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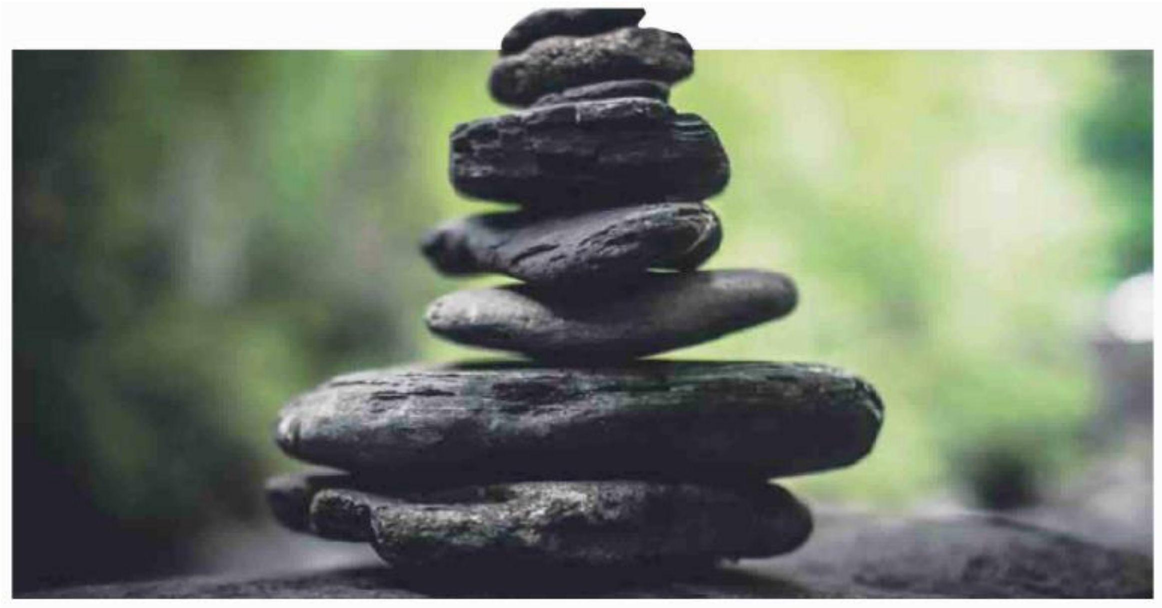
excerpt from pages 60, 61 and 62



A “value” approach. Also for bonds

Stock markets are still interesting. There is no bubble effect. But, if we look at the world of bonds, fears increase. The solution? More active asset management.

} Francesco D'Arco

Tomaso Mariotti, Asset Manager of the Value Asset Management Line at **Banor SIM**, who invests in both equities and bonds, has no doubts. The time for equity markets is not over, especially when compared to the world of bonds, given the current scenario of “zero”, if not outright negative, interest rates and returns.
And if we really want to look at bonds, it is better to rely on asset managers who follow an active strategy.
Without forgetting ESG criteria, which are now fundamental on the equity front as well as the bond front.

How do you rate the performance of stock markets since the beginning of this year?
This year, the stock markets have been particularly positive. On average, all equity indices registered double-digit performance for the year to date: from 10 to 15 percentage points in emerging countries, to 25% in the United States and Europe, with 30% in Italy.

That's not all. We are going through a phase of minimal volatility, also thanks to some external factors such as greater definition of the scenario related to Brexit and the active presence of Central Banks through an ultra-expansive policy in almost all geographic areas. In other words, we are in a very favourable "environment".

And it is no coincidence that some indices, like the S&P 500, registered new records. At this point, a spontaneous reaction could be to consider withdrawing from stock markets. Are equities now too "expensive"?
No. I don't believe that is a correct assessment. At the moment, we are much more "scared" by the dynamics of the bond part of the business. Indeed, if we take the "stock market price" to "expected return" ratio of the main American companies (S&P 500) as a reference for next year, we reach a scenario that is in line with the historical average (18.0 against 17.0), far from the worrying values associated with a financial bubble (in the year 2000 this indicator reached the value of 30!). And, above all, the evolution of both of these variables is a long way from the typical logic of a "financial bubble". As a matter of fact, in the last 20 years, we have truly witnessed the birth and development of sectors and companies that offered unique "profitability" by virtue of the monopolies in which they operate. Just consider the sector of American technology stocks (Apple, Google, Facebook, Amazon, Microsoft).

And so, we are not worried about the level of the various stock indices. We carefully monitor the performance of individual companies; however, at the moment, we do not see elements indicative of a financial bubble, also because, as long as profits continue to be solid and robust and interest rates remain so low, I see no reason to abandon the stock market.

And what about the bond front?
In this case, the focus changes. On the bond front, it is more legitimate to adopt a "fearful" and measured approach. Above all, when we are dealing with investors like Italian investors, who are historically biased in favour of the bond market and Government bonds.

How can these investors be "guided", considering their passion for bonds and the fears you talk about?
The first step is not simple because investors must be helped to make different choices not only with respect to the market, but also with respect to their own habits.

Considering that most investors still expect "certain" returns from the world of bonds, this is not a simple challenge, is it?
That's true; however, I can assure you that it is possible to find value even in the world of bonds, but you must make different choices. You have to accept greater volatility than in the past and, certainly, assess your investments in a medium-term (3/5 years) outlook. But if you have a good understanding of these conditions, you can find opportunities.

> **“You need different asset management techniques when you're looking at the debt market. Techniques that are increasingly more similar to those adopted for the equity sector”**

The world of “debt” is “full of worries”, but it still offers opportunities. However, an increasingly “value” approach is required, that is an approach orientated towards a careful assessment of the individual bonds to add to a portfolio”.

In other words, has the time come to approach the world of bonds with a style that is more like that used for equities?
In a way, yes. We need different techniques that are increasingly more similar to those adopted for the equity sector. The world of bonds is certainly very fragmented, but if you adopt a value approach and if you have the right competencies, you can find interesting investment opportunities. A really active approach is needed, and this is certainly a factor that distinguishes us with respect to many other asset managers.

An active and sustainable approach, I imagine.
On the subject of sustainability, I believe it is important to realise that it is not an “option”, but a standard that cannot and must not be ignored any longer. The assessment of ESG criteria is, for us, a constant factor, and it is also a constant factor for the companies that we assess. Large companies with large capitalisation are now increasingly focused on the various environmental, social and governance issues. They know that they cannot ignore this evolution, and therefore they work constantly to implement these values. We have the task of analysing and assessing which companies are taking the most effective steps. And “ESG” assessment becomes fundamental, increasingly often, even on the bond front. The explosion of the green bond market is proof of this. We are therefore going through a trend from which there is no return, which means asset management teams must be able to assess such factors carefully to analyse the current state and also the possible future progression. Even on this front, I can affirm that Banor is in a “privileged” position thanks to important collaborations with Harvard University and the Politecnico di Milano which have enabled us to assign an ESG rating to each equity and bond security that is analysed •