



**GENERALI
INVESTMENTS**



SR-highlight Ageing Population

March 2017

Introduction

European markets are particularly difficult to read this year, with the political surprises of 2016 reminding us of the political uncertainties we face in 2017, with several key elections in EU member states, while we are witnessing a change of regime with Central banks tightening their interest rate policies. In this context, it is important to take a step back and consider investment strategies that make sense over the mid to long term.

We take the opportunity of this quarter's issue of SR-highlight to focus our attention on "Thematic" and "ESG" investing. We indeed decided to combine those approaches two years ago when we launched the SRI Ageing Population, a new and innovative strategy.

We believed then - and we still do! - that a SRI approach and framework would naturally complement a long term theme, such as the one focusing on companies exposed to the dynamics of the ageing population in Europe and beyond.

Indeed, the long term nature of ESG investing - improving standards and compliance over time and accompanying companies through dialogue - is clearly a major add-on when investing in the current and future leaders in their respective fields.

As you will see in the following pages, the interactions between our team of SRI analysts and the fund managers are fundamental in delivering the right outcome, both financially and extra-financially.

COMBINING THEMATIC EQUITY INVESTING AND ESG: GIS SRI AGEING POPULATION

Generali Investments manages, since October 2015, an innovative thematic investment strategy in the GIS SRI Ageing Population subfund, which combines responsible investing & thematic equity investing.

A couple of years ago, Generali Investments designed the subfund's strategy based on a simple observation: the ageing of the population is a "mega trend" that has not generated enough interest, at least until then.

This ever growing segment of the overall population faces a number of issues, in many areas - health, transportation, safety, care and autonomy in daily life - which have not been (sufficiently) addressed by the private sector.

This vulnerable segment of the population deserves to be better considered: as a responsible investor, we encourage companies that show special interest in this theme and population.

Furthermore, the ageing of the population as an investment case presents clear opportunities for companies well positioned to benefit from these structural changes over the mid to long term.

Indeed, underlying sub-themes such as oncology¹ (+8.8%), anti-agers¹ (+6.9%), vitamins and dietary supplements¹ (+5.7%), are expected to show a higher and less volatile growth respective to that of the overall economy over the coming years.

¹ Growth sector rate - Source: 2016-20 CAGR

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By using our in-house ESG screening methodology and our “Best effort” approach, we can focus on engaging and discussing with the management of the companies we analyse, whether they are selected or not based on our ESG criteria. We believe it is the best way to improve the ESG practices of these companies and their compliance over time.

Our investment process

The investment process can be summarised in three key steps.

1. The first one is our **proprietary SRI screening**, to retain only the companies with an ESG rating above their respective sector’s average.
2. We then apply a **thematic screening** that seeks to identify a company’s exposure to our **3 key investment pillars - Healthcare, Pensions & Savings and Consumers** - and to the respective sub-categories or segments.
3. The third and **final step** sees Generali Investments’ Thematic Equity team assessing the companies through a fundamental bottom-up approach, **identifying best-in-class business models**, sustainable growth prospects and an ability to generate cash which is undervalued according to a proprietary valuation model.

The resulting portfolio typically comprises 60-70 stocks, with a low turn-over.

