.0 threshold.

Secondly, LU-VE has a significant growth potential. The demand for heat exchangers, heat pumps and industrial cooling systems is expected to rise considerably due to a series of factors. The most notable ones are incentives from the REPowerEu program, the European Commission plan to reduce dependence on Russian fossil fuels and fast forward the green transition, the growth of the so-called "cold chain" in the developing countries and the transition to more environmentally friendly cooling systems, a sector in which the firm is becoming one of the leading world companies.

Furthermore, being the slowdown in some market sectors caused predominantly by the skyrocketing inflation and the supply chain issues, we would expect an improvement in the coming months, given that inflation is expected to decrease to 6.5% in Italy in 2023 and we foresee also a global normalization in price levels. The company is also expected to increase its geographical exposure as a result of the launch of three expansion projects in its production sites in Poland, China and the US.

Finally, we can also say that the company is quite cheap, also considering its pre-pandemic levels. Indeed, it is now trading at a P/E of 13.1x, compared with 22.5x in 2021 and 16.2x in 2019.

Mondadori

Company Overview

Arnoldo Mondadori Editore SpA engages in the publishing business and operates in the following business segments: Books, Retail, Media and Corporate & Shared Services.

First of all, the Books segment is comprised of fiction and non-fiction works, paperbacks, children's books, textbooks, art, illustrated books, and electronic books. Secondly, the Retail segment operates stores, direct sales outlets, franchises, the web, and book clubs through its subsidiary, Mondadori Direct SpA. Thirdly, the Media segment covers the group's small to medium-sized advertising investors and media centers.

Finally, the Corporate & Shared Services segment performs parent company functions through the provision of services such as information technology and communications, administration, management control and planning, treasury and finance, human resources, legal and corporate affairs, and public relations to the companies of the group and the different business areas.

Investment Case

Firstly, the company has a leading position in the Italian publishing business. Indeed, the Trade and Education segments, which are the two subunits making up the Books business area, have a national market share of respectively 27.0% and 32.3%. As for the Retail sector, Mondadori is the one with the most extended network in Italy. Although the digital side of the publishing business is gaining much more importance recently, the physical shops are still very relevant in a country like Italy and revenues from bookstore franchising actually grew by 4.3% in 2022.

Secondly, Mondadori has had a very strong financial performance over the last couple of years. After some bleak years before and during the Covid-19 pandemic, sales, margins and net income have reached and largely overcome the pre-pandemic levels. ROA and ROE have grown considerably and so have EPS. Due to the Group's positive results, we also see the resurgence of a shareholder remuneration policy, with a current dividend yield of 6.1%, compared to 4.2% in 2021.

Thirdly, the company has a solid growth potential. The firm intends to expand through M&A operations, consolidating and reinforcing its leadership position in the publishing business, especially as regards the digital sector.

Finally, we can highlight that the company is quite cheap, from an historical perspective. Indeed, it is currently trading at a PE of 9.8x, compared to 12.0x in 2021 and 19.0x in 2019. All these reasons make investing in the company an interesting opportunity in our view.

Sanlorenzo

Company Overview

Sanlorenzo SpA engages in the manufacture and sale of yachts. The firm produces motor yachts and mega yachts in fiberglass, aluminum or steel. Its products include SL62, SL72, SL104, pontoon, aluminum, fishing, bass and speed boats. It operates through the following divisions: Yacht, Superyacht, and Bluegame. The Yacht Division includes composite yachts of a length between 24 and 38 meters. The Superyacht Division refers to superyachts in aluminium and steel, which are more than 38 meters in length. The Bluegame Division represents sports utility yachts less than 24 meters in length.

Investment Case

First of all, the company's financials are very solid. Margins have been increasing steadily since the firm became a public company in 2018 (gross margin of 21.3% in 2022 compared to 12.4% in 2021 and 9.95% in 2019), and so has profitability (ROE of 28.7% in 2022 compared to 24.6% in 2021 and 20.6% in 2019). Furthermore, its EPS has a 3-year CAGR of 36.3%. As regards its liquidity situation, both current and quick ratio are greater than 1.0.

