



**GENERALI**  
INVESTMENTS

**Generali Investments SICAV**  
**Euro Equity Mid Cap**  
April 2017



**Generating alpha with Eurozone Small & Mid-caps**

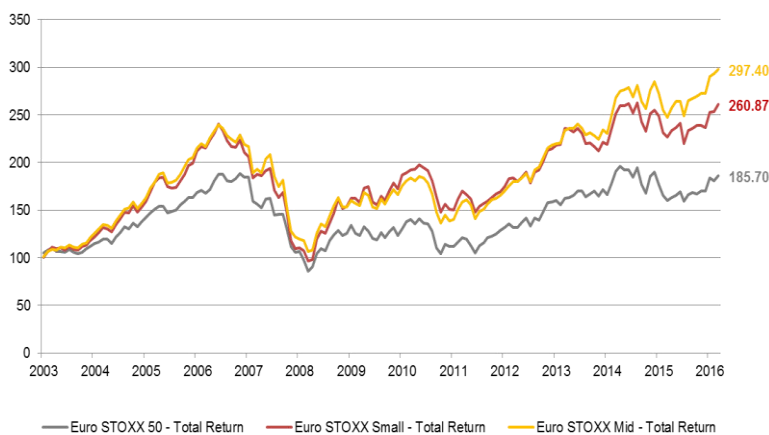
**The case for Eurozone Small & Mid-caps**

When considering small & mid-cap companies and stocks, investors often favour them at the start of a period of expansion in the economic cycle. 2003 saw for instance a sharp rebound of stock-market gains for small & mid-cap companies in Europe, outpacing that of the Euro Stoxx 50 blue chip index.

This is rather unfortunate as mid-caps are actually less dependent from macro-economic information and market cycles than large caps - they often have specific drivers of growth for instance - and present interesting characteristics for investors.

For instance, the Eurozone mid-cap universe posted, over time and certainly since 2003, far better performances than the large caps universe (Euro Stoxx 50 index, see graph below) and even fared better than the small caps universe.

**Performance of Eurozone small, mid and large caps (December 2003 – February 2017)**

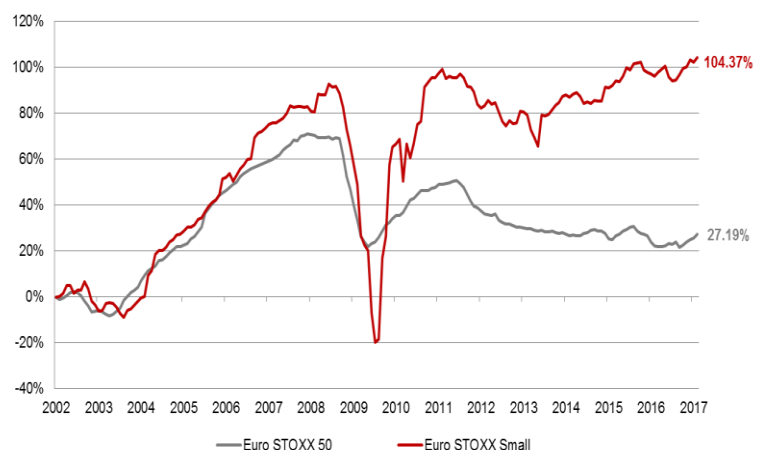


Source: FactSet as of 28.02.2017

Furthermore, listed small & mid-cap companies are often considered as outperforming large market capitalisation companies due to the fact that they display better earnings growth figures.

Though a higher growth rate can partially be explained by the fact that these are smaller companies with smaller numbers, evidence seems to support this fact: the cumulative earnings per share (EPS) growth of small and mid-caps stocks in the Eurozone over the past 13 years has clearly outperformed that of the large capitalisation reference index (see graph below).