Practical aspects of ESG screening + Thematic investing

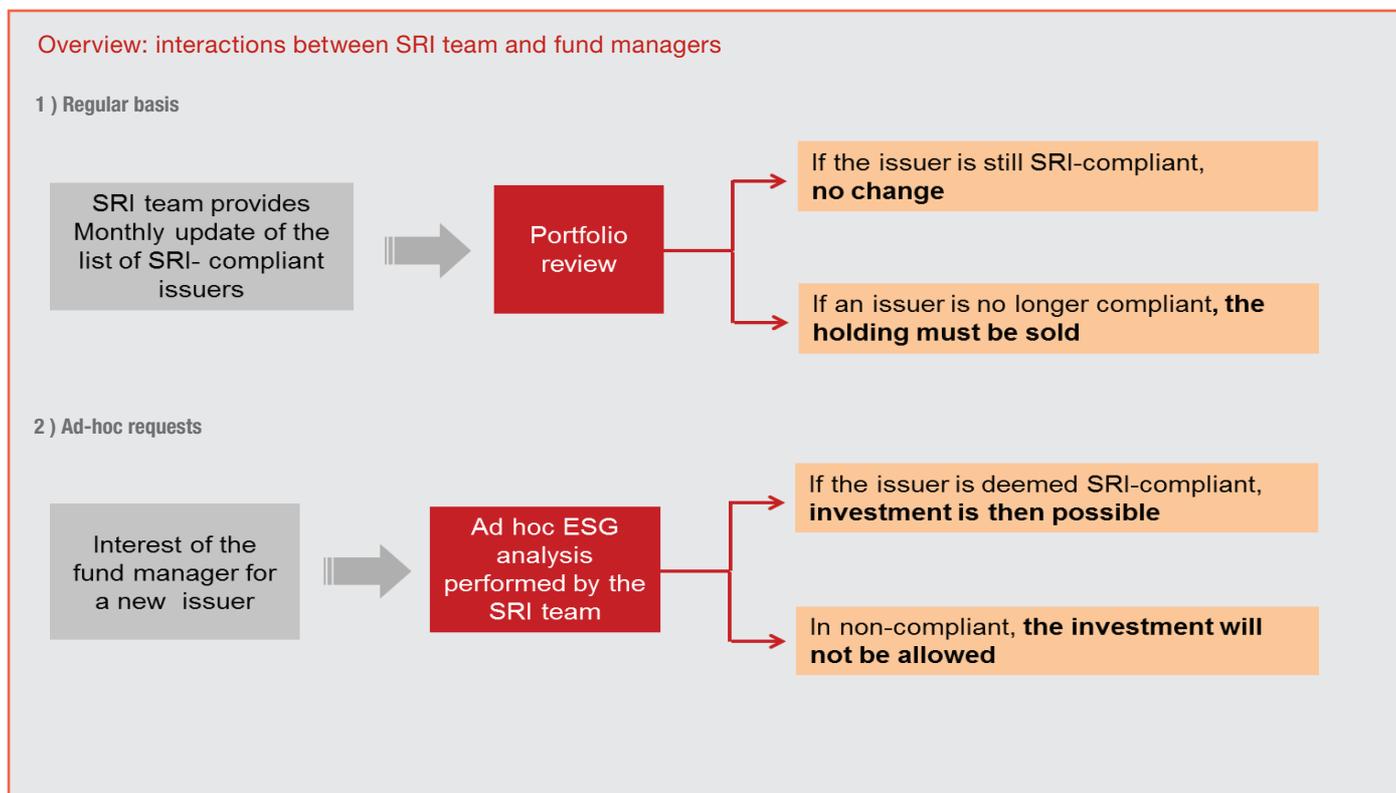
Ensuring that the subfund remains SRI (Socially Responsible Investing) compliant requires special expertise and oversight. Indeed, we want to obtain a fully SRI compliant portfolio while in the meantime allowing the portfolio managers to capture the best investment opportunities available.

For this, the fund management team has regular interactions with the team of SRI analysts, receiving on a monthly basis an updated list of ESG qualifying companies. If a holding is no longer ESG compliant, the portfolio managers automatically receive the information, triggering a divestment.

If the fund managers have an interest in an IPO² or for a company not currently covered by the SRI team, then the company is assessed from an ESG perspective before being purchased. The purchase of the stock will not be possible until the SRI team has carried out its ESG assessment. If the company is deemed ESG non-compliant, then no investment is possible.

GIS SRI Ageing Population subfund’s investment strategy is about investing in sound companies, with sustainable business models and strategies that benefit and will continue to benefit from this secular demographic trend over time.

² Initial Public Offering



FUND MANAGERS' INTERVIEW

OLIVIER CASSE
GIULIA CULOT



What are your current views on the Healthcare sector after a difficult 2016?

The Healthcare sector is one key investment pillar of the GIS SRI Ageing Population subfund.

In 2016, the sector de-rated on investors' concerns about pricing pressure and uncertainties around presidential election in the USA. Whereas pressure on pricing is expected to continue in 2017, we expect it to be focused on therapeutic categories with limited innovation and with an elevated number of players.

However, companies offering innovative drugs and with a solid pipeline of launches should be relatively immune. Moreover, a lower US corporate tax rate could be beneficial to European companies, which on average generate around 40% of their profits in the region.

After the sector's underperformance, valuations are very attractive. In Europe, the sector trades on a PE ratio (price/earnings) in line with the whole market for the first time since 2011. At that time, investors were worried about what was called the "patent cliff", a phenomenon which led to several years of declining sales for pharmaceutical companies.

In 2017, prospects are totally different: Pharma groups have in their drug pipeline and as part of their ongoing clinical trials drugs which, in our view, will support positive earnings growth over the coming years. These clinical trials are seen by generalist investors as binary events (an excessive view according to us) which create uncertainty around those companies. In our opinion, this perception offers opportunities and clinical trials readouts could act as a catalyst for a re-rating in 2017.

In addition, the Healthcare sector is made out not only of pharmaceutical groups, but of companies specialised in Medical Equipment and Services, such as for example dental implants, hearing aids or diagnostics. Med-Tech players are amongst the beneficiaries of an ageing population and are less exposed to concerns over pricing. Many European companies within this industry are global leaders thanks to their innovative products, showing mid to high single digit top line growth and solid profitability. For these reasons, the exposure of the subfund to these groups is higher than Pharma's exposure early 2017.