Secondly, the company has a substantial growth potential. Indeed, although the macroeconomic outlook for the next months in our opinion is not the brightest, Sanlorenzo's customers belong mostly to the so-called Ultra High Net Worth Individuals (UHNWIs), characterized by rates of yachting penetration among the lowest in the luxury segment and, therefore, strong unexpressed demand potential. This factor, combined with the demand expansion resulting from the steady increase in the wealth and number of such UHNWIs, expected by the firm to reach 385,000 people in 2026 (an annual increase of 24,000 UHNWIs per annum) represents an ample growth opportunity. Also, the supply of yachts over 24 meters will grow at a lower pace, reaching 1,203 units by 2023, reducing the yacht penetration of the segment from 3.0% to 2.5% and creating a supply-demand gap that Sanlorenzo can bridge.

The company is taking advantage of this situation and is considering becoming a majority shareholder in yacht sales and service company Simpson Marine Group and its affiliates (headquartered in Hong Kong), after entering a nonbinding memorandum of understanding on April 11. This could boost its presence in the strategic APAC region. The firm will also continue its investment strategy aimed at vertical supply chain integration. As highlighted by Sanlorenzo's positive results, such a strong demand for yachts has continued in 2022, confirming the resilience of this luxury segment against the macroeconomic context. Furthermore, as regards the conflict between Russia and Ukraine, the company has confirmed that its exposure to customers of Russian nationality is marginal, and these subjects are not affected by international sanctions at an individual level.

Finally, the company's P/E ratio is lower than in the previous years: 18.6x at time of writing compared to 25.6x in 2021 and 19.1x in 2019.

MARR

Company Overview

MARR SpA engages in the marketing and distribution of food products to the Foodservice. It operates through the Street Market and National Account, and Wholesale segments.

Investment Case

Although the FY22 results have not been groundbreaking, the company has a track record of stable revenues and profitability. Indeed, margins have decreased from 2021 due to the significant inflationary dynamics, which have severely impacted the majority of products sold by MARR. Sales in the Wholesale segment, almost entirely made up by frozen seafood product to wholesalers, were also critically affected by shorter availability of the product. We expect a recovery in margins in the coming months, also considering that Italian inflation (approx. 95.8% of the company's revenues are generated in Italy) is expected to normalize and decrease to 6.5% by year-end.

Furthermore, actions on the management of gross margin and cost control are expected to allow to return towards pre-pandemic levels of operating profits already in the current year. The liquidity situation of the firm is very solid, with both quick and current ratio greater than 1.0 and an interest coverage of 6.1.

MARR has interesting growth opportunities. The foodservice market is growing steadily and rewarding a proposal of innovative products and services, which the company is focusing on. Moreover, it is worth considering that the consumer staples sector has historically performed well during recessions.
Given that MARR operates within this sector and a recession is in our view still looming in the coming months, we believe that it could be a defensive pick in this scenario.

doValue

Company Overview

doValue SpA is engaged in the management of credit portfolios and real estate assets deriving from non-performing loans on behalf of banks and investors in Southern Europe. It also provides ancillary services such as legal, due diligence and data management. It has almost € 120bn AuM.

Investment Case

The financial position of the company looks relatively solid: the decrease in revenues and net income from FY21 to FY22 is to be attributed mostly to the expiry (and missed renewal) of the Sareb (a € 21bn portfolio) contract in Spain, which, however, according to the company, will have little effect on its future performances given its strong competitive position in the country.

Moreover, the firm is characterized by a low Net Debt/Adjusted EBITDA ratio, which has never exceeded 2.6x over the last 4 years and is expected to remain stable at around 2.0x in the future. As far as profitability is concerned, doValue has achieved a massive ROE of 31.5% in 2022, which is expected to stay at such a high level in the upcoming years.

The company's growth potential is mainly related to the macroeconomic conditions we are currently living in and its business plan for the period 2022-2024 (the so-called "doTransformation"). The former is characterized by high interest rates and high inflation, with a probable perspective of an upcoming recession. Such an outlook is clearly favorable for the credit servicing sector and particularly for doValue, as the amount of non-performing loans (NPL, which constitute the core business of the company) might rise significantly in the next years.
Ultimately, the other two factors that make doValue stock a potentially profitable investment are the low P/E ratio if compared to the pre-pandemic levels and a current dividend yield of 9.42%, which is forecasted to further increase in the next years together with the dividend per share (€ 0.60 per share for 2022 and it is estimated to reach € 0.84 per share in 2024 according to the company's business plan).

