AN UNCONSTRAINED CREDIT SOLUTION TO ANSWER MARKET COMPLEXITY

The Euro High Yield asset class / strategy has gained ground in the past three years versus its US counterparts. The sector grew over three times in terms of notional during that period. In fact, this is an ongoing trend that started post crisis in 2008 with the European market expanding massively, gaining a greater share of the global HY asset class.

Furthermore, the asset class is supported by the temporary weakening of the Euro currency while corporate fundamentals are still strong and default rates remain at an historical low. Additionally, ECB's monetary policy based on Quantitative Easing has helped to support growth in the Euro area and we believe that it will continue to do so during 2016.

While all of the above elements lead us to believe that this trend will continue over the mid to long run, we also witnessed in the past couple of months tumultuous market conditions and heightened volatility, especially affecting Euro High Yield. The main reasons behind these conditions are obviously to be found in the high correlation that the asset class displays with equities, the spill-over from Emerging markets and China especially, while the divergence in terms of monetary policies across different economic areas is also to be highlighted as a source.

However, fundamentally, European corporates display stronger balance sheets than pre-crisis and better cash to debt ratios. This is also reflected in the low level of defaults and backed by a strong M&A pipeline. Lastly, and considering past years' high level of primary market issuances, we believe that there are several mispriced opportunities that could be exploited in the sector.

Therefore, in order to respond to the current market challenges in terms of increased volatility, market uncertainty and liquidity risk while being able to capture the asset class' returns potential over the mid to long term, we strongly believe that bottom-up bond picking, top-down levered beta and macro overlay strategies can be effective in capturing market upsides while smoothing potential drawdowns.

STEFANO PERIN
Portfolio Manager,
Generali Investments

ARIONA BUNDO
Investments
Specialist, Generali
Investments

At Generali Investments, we decided to implement a new unconstrained and benchmark agnostic investment approach which is designed to answer investors' need for yield in a context of still extremely low interest rates. The strategy combines high conviction bond picking with a series of unfunded (long/short) strategies within a risk managed UCITS vehicle: GIS Total Return Euro High Yield.

Notably this is also a policy response to liquidity risk which is a growing concern on the back of regulatory and cyclical pressures on market making activities.

Our dedicated team, led by Stefano Perin in charge of High Yield Bonds strategies, leverages on our strong in-house credit, equity and macro-economic research teams.

We include in the investable universe not only Euro High Yield names but also cross currency deals. The bond portfolio will be complemented by macro long and short overlay strategies in order to achieve the desired flexibility, particularly in the context of a lesser liquid asset class such as high yield.

The strategy will therefore aim to:

- Improve strategy "scalability" versus traditional funds: applying a more flexible strategy and being able to allocate across bonds, single name CDS or cash as opposed to more standard fully invested, pure bond picking strategies – in order to satisfy the total return objective.
- Respond to risk aversion and the search for yield within the context of market uncertainty and volatility.
- Include allocation to strategies that can go short and achieve effective de-risking.
- Avoid capacity limits, characteristic of pure-stock-picking-benchmarked funds: Again being able to invest in a bigger portion in single name CDS, or macro overlay strategies.
- Flexibility of against liquidity squeeze due to regulatory pressures and cyclical forces.

In summary, we offer an alternative approach to standard long-only strategies leveraging on a specific investment strategy aiming to use the full potential of a UCITS investment vehicle.

COMPANY PROFILE

Generali Investments (GI) is the main asset management arm of Generali Group, one of the largest and most respected insurance companies in the world with over 180 years of providing a solid, stable and highly professional service. With AUM of € 395 billion GI is one of the leading European asset managers recognised for delivering consistent results through proven risk-based investment solutions. Active internationally with a strong European presence, GI operates out of 3 main hubs: Germany, Italy & France, with a team of over 400 customer-focused experts with deep knowledge of local markets and asset classes. (Data as at 31.12.2015, source Generali Investments Europe S.p.A. Società di gestione del risparmio).

GENERALI INVESTMENTS

www.generali-invest.com