



Not bound by Bunds: Why peripheral bonds could be key to unlocking alpha

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- Fund manager of the GIS Euro Bond sub-fund since 2002
- Over 25 years of experience
- «AAA» rated by Citywire²



In turbulent times, active management is crucial. Despite the high levels of volatility in European sovereign bonds year-to-date arising from Russian invasion of Ukraine and higher ECB interest rates, the Generali Investments SICAV (GIS) Euro Bond sub-fund has outperformed the benchmark. This is thanks to a highly active approach to duration management and diversified exposure that includes a significant allocation to peripheral European countries as well as to inflation-linked bonds.

In this article, we explain:

- How Mauro Valle nimbly adjusted portfolio duration in response to major market events in 2022**
- Why peripheral European government bonds from Italy and Greece present pockets of value**
- How diversified European government bond exposure can provide a hedge against volatility and offer defensive, risk-adjusted returns**
- How the GIS Euro Bond sub-fund has outperformed versus the benchmark throughout a negative-yielding environment**

GIS Euro Bond during major markets events in 2022

Hawkish ECB and the invasion of Ukraine

CHALLENGE: In February, despite the ECB raising expectations for a 2022 rate hike, emerging news about Russia's invasion of Ukraine began to raise concerns.

ACTION: Mauro increased relative duration from -1.3 years to -0.3 years. Long duration exposure to peripheral European countries was over 3 years, with Italy at around 2.2 years in order to benefit from the positive economic outlook helped by the Presidential election and Mario Draghi's confirmation as prime minister.

From 2-Feb to 24-Feb 2022

GIS Euro Bond	- 1.63%
Benchmark	- 1.76%
Excess return	+ 0.13%

Source: 1) The Company full legal name is Generali Investments Partners S.p.A. Società di gestione del risparmio. 2) Mauro Valle is rated «AAA» by Citywire as manager of the GIS Euro Short Term Bond and GIS Euro Bond 1-3 years sub-funds, as at June 2022.

Risk-off markets and higher inflation

CHALLENGE: Just before the March ECB meeting, Bund yields were once again around zero, reflecting the risk-off sentiment in markets. However, inflation data was moving up, and far higher than expectations.

ACTION: Mauro cut relative duration to -2 years. Due to risk-off market sentiment, he cut Italian BTPs to 0.6 years, reducing exposure by -1.6 years which lowered the overall portfolio duration.

The sub-fund entered the year with significant exposure to inflation-linked bond at around 20% of the portfolio, which benefited from the upward trend in break-even rates.

From 24-Feb to 10-Mar 2022

GIS Euro Bond	+ 0.13%
Benchmark	- 0.62%
Excess return	+ 0.75%

Bund yields peak at 1.17%

CHALLENGE: Bund yields peaked at 1.17% as the ECB announced the eventual end of QE as well as signaling a rate hike for July, its first in over a decade.

ACTION: Mauro reduced underweight duration, as Bund rates approached 0.8-1.0%. He kept Italian BTPs as a moderate overweight of +0.5 years, despite spreads starting to widen due to expectations of the end of QE. He increased exposure to other peripheral European debt by around 1 year in order to increase diversification.

Following the excellent performance of the sub-fund's inflation-linked bonds due to higher inflation expectations, Mauro started to reduce exposure back to 14% in mid-April and to around 10% at the beginning of May.

From 10-Mar to 9-May 2022

GIS Euro Bond	- 5.13%
Benchmark	- 6.47%
Excess return	+ 1.34%

Widening Bund-BTP spreads and “anti-fragmentation” tool

CHALLENGE: Bund-BTP spreads further widened to over 200bps ahead of the pivotal June ECB meeting.

ACTION: Approaching the June ECB meeting, Mauro shifted the sub-fund into neutral duration, on the view that the market had started to discount the next ECB move and that risks for a slowdown were increasing. He increased exposure to Italian BTPs given potential upside of the ECB introducing a backstop to manage rising yields (the “anti-fragmentation tool”).

Inflation-linked exposure was unchanged at around 10%. The portfolio moved to long duration too early and despite tightening in Italian spreads, it underperformed by 43 bps. Due to the risk of negative surprises from inflation, Mauro increased exposure to inflation-linked bonds to 12%.

From 9-May to 9-Jun 2022

GIS Euro Bond	- 3.35%
Benchmark	- 2.92%
Excess return	- 0.43%

ECB confirms rate hikes

CHALLENGE: In June, after an aggressively hawkish ECB meeting that confirmed interest rates would rise by 25 bps in July and probably 50 bps in September, Bund yields moved to 1.80%. Italian BTPs then reached 240 bps after the ECB meeting, as details on the anti-fragmentation tool details were not announced.

ACTION: Mauro increased duration as he viewed the level was compatible with high inflation and high growth, before reducing it by selling Italian BTP exposure when Bunds were around 1.5%.

He increased BTP duration exposure to 1.5 years as yields rose again. Exposure to other peripheral sovereigns was reduced to a minimum. In the days following the anti-fragmentation tool announcement (at the extraordinary meeting on 15 June), with spreads around 190 bps, he reduced Italian BTP duration by a third to around 1 year duration, further reducing overall portfolio duration.

From 9-Jun to 28-Jun 2022

GIS Euro Bond	- 0.94%
Benchmark	- 0.98%
Excess return	+ 0.04%

Active, diversified and defensive exposure to European government bonds

For investors seeking diversification and a hedge against volatility and equity exposure, after the rise in yields, euro government bonds can be considered a defensive, risk-adjusted investment over a medium- to long-term horizon. The GIS Euro Bond sub-fund has delivered consistent outperformance versus the benchmark throughout the negative-yielding environment of the past few years.