BFF Bank

Company Overview

BFF Bank provides factoring and credit management services. Its service areas encompass customer reliability evaluation, credit management and collection, completion guarantee, credit advance prior to expiration date and legal assistance during credit collection. The firm offers institutional and online banking services to public administration, public health, and local administration agencies.

Investment Case

We believe investing in BFF Bank could be a promising opportunity for several reasons. First, the financial position of the company is extremely solid: as far as the income statement is concerned, revenues increased from € 374.4mn in 2021 to € 530.6mn in 2022, resulting in a 17.6% growth in net profits over the same period.

In terms of profitability, the company realized a ROE of 30.6% in 2022 and it is expected to remain around such a high level in the upcoming years. The company's growth potential is mainly related to the macroeconomic conditions we are currently living in.

More specifically, the rise in interest rates by the ECB will boost the NII and the collection of the so-called LPI (Late Payment Interest), which are linked by law to ECB rates. Additionally, with higher interest rates, firms may have an incentive to require factoring and credit management services to obtain liquidity. Furthermore, the current scenario of increasing government spending and subsidy programs raises the potential demand for factoring services, which have already witnessed a significant growth (21.5% in 2022) in the previous years (especially in Southern Europe).

All these factors, together with an extraordinarily as generous as stable over years dividend policy make an investment in BFF Bank stock a valuable opportunity.

Iren

Company Overview

Iren SpA is a holding company, which engages in the provision of multi-utility services. It operates through the following segments: Networks, Environment, Energy, Market, and Other Services. The former includes electricity and gas distribution networks and integrated water service. The Environment segment includes waste collection and disposal. The Energy segment involves hydroelectric production and other renewable sources, cogeneration of electricity and heat, district heating, thermoelectric production, public lighting, and energy efficiency services. The Market segment includes sale of electricity, gas, heat, and other customer services.

Investment Case

First of all, the financial statements of the company report a 3.8% increase in EBITDA from 2021 to 2022 and a net financial debt (€ 3.3bn) that remained below the planned levels, despite the great number of acquisitions the group carried out during the year. Net income decreased by 19% with respect to 2021, but this was mainly due to the extraordinary negative impact of the Solidarity Contribution enacted to face the unexpected gas crisis caused by the Russia-Ukraine war.

In its 2022-2030 business plan, the company estimates to invest more than € 10.5bn, of which almost 60% will be devoted to the economic development and growth of the group. Moreover, the firm has already been granted access to € 124mn of funds from the NRRP program and has already included the benefits from the "REPowerEU" plan in its strategy for next years. Most of the investments Iren will make using these resources will address the renewable energy sector and the development of the circular economy.

This, together with a relatively low PE ratio compared to the pre-pandemic levels and a satisfactory mid-single digit dividend policy (with a dividend of € 0.11 per share already declared for June 2023 and a plan to increase the share of net income distributed as dividends by 10% every year until 2025), in our opinion makes Iren a profitable investment opportunity.

Antares Vision

Company Overview

Antares Vision SpA provides an integrated ecosystem of technologies (including both hardware and software) to guarantee product quality (inspection systems and equipment) and end-to-end traceability (that aims at tracking products throughout their entire life cycle) through connected data management and applying artificial intelligence and blockchain. It operates in various segments, such as pharmaceutical, food and beverage, biomedical devices, and cosmetics. Ultimately, it offers assistance and maintenance services linked to the solutions and systems that it sells.

Investment Case

Investing in Antares Vision SpA could be a promising opportunity for several reasons. First, the financial position of the company is extremely solid: as far as its income statement is concerned, revenues have improved significantly, going from € 179mn in 2021 to € 223.5mn in 2022, and are expected to further increase at an annual rate of 12-14%, ranging from € 250mn and € 260mn in 2023.

The rise in revenues has also been accompanied by a significant growth of net income, that rose by 47% YoY in 2022 (€ 18.7mn), and it is expected further increase in 2023 and almost double in 2024.