Lastly, healthcare companies generally present a sound financial structure and cash generation, which enable them to complement organic growth with external growth through M&A opportunities, both bolt-on and large ones in scale.

YTD, which particular investment pillars / sub-themes have you been focusing on?

Alongside Healthcare and Consumer sectors, one of the investment pillars of GIS SRI Ageing Population is Pension and Savings.

Indeed, an ageing population drives higher demand for life insurance and pension related products, needed for instance to cover medical expenses and to financially prepare for retirement. The weakening support from public systems will pressurise individuals, creating an increasing need for private solutions in that space.

In this respect, many Life insurers and asset gatherers in Europe are well positioned to contribute with products and/or solutions addressing the financial challenges of ageing faced by individuals.

In addition to this long term support, companies within this investment pillar are beneficiaries of the increasing interest rates environment. In fact, over the past months, prospects of stronger economic growth, higher inflation expectations and a global switch from monetary to fiscal policy drove the rise in interest rates, which is very positive for earnings and valuation of financial companies. Accordingly, exposure to this investment pillar within the subfund was recently increased.

Our 3 thematic investment pillars



Healthcare



Pensions & Savings



Consumers

As the GIS SRI Ageing Population fund manager, what are the benefits of having ad hoc ESG analysis on specific stocks?

We are convinced that adding an ESG screening to the ageing population theme will create additional value for shareholders. The mid to long-term approach of Socially Responsible Investing has clear synergies with the time horizon of this demographic shift and with our low-turnover and high conviction investment approach. Specifically, we believe that companies with a sustainable development policy and with a sound governance structure are more likely to be rewarded by their customers and to present a lower risk for investors. In this respect, having a dedicated team of SRI analysts with a proprietary methodology at Generali Investments is a real asset for portfolio managers.

Moreover, the in-house ESG coverage within the small & mid cap segment is particularly valuable. Historically, this segment offers outperformance versus the whole market and the coverage by external agencies is not always available. This is especially true for ad-hoc analysis in the case of IPO for example.

Finally, the SRI team supports us in enhancing the awareness of the ageing phenomenon with companies, by discussing with them how they approach this important demographic shift, which in turn gives us important insights about their strategies with respect to ageing.

FUND MANAGERS TEAM



Olivier Cassé, CFA,
Fund Manager

- Joined Generali Investments in 2016 and co-manages two SRI funds, namely GIS SRI European Equity and GIS SRI Ageing Population.
- Prior to this, worked for Société Générale between 2001 and 2004 as a portfolio manager in Private Banking department, before joining the Amundi Group where he was managing European equity funds from 2005 to 2016. Beforehand, he used to be financial analyst.
- Industry experience: 15 years.
- Education: CFA Charterholder.



Giulia Culot
Fund Manager

- Joined Generali Investments April 2010 as Credit and Equity Analyst on the Industrial sector.
- Industry experience: 6 years.
- Education: Giulia has two Masters degree with merit in Accounting and Business Management (November 2011) and in Business Management (July 2009), both from the University of Trieste (Italy).

Generali Investments SRI key features

— **4 SRI specialists** responsible for the ESG analysis covering a universe of **550 companies** feeding the **S.A.R.A. proprietary database** with rating on each company.



— More than **€300bn** investment in equities and bonds in accordance with the Responsible Investment Guidelines.



€30 bn managed based on **ESG criteria**.



— **GIS SRI European Equity Fund** awarded with the **Novethic SRI label***



in 2013, 2014 and 2015, and received a special mention at the Italian Sustainable Finance Forum**

— **GIS SRI Ageing Population** launched in October 2015**. The fund was awarded the FNG Label for 2017*** (2 Stars out of 3) in 2016 by Novethic.



— **2017: MorningStar Sustainability rating:**

GIS SRI European Equity: 5 Globes
GIS SRI Ageing Population: 4 Globes

* Launched by Novethic in 2009, the Novethic SRI Label is the first European label for SRI funds managed strictly on the basis of Environmental AND Social AND Governance (ESG) criteria. Generali Group has received a special mention from the jury at the Sustainable Finance Forum for its "integrated approach to socially responsible investments (SRI)", based on the Group Ethical Guidelines for Investments and the selection and analysis methodology developed by Generali Investments.

** GIS SRI Ageing Population and GIS SRI European Equity are subfunds 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. Past performance provides no guarantee for the future. 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.

*** The FNG label, created in 2015 following a strategic partnership between Novethic and the FNG, focuses on funds located in German-speaking countries.

Source: Generali Investments Europe S.p.A. Società di gestione del risparmio. As at March 2017

Generali Investments among the most committed SRI asset managers in France

Generali Investments has been included in the "High-impact Socially Responsible Investments" category in the 2015 report of the responsible investments in France compiled by Novethic, the Paris-based SRI certification agency, auditor and research center and the creator of the first European SRI certification.

For the first time ever, Novethic has split the