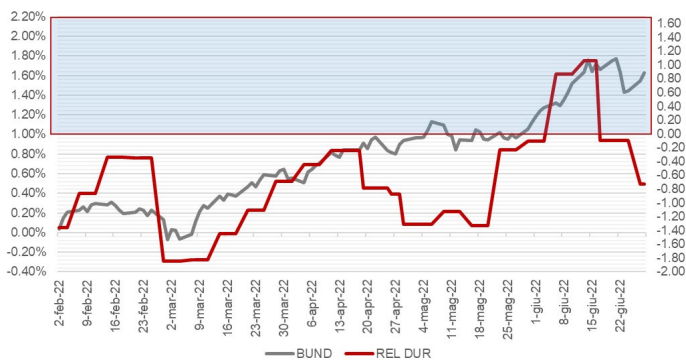
As the charts show, Mauro and his team take a highly active and diversified approach to managing duration across all euro government bonds in order to defend the portfolio against changing rates. To optimize risk-return, the sub-fund's key exposure is long Italian BTPs and other peripheral bonds such as Greek government bonds. The sub-fund is short German Bunds and other core countries versus the benchmarks.

This diversification and the nimbleness of the strategy to change as the facts change is, in our view, an effective way to manage the risks faced by investors who wish to allocate to euro government bonds with the goal of generating positive alpha.

The sub-fund past performance is calculated net of investment management fees including commissions and custody fees and have to be reduced by costs and taxes. The benchmark performances are calculated with net dividend reinvested when applicable. Both performances for the sub-fund and benchmarks are calculated using internal software fed by external sources. **Past performance does not predict future returns. Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results.** Investment return and principal value may fluctuate, so the investor may have a gain or loss when shares or units of the sub-fund (as applicable) are sold.

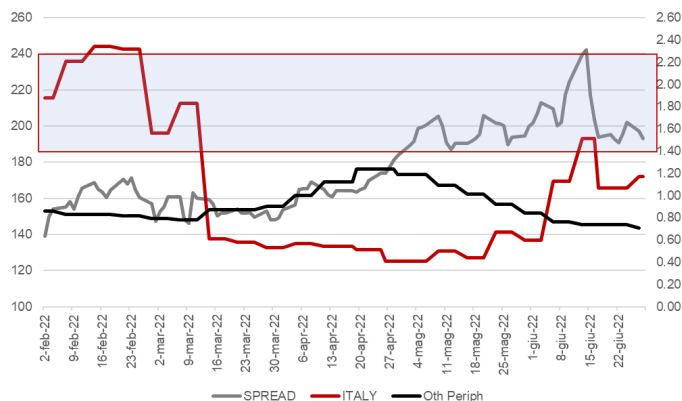
Highly active duration management

Bund yields vs GIS Euro Bond sub-fund relative duration



Active and diversified peripheral bond exposure

GIS Euro Bond sub-fund peripheral European bond exposure (right axis) vs widening BTP-Bund spreads (left)



GIS Euro Bond - Key Features

ISIN (Eur B Acc.)	LU0145476148
AUM	€ 986.38 mil as at 30 June 2022
Inception date	2 April 2002
Benchmark	JP Morgan EMU Index
Funds Currency	Euro
Domicile	Luxembourg
Management fees	0.35%
Performance fees	Not applied
Management Company	Generali Investments Luxembourg S.A.
Investment Manager	Generali Investments Partners S.p.A. Società di gestione del risparmio
Risk level SSRI	3/7 <i>[For further details about the risks, please refer to the KIID available on our website]</i>
SFDR	Article 8

GIS Euro Bond BX - 10Y Cumulative Returns (29/06/2012 to 30/06/2022)



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

Source: Generali Investments Partners S.p.A. Società di gestione del risparmio as of 30.06.2022. **Past performance provides no guarantee for the future. No express or implied liability or guarantee is assumed that the future performance will correspond to the performance described above. The value of and income from fund units or sub-fund units ("Units") may rise or fall. No guarantee can be assumed that the investment objectives of the fund will be achieved. The performance of and income from the Units have to be reduced by costs and taxes.** GIS Euro Bond is a subfund of Generali Investments SICAV (an investment company qualifying as a "société d'investissement à capital variable" with multiple subfunds under the laws of the Grand Duchy of Luxembourg) managed by Generali Investments Luxembourg S.A. who appointed Generali Investments Partners S.p.A. Società di gestione del risparmio as investment manager. The information contained in this document is only for general information on products and services provided by Generali Investments Partners S.p.A. Società di gestione del risparmio and Generali Insurance Asset Management 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 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 subfunds 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-Italiache. Generali Investments is a commercial brand of Generali Investments Partners S.p.A. Società di gestione del risparmio, Generali Insurance Asset Management S.p.A. Società di gestione del risparmio, Generali Investments Luxembourg S.A. and Generali Investments Holding S.p.A. Please note that the Management Company may decide to terminate the arrangements made for the marketing of the Fund in accordance with Article 93a of Directive 2009/65/EC. For a summary of your investor rights and guidelines related to an individual or collective action for litigation on a financial product at EU level and in your country of residence, please refer to the following link: www.generali-investments.com e www.generali-investments.lu. The summary is available in English or in one authorised language in your country. Some of the information contained in this publication has been obtained from sources external to Generali Investments Partners S.p.A. Società di gestione del risparmio. Although such information is deemed reliable for the purposes used herein, no representations is made as to its accuracy or completeness. Certain information in this publication has been obtained from sources outside of Generali Investments Partners S.p.A. Società di gestione del risparmio. While such information is believed to be reliable for the purposes used herein, no representations are made as to the accuracy or completeness thereof. © 2022 - Generali Investments Partners S.p.A. Società di gestione del risparmio.

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