Focusing on the firm's balance sheet, its solvency and liquidity situation stands out: the average values of both the current and quick ratios for the last five years are above 2.0, whilst the cash ratio has been very close to or above 1.0 during the same period. The level of net debt is forecasted to fall in 2023 and even to become cash positive in 2024, which might be due to the debt restructuring the company has recently gone through, which brought the average interest rate down to 2% and does not involve payments in the next 3 years.

The company shows significant growth potential, deriving also from its recent acquisition of the Indian Smart Point Technology (a software development company), which will increase the company's presence in a fast-growing geographical area for smart data solutions and will further strengthen Antares position in the pharmaceutical sector.

RCS Mediagroup

Company Overview

Rizzoli-Corriere della Sera Media Group S.p.A. (RCS Mediagroup) is one of Italy's leading publishing groups, currently active nationally and internationally. Today it has more than 30 brands in the following markets: newspapers, magazines, television, web and advertising sales.

Investment Case

RCS Mediagroup closed FY22 with revenues of € 845mn, slightly down from the € 846.2mn achieved the previous year. Digital revenues accounted for 24.2% of the group's total revenues. EBITDA fell from € 144.5mn to € 118.5mn, due to net non-recurring expenses of € 12.1mn, of which about € 10mn were attributable to the settlement of the dispute with Blackstone concerning the via Solferino property complex. Net profit decreased to € 50.1mn from € 72.4mn recognized in 2021.

This decrease was caused to a large extent by higher raw material and electricity costs. For this reason, we expect margins to recover following the fall in electricity prices in early 2023.

The company has a PE ratio of about 8.0x, which is lower than the average P/E ratio of international peers (12.3x) calculated on a universe of 185 media companies by Infront Analytics. The EV/Sales (0.5x vs 1.2x), EV/EBITDA (2.8x vs 7.1x), EV/EBIT (4.3x vs 11.8x) and Price/Cash-Flow (3.9x vs 7.2x) ratios are also lower than the same group of international peers. RCS Mediagroup's management has approved the distribution of a 2023 dividend (relating to the 2022 financial year) of € 0.06 per share (approx. 7.5% dividend yield), that will be paid on May 24.

Banca Profilo

Company Overview

Banca Profilo is a boutique bank in Italy that offers private banking, wealth management, and asset management services to HNWIs and families. It has a well-established brand and reputation for providing high-quality services to its clients, but most importantly it is in an expansionary trend, with increasing deposits and net income.

Investment Case

Group net inflows largely stable at € 5.8 billion (-1% YoY), with positive net inflows offset by the negative financial market performance effect in the second half of 2022. Total assets up slightly compared to March 2023 (+2% YoY) in loans and advances to customers (+14% YoY) thanks to new business in Investment Banking and in other assets (+55%) including tax credits acquired. Revenues are up 8.5% YoY with a positive contribution from Private & Investment Banking, thanks to the rise in key rates and higher outstandings.

On the other hand, Operating expenses are up 3% compared to the first three months of 2022, despite the impact of inflation on several items and investments in technology and human resources. Consolidated net profit at €6 million, up 20%.

Increase in CET 1 ratio to 25.6% (from 23.1% in the 1Q22 and 21.7% in 1Q21) due to both the reduction in RWA and the increase in Equity as a result of (i) the inclusion of the prior year's undistributed profit and (ii) the reduction in the HTCS negative valuation reserve. Private Banking revenues increased due to the contribution margin of direct deposits as a result of the increase in reference rates from the 2H22.

Key funding initiatives saw continued investment activity in Eurocare IV, which had 16 assets in its portfolio worth over € 257mn at the end of March. The pipeline remains important, with further € 65mn under negotiation, with closing expected by 1H23. As of the July closing, distribution is extended to retail with a minimum investment of €125,000. In addition, the final closing of the non-reserved alternative fund Hedge Invest Distressed Opportunities II, dedicated to the purchase of non-performing loans (an asset class hitherto closed to non-professional clients), took place in April 2023.

To summarise, the pre-tax result grew thanks to the contribution of revenues from the Private & Inv. Banking and Digital Bank business divisions, which were able to take advantage of opportunities linked to rising interest rates. The increase in operating costs is consistent with the investments set out in the Business Plan in line with the growth of commercial initiatives and the Bank's digitalisation and automation process.

