

Right outcome & real income: a Multi-Asset approach

By **Cédric Baron** - Head of Multi-Strategy, Generali Investments and **Jean-Marc Pont** - Senior Investment Specialist, Generali Investments

For most investors, diversifying via uncorrelated - or less correlated - sources of performances is key to medium / long term investment success, while efficient asset allocation becomes even more relevant in the current regime of low yields and lower returns.

Whilst asset allocation relies primarily on Strategic Asset Allocation (SAA) - which defines a portfolio's neutral allocation, i.e. its long term exposures - and has many forms (Risk parity, constant mix or absolute return allocations for instance), we at Generali Investments have decided to focus on generating income for our investors - in addition to capital growth - through a risk managed multi-asset approach.

This investment approach, launched a year ago in a UCITS sub-fund format, Generali Investments SICAV (GIS) Global Multi Asset Income, aims to combine attractive income levels and capital growth potential through a diversified multi-asset investment universe, hence multiplying the sources of yield.

Importantly, we consider that the income generation should be distinct from the asset allocation, to avoid "chasing" yield at any cost, and to the detriment of the longer term capital growth objective.

A SMOOTH INVESTMENT JOURNEY TO GENERATE INCOME

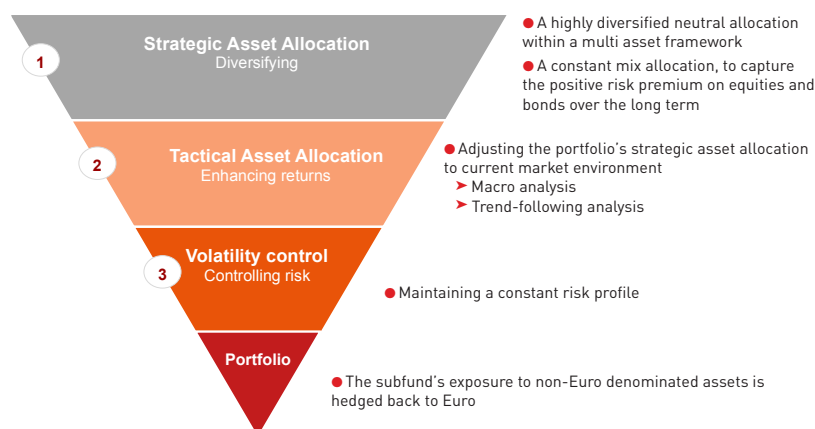
When constructing such an income focused strategy, we believe that income generation has to be dissociated from the allocation process.

Initially, we designed a robust asset allocation process to provide capital appreciation with a solid risk / return profile. TAA, reviewed weekly, is key to add flexibility and enhance the SAA risk/return.

We then aim to generate and distribute a net income of 4% per annum¹, through dividends, coupons and option premia, without influencing the above allocation process.

The volatility control mechanism al-

INVESTMENT PROCESS - OVERVIEW



lows the portfolio to have a constant risk profile and to limit the drawdowns especially when all asset classes move into negative territory at the same time. We thus take into consideration the level of diversification in the current market environment.

For GIS Global Multi Asset Income portfolio we pre-defined an objective of maximum 6% volatility over 12-month rolling periods.

The real outcome for investors is a strategy that has delivered over 1 year since launch (21/12/2016): +7.10% return (BX Share), a volatility of 3.09% and a quarterly distribution of 4% income per annum (net)¹.

GENERATING STEADY INCOME OVER TIME

We aim to generate and enhance income through 3 main drivers:

● Fixed Income coupons

One of the strategic asset allocation's objectives is to generate a yield and it is therefore important that each and every single asset class contribute to the income generation, especially the allocation to fixed income securities.

● Equity dividend yield factor

While, we do not want our allocation to

be biased by the income generation target, we think that companies with solid earnings growth, healthy capital structure and high dividend distribution policy, tend to overperform the overall index in the long term.

We therefore apply 2 different approaches to enhance the portfolio's equity yield and performance:

➤ **Stock Picking:** a selection of stocks ranked according to a combination of a Dividend Yield Factor and a Quality Factor

Indeed, the Dividend Yield factor captures the outperformance of stocks delivering high and consistent dividends compared with low dividend stocks over the long term. Dividend yield can be considered as a factor, a criterion for Value investing. Historically, Dividend Yield factor posted constant outperformance vs. the equity market, with a behaviour close to the equity factor.

➤ **Index dividend futures**

We use index dividend futures to track the dividends paid by all the companies in selected indices during a given time period. When buying such a future, you are essentially buying the value that will be realised at the maturity of the contract.

The advantage is that it provides another tool to implement a macro view - country or a geographic area - by access-

ing a very liquid and cost efficient listed instrument to generate income while being less sensitive to equity risk premium than broad equity indices.

● Call option overwriting strategy

In order to generate a regular yield from equities, we implement a call option overwriting strategy, focusing on the equity markets within the investment universe. It relies on the selling of at-the-money 1-month call options contracts on major equity indices - S&P500, Nikkei 225, Euro Stoxx 50 and FTSE 100 - to diversify the sources of income and risks while keeping the equity exposure unchanged through a daily monitoring of the equity exposure.

This covered call option strategy generating high income by selling call options and providing a mean reverting profile over the short term, complementing the approach we implement in the TAA.

We think that generating income through a risk managed Multi-Asset investment strategy is the right way to invest for investors interested in diversifying their sources of yields while seeking capital growth in a volatility control framework. Such a diversified solution reduces asset class specific risks and limit drawdowns.

Delivering the right outcome for investors and a smooth investment journey is what it is all about.

FOOTNOTE

¹ Please note that the indicated percentage represents a target, the performance is not guaranteed and the sub-fund presents a risk of capital loss. Source: Generali Investments Europe S.p.A. Società di gestione del risparmio, data as at 21.12.2017. Please be aware that the Risk and Reward Profile of the sub-fund is "category 4" as indicated in the KIID due to its diversified exposure to equity markets and to interest rate.



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GIS Global Multi Asset Income 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 Europe S.p.A. Società di gestione del risparmio. The information contained in this document is only for general information on products and services provided by Generali Investments Europe 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 Europe S.p.A. Società di gestione del risparmio, periodically updating the contents of this document, 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 subfund presents 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-Italiche. Generali Investments is a commercial brand of Generali Investments Europe S.p.A. Società di gestione del risparmio.