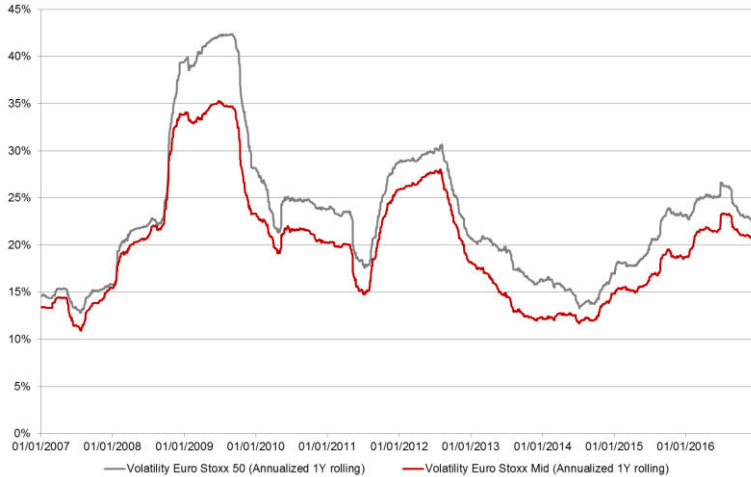
**Cumulative EPS growth – (February 2002 – February 2017)**



Source: FactSet as of 28.02.2017

With the above features, mid-cap stocks are certainly good diversifiers within an overall asset allocation or a standalone equity portfolio, alongside larger market capitalisation companies - especially as their volatility levels are lower than that of large caps, as the below graph shows.

### Volatility Large Cap Vs Mid Cap (January 2007 – December 2016)



Source: Factset as of December 2016

However, the dynamics behind mid-caps are complex, such as a universe less well covered by research and brokers for instance. Undertaking a comprehensive and in-depth analysis of the companies requires dedicated resources and specific skills.

This partly explains why these strategies are not easily captured by market cap weighted replication strategies ("passive") - or "smart beta" investment solutions: idiosyncratic risks do exist and, as in the high yield fixed income space, separating the wheat from the chaff is fundamental to avoid current laggards - or even better, the future ones!

### Understanding companies' businesses, with valuation being key

At Generali Investments, our small & mid cap portfolio managers conduct thorough strategic analyses of companies in the universe, day in and day out, and for many years now.

Understanding companies' business models, their management and strategies is indeed key, to avoid pitfalls and generate alpha through careful and focused stock picking.

### [www.generali-invest.com](http://www.generali-invest.com)

Generali Investments SICAV Euro Equity Mid Cap is a sub-fund 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 sub-fund 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-invest.com](http://www.generali-invest.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-invest.com](http://www.generali-invest.com)), on Generali Investments Luxembourg S.A. (management company of Generali Investments SICAV) website ([www.generali-investments-luxembourg.com](http://www.generali-investments-luxembourg.com)), and by distributors. Generali Investments is part of the Generali Group which was established in 1831 in Trieste as Assicurazioni Generali Austro-Italiane. Generali Investments is a commercial brand of Generali Investments Europe S.p.A. Società di gestione del risparmio.

This is further illustrated when considering the historical dispersion of performance between small/midcaps and large caps: having the expertise to assess and select the most promising companies is paramount, and so is the ability to discard the companies delivering poor performances.

In order to achieve this, our equity portfolio managers typically focus on companies with a solid track-record, with a business model which is both predictable and clearly identified. The team therefore meets more than 300 companies per year, mostly through one-to-one meetings and during Capital Market days.

Furthermore, while large caps tend to be global when considering their sources of revenues, mid-caps tend to be, on average, more domestic: a deeper knowledge of how companies operate and in which conditions they operate also makes the difference over time.

The portfolio managers in charge of the Generali Investments SICAV (GIS) Euro Equity Mid Cap sub-fund (AUM of EUR 465 m)<sup>1</sup> have a clear focus on the companies' growth perspectives and whether that growth is relatively decorrelated from economic cycles. At the same time, they focus on those companies that, they believe, are really able to generate cash over time.

The team uses its valuation model and inputs (Discounted Cash Flows) to determine a target price for every single stock, selecting the ones with a significant potential increase in their value in the next 3 years.

This investment process has been tried, tested and has proved successful for 10 years now: wherever it is as a standalone equity investment or within a diversified portfolio, recent history shows that it always makes sense to invest in Small & Mid-Cap companies.

<sup>1</sup>Source: Generali Investments Europe S.p.A. Società di gestione del risparmio, data as of 28.02.2017