Equita Group

Company Overview

Equita is a leading independent investment bank in Italy, providing advisory services for corporate finance, equity research, and asset management to its clients. Equita has a strong market position in Italy, with a well-established brand and reputation for providing high-quality advisory services.

Investment Case

Equita has a diversified revenue stream, which provides stability and resilience to its earnings. The company generates revenues from various business lines such as Global Markets, Investment Banking and Alternative Asset Management.

In particular, the Global Markets stream accounts for 43% of the revenues in FY22, i.e. € 37.7mn out of € 86.9mn. The IB stream represented 48% and the Alternative AM 9%. It is important to highlight how the IB revenues grew by more than 100% from 2019, becoming the main source of revenue in 2022.

Moreover, both the EV/Revenue (1.9x) and the EV/EBIT (6.1x) ratios are lower than international peers (2.6x and 10.6x). The company has a strong financial performance, with a stable and growing revenue base. Its revenues have been growing at a CAGR of around 9% over the past five years, while its NI has grown at a CAGR of around 9.5% over the same period. Equita's valuation is attractive compared to its peers: its price-to-earnings (PE) ratio is currently around 9.5x, below the industry average of 15x.

We believe that the new law designed by the Italian government to simplify IPOs in the Italian stock market could create the perfect conditions for Equita's equity capital markets activities to grow, with effects that will be seen in the company's balance sheets within 18 to 24 months. Finally, a DY of about 9.5% and a ROE of 23% (vs. 13% for peers) is also very interesting. Moreover, the consolidated Total Capital Ratio was 489%, well above the prudential limits but lower than at 31 December 2021 (587%) due to deductions for the estimated amount of the buy-back (in the amount of € 6mn) and the increase in k-npr (market risk), which was affected by higher exposures at the end of September.

In summary, Equita is an attractive investment opportunity for investors looking to gain exposure to the Italian investment banking industry. The company has a strong market position, diversified revenue streams, a strong financial performance, attractive valuation, and growth opportunities.

Garofalo Health Care

Company Overview

The GHC Group is one of the leading operators in the accredited private healthcare sector in Italy and, as of December 31, 2022, it operates through 32 healthcare facilities, in addition to 4 facilities owned by Il Fiocco S.c.a.r.l., a company in which GHC holds a 40% stake through its subsidiary Fi.d.es Medica S.r.l.

On 6 December 2022, GHC S.p.A. finalised, through a special purpose vehicle (GHC Project 9 S.r.l.), the closing for the acquisition of 100% of the share capital of Gruppo Veneto Diagnostica e Riabilitazione S.r.l. (GVDR S.r.l.), one of the leading diagnostic centres in the Veneto Region in terms of volume and quality of services provided, accredited with the National Health System.

Investment Case

The results for FY22, although affected by the increase in electricity and gas prices and by the activities carried out in support of the Covid-19 Public Emergency System, which in the first months of the year conditioned the full utilisation of the production capacity of the healthcare facilities, show a significant increase in terms of both revenues and Operating EBITDA compared to the same period of the previous year.

The strong presence in Northern Italy, particularly in Veneto, combined with the ageing of the Italian population creates the conditions for further growth of the company in the coming years. In FY22, GHC's consolidated revenues amounted to € 322.6mn, up 13.7% from € 283.7mn in 2021. Consolidated Adjusted Operating EBITDA amounted to € 58.6mn, an increase of € 5.5mn (+10.3%) compared to € 53.1mn in the previous year. Overall, the Group's Adjusted Operating EBITDA margin stood at 18.2%, down slightly from 18.7% in the previous year. Reported EBIT amounted to € 31.7mn, up € 3.4mn (+12.2%) compared to FY21 (€ 28.2mn). Net profit amounted to € 21.4mn, an increase of € 2.6mn (+13.7% YoY) compared to € 18.8mn in 2021. ROE increased to 7.8% compared with 6.7% in 2021.

ROI is also increasing from 8.2% to 8.5%. Furthermore, the ratio of net debt to equity decreased from 0.55 (2021) to 0.52 (2022).

