GENERALI INVESTMENTS

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Multi-strategy investing for a new era

Plenisfer INVESTMENTS

Active long-short credit for turbulent times

Interview with Mauro Ratto, Co-Founder and Co-Chief Investment Officer at Plenisfer Investments. Mauro has over the thirty years' experience in the financial sector and fund management. Prior to the establishment of Plenisfer Investments, Mauro was Head of Emerging Markets at Pioneer Investments (subsequently Amundi). He was a member of the Global Investment Committee and a director of Pioneer Investment Management Limited.

'The new active' approach

We launched the Plenisfer Investments SICAV - Destination Value Total Return[1] in May 2020 because we believe that the environment facing investors over the next couple of decades will be profoundly different from that of the last 20 years, which benefited from deflation, an abundance of liquidity and accommodative monetary policies, as well as the availability of cheap labour, raw materials and energy. Now, investors face higher inflation, tightening liquidity, and a shortage of labour and materials.

In our view, this shift calls for an entirely new investment approach to deliver multi-asset returns. That is why we do not allocate by asset class, but through five complementary strategies that are entirely unconstrained benchmarks. These strategies are: income (bonds and dividends to achieve a stable cash flow), compounding (quality growth stocks for capital appreciation), macro (for total returns), uncorrelated alternative assets (mainly gold but also volatility and carbon certificates), and finally special situations (idiosyncratic opportunities across equities and fixed income). We also pay a lot of attention to tail risks and carefully hedge them accordingly.

We call this multi-strategy approach 'the new active. It aims to optimise the convexity of the portfolio compared to market betas while mitigating volatility, by finding idiosyncratic opportunities that deliver specific performance outcomes[2]. Our unconstrained, goal-based approach aims to avoid the overcrowding and overconcentration of risk that we believe are all too common in the asset management industry.

Resilient and uncorrelated performance

We are pleased to say that since inception[3], this approach has benefited performance while withstanding periods of high volatility. The start of 2022 has seen a particularly high resurgence in volatility, from the tech sell-off in January to the wider flight to safe havens recently following Russia's invasion of Ukraine[4].

In this unpredictable period, alternative assets and special situations are key to generating uncorrelated performance in the portfolio. Within alternative assets, the fund's exposure to gold should continue to perform well given both higher inflation and the flight to safe havens, while carbon certificates also delivered robust returns, although we are monitoring them carefully considering the energy impacts resulting from the war between Russia and Ukraine.

Turning to the macro strategy, we entered 2022 with a non-consensus view on inflation, which we did not believe was transitory and was more resilient that the market was thinking. This led us to be net negative duration in the portfolio which has helped performance through the volatility year-to-date. At the beginning of the year, we also implemented relative value trades: namely, long trades on European financials and short trades on the broad European market, due to the higher inflationary environment and value rotation. We took profit on the call before market started to price stagflation risk due to the Russia-Ukraine crisis.

The global transition

Within the compounding strategy, a key idea for the fund is what we call the 'global transition', which encompasses a broad global socioeconomic shift that covers not only the energy transition, but also the search for efficiency within corporates that is driving digitalisation and 'cloudification', for example. Some of these drives to digitalisation are lagging behind in emerging markets, which is where we are finding opportunities for the next growth stories.

We believe the energy transition is more complex than just renewables vs oil. We hold selected oil companies for example that are using higher prices to develop their investments in renewable energy sources. Hydrogen is becoming more important from a geopolitical point of view; Saudi Arabia, for example, is developing a $5bn plant and aims to become a fully green hydrogen producer; that is, hydrogen in its most environmental friendly form, made using renewable electricity to split water. Platinum, which we hold in the fund, is one of the catalysts that hydrogen fuel cell technology relies on. We also believe that nuclear energy technology is progressing well and becoming increasingly relevant given the increased focus on the need for energy independence within Europe; this is benefiting uranium, which we hold exposure to in the fund[5].

Outlook: the good, the bad and the ugly

Looking ahead, our outlook is divided into "the Good, the Bad and the Ugly". The "Good" is represented by the positive outlook for economic growth, the "Bad" indicates the medium-term consequences of tapering and rising rates, which we think the market has only recently begun to price, and, finally, the "Ugly" is related to potential stagflation, driven by the spikes in energy prices exacerbated by the Russian invasion of Ukraine, and its impact on disposable income in Western countries, especially in Europe. In this scenario, a strategy based on pure exposure to market risk, both equity and credit, could offer limited upside. We therefore favour idiosyncratic stock picking choices and exposure to alternative strategies, especially in real assets, and favour a flexible approach between defensive and cyclical themes such as telecoms, energy and Industrial, and companies capable of generating solid cash flows. We remain constructive on China, although we will have to wait until the second quarter to see a substantial improvement in fiscal and monetary policy aimed at supporting growth. But investing in China is possible if you selectively look at those sectors where the government's agenda is clear, such as the energy transition or "healthy living".

1. Plenisfer Investments SICAV is a Luxembourg UCITS-SICAV and "Destination Value Total Return" is one of its sub-fund (the "Sub-fund") altogether refered as "the Fund". 2. The Fund is not a guaranteed product. There is no guarantee that the investment objective will be reached. 3. Destination Value Total Return was launched in 04/05/2020. Past performance does not predict future results. The future performance is subject to taxation which depends on the personal situation of each investor and which may change in the future. 4. Risk factors: The Risk & Reward profile of the Sub-Fund is 6, meaning a high to very high volatility. The indicator does not take sufficiently into account the counterparty risk, the credit risk, the derivative risk, the liquidity risk, the geopolitical risk, the operational and depositary risk. When using derivatives, the use of leverage may increase the potential risk of loss or the potential return. Investors may risk to lose part or all of its initial investment. 5. Allocations/holdings are provided for information purposes only and should not be considered as a recommendation to buy or sell in the securities and/or sectors that are indicated. Portfolio allocation is subject to change