Average collection days decreased from 90 days to 85 days, while payment days increased from 97 days to 101 days. Finally, the average days in stock decreased from 36 to 34 days. These changes led to an improvement in the Cash Conversion Cycle.

During 2022, the Group made recurring investments in tangible and intangible fixed assets aimed at supporting the production capacity of the healthcare facilities and the technological and functional upgrading of medical equipment and facilities.

The company has real estate assets worth approximately € 155mnin recorded in its balance sheet, but according to GHC the value of such assets is considered underestimated. Lastly, in its letter to shareholders, the company states that in 2023 it will start the project to concentrate the real estate assets - currently held by the individual subsidiaries - within an already established vehicle (GHC Real Estate), trusting that the important value currently unexpressed will gradually emerge.

Quantitative Research Team

Risk Report – May 2023

Introduction

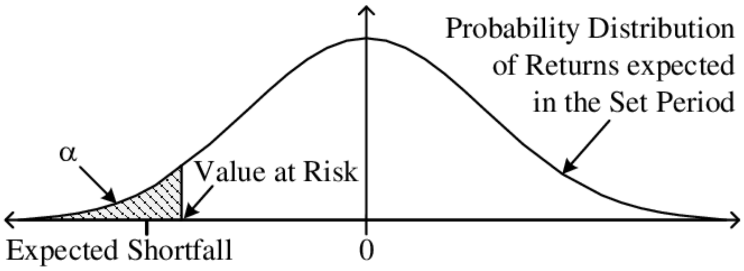
The main objective of this section is to assess and quantify the risk embedded in the Minerva IMS Italian Equity PIR Fund fund built by the portfolio team. We use a daily perspective on the potential extreme behavior of a basket of assets selected by the portfolio analysts. The analysis will include three VaR and ES models (two parametric and one non-parametric) and an overview of how sentiment analysis can be considered a factor for short term investments.

As the Investment Risk division, our focus is the estimation of the two main risk indicators:

- The daily Value at Risk (VaR): the maximum portfolio loss that occurs with α% of probability over a time horizon of 1 day. For instance, if the VaR (α=5%) = -3.00%, it means that tomorrow there is a 5% probability of encountering a loss in the interval [-100%, -3.00%] potentially;

- The daily Expected Shortfall (ES): the expected return on the portfolio in the worst α% of cases. So, it is just a mean of the returns lower than the VaR.

A simple technique to estimate these two measure is based on a historical approach: given a time series of returns of a financial security, we can easily compute the desired quantile of the historical distribution to estimate the VaR, and, after that, estimate the ES just by averaging the values below this threshold.



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However, this naive approach is not well suited for our purpose: in fact, by considering our portfolio as a single financial asset, we are losing all the information that comes from all the components; moreover, with this approach we are simply focusing on the past behavior of the fund, while our main goal is to retrieve a risk metric for the future possible trends.

In order to overcome these issues, we propose two alternative techniques that provides better risk estimates:

• Parametric approach (simple approach and time-series modelling approach)
• Bootstrapping

The first method is very well suited for understanding the main vulnerabilities in the portfolio composition, while with the second one it is possible to observe how the metrics varied in the past quarters.

For both pieces of analysis we used daily market prices of portfolio constituents for the past 6 months,. All the analysis has been conducted with Python.

Parametric approach

In this section we propose to analyze VaR and ES separately for each asset included in the portfolio and then, to estimate the VaR and ES for the whole fund by taking into account the correlation between portfolio constituents.

Parametric approach is based on the assumption that returns of a financial security follow some theoretical distribution. Thus, VaR and ES can be expressed as an α-percentile of the distribution. The crucial step to accurately estimate VaR and ES is to select the appropriate distribution of returns and estimate it's parameters.

It is possible to state that stock returns do not follow Gaussian distribution due to the presence of "fat tails": unexpected events might have a huge impact on the stock prices, so it is possible to observe extreme values more frequently than a Normal distribution would predict. For this reason, we assume that stock returns follow a Student-t distribution, thus, the parameters to be estimated are the mean μ, volatility σ and number of degrees of freedom ν.

To obtain more valid and robust results, we proceed with two alternative parameter estimation approaches – (a) simple approach, and (b) time-series modelling approach. For all parts of analysis, we use the last 252 return observations, which correspond to 1-year window.

Simple approach

Under the simple approach, we estimate the above-mentioned parameters in the following way:

1. We assume that the mean historical daily return of each security are a good estimate for the expected future return. Thus, μ is estimated as a simple average of daily returns.

2. Volatility of returns σ is calculated as a simple standard deviation of returns.

3. Number of degrees of freedom ν is selected in a way that it best approximates the empirical distribution of returns. In order to do that, we used the Kolmogorov-Smirnov statistic that, for a given empirical cumulative distribution function F and a proposal Fn, is:

$$Dn = \sup x \left| (Fn - F) \right|$$

Ideally it should be equal to 0 for a perfect fit, so our goal is to minimize it by proposing different ν for Student-t distribution.

Time-series modelling approach

Because the volatility of returns is not constant over time, it is often modelled by conditional heteroscedasticity processes. The most common way to model volatility is through a Generalized Autoregressive Conditional Heteroscedasticity model GARCH(p,q), where the forecast of the next-period volatility depends on the previous p shocks to stock returns (derived from some mean model) and previous q forecasts of volatility:

$$\sigma^2_{t+1|t} = \omega + \sum_{i=1}^{p} \alpha_i \epsilon^2_{t-i} + \sum_{j=1}^{q} \beta_j \sigma^2_{t-j+1|t-j}$$

The advantage of GARCH model is that it allows to better estimate the current forecast of return volatility by putting more weight on more recent information. Thus, in the periods of market turbulence GARCH model will produce higher volatility forecasts than the simple average of squared deviations from the mean (see the graph at the bottom).

Because the portfolio is composed exclusively of equity instruments traded on liquid markets, we can assume that prices are efficient, and thus returns can be described by a constant mean model for GARCH(p,q) process, which implies that current mean estimates do not depend on previous returns or shocks. GARCH(p,q) then is estimated by Maximum Likelihood (MLE), which optimizes the distribution parameters. We subsequently use MLE estimates of distribution to derive VaR and ES.

Parametric approach (continued)

Value-at-risk

Once the parameters of stock returns are known, it is possible to calculate VaR. We estimate the VaR for 95% and 99% confidence level by applying the following formula:

$$VaR_\alpha = \sigma * T_\nu^{-1}(\alpha) + \mu$$

where σ is the estimated volatility of a security, $T_\nu^{-1}(\alpha)$ is the α-percentile of a Student-t distribution with ν degrees of freedom, and μ is the expected return of a stock.

Expected shortfall

Expected shortfall is defined as a conditional expectation of loss, given that the loss occurred. If we introduce the assumption of a continuous distribution of returns of a security, then parametric expected shortfall is simply defined as a tail conditional expectation, and thus can in general be defined by the following formula for any security X :

$$ES_\alpha(X) = -\frac{1}{\alpha}\int_0^\alpha VaR_\gamma(X)\, d\gamma$$

Under the assumption of Student-t distribution with ν degrees of freedom it can be proven that the expected shortfall would be given as:

$$ES_\alpha(X) = \sigma * \frac{\nu + \left(T_\nu^{-1}(\alpha)\right)^2}{\nu - 1}\frac{\tau_\nu\left(T_\nu^{-1}(\alpha)\right)}{\alpha} + \mu$$

where σ is the estimated volatility of a security, $T_\nu^{-1}(\alpha)$ is the α-percentile of a Student-t distribution with ν degrees of freedom, $\tau_\nu(\cdot)$ is the probability density function of Student-t distribution with ν degrees of freedom and μ is the expected return of a stock.

We estimate the ES for 95% and 99% confidence level.

Portfolio VaR and ES

Considering the correlation between the stocks, we estimate the VaR and ES of the whole portfolio for 95% and 99% confidence level by applying the following formulas:

$$VaR_{\alpha,ptf} \approx \sqrt{\boldsymbol{VaR_\alpha} * \boldsymbol{\rho} * \boldsymbol{VaR_\alpha}'}$$

$$ES_{\alpha,ptf} \approx \sqrt{\boldsymbol{ES_\alpha} * \boldsymbol{\rho} * \boldsymbol{ES_\alpha}'}$$

where $\boldsymbol{VaR_\alpha}$ and $\boldsymbol{ES_\alpha}$ are column vectors of individual stock VaR and ES, respectively and $\boldsymbol{\rho}$ is the correlation matrix between securities

The approximation arises because of the assumption of Student-t distribution of returns – the formulas above become an equality the closer the distribution of returns is to the Gaussian.

Results

GARCH results appear to be slightly higher than the simple approach ones, potentially due to the recent volatility in the markets. Indeed, GARCH puts more weight on the most recent observations, thus, it better estimates the future volatility and allows to produce more reliable risk metrics.

	Simple approach	GARCH
$VaR_{95\%}$	-1.83%	-2.13%
$VaR_{99\%}$	-2.64%	-3.55%
$ES_{95\%}$	-2.33%	-2.99%
$ES_{99\%}$	-3.05%	-4.54%

TOP & BOTTOM 5 stocks (GARCH)

	VaR 95 (GARCH)	VaR 99 (GARCH)	ES 95 (GARCH)	ES 99 (GARCH)
MN.MI	-2.32%	-3.58%	-3.11%	-4.40%
IPIR.MI	-2.04%	-3.82%	-3.25%	-5.64%
RCS.MI	-2.25%	-3.82%	-3.27%	-5.11%
SL.MI	-2.61%	-3.91%	-3.41%	-4.64%
BFF.MI	-2.59%	-3.94%	-3.43%	-4.74%

	VaR 95 (GARCH)	VaR 99 (GARCH)	ES 95 (GARCH)	ES 99 (GARCH)
FBK.MI	-4.20%	-6.79%	-5.84%	-8.61%
AV.MI	-4.46%	-7.17%	-6.20%	-9.25%
GHC.MI	-4.46%	-8.10%	-6.91%	-11.70%
MARR.MI	-8.25%	-13.61%	-11.71%	-17.81%
DOV.MI	-17.56%	-29.47%	-25.30%	-39.19%

TOP & BOTTOM 5 stocks (simple approach)

	VaR 95	VaR 99	ES 95	ES 99
IPIR.MI	-1.87%	-2.67%	-2.36%	-3.09%
MN.MI	-2.17%	-3.11%	-2.75%	-3.59%
EQUI.MI	-2.17%	-3.12%	-2.75%	-3.60%
ETFMIB.MI	-2.17%	-3.12%	-2.76%	-3.61%
PRO.MI	-2.20%	-3.16%	-2.79%	-3.65%

	VaR 95	VaR 99	ES 95	ES 99
SL.MI	-3.57%	-5.34%	-4.67%	-6.37%
LUVE.MI	-3.90%	-5.64%	-4.97%	-6.54%
FBK.MI	-4.03%	-5.81%	-5.12%	-6.75%
AV.MI	-4.01%	-5.89%	-5.18%	-6.99%
DOV.MI	-4.45%	-6.31%	-5.59%	-7.26%

Bootstrapping

When estimating a certain metric, one of the main problems in Statistics is the lack of the whole population data and the consequent use of only a sample. In our case the population data is the complete historical price data of the securities that are part of our portfolio, in which we only have the data of recent years.

Bootstrapping is a statistical technique that by having only a sample of the population data, provides estimates of statistical metrics that are closer to the ones obtained from the population data.

Given a sample of size n, implementing bootstrap is very simple:

- Sample with replacement n times from the original sample (note that one observation could be selected more than once);
- Compute the metric of interest (in our case the VaR or ES) on this newly created sample and save it;
- Repeat the previous steps M times with M→+∞ (we have selected M=100.000 for instance);
- Average and compute the standard error of the metrics estimated in each step.

With this method, by estimating the expected shortfall and the standard errors, we can retrieve a more insightful view of our portfolio, but in this case, we are losing the risk contribution of each stock that we had in the previous case.

	Estimate	Standard error
$VaR_{95\%}$	-1.88%	0. 30%
$VaR_{99\%}$	-3.33%	0. 49%
$ES_{95\%}$	-2.70%	0.32%
$ES_{99\%}$	-3.75%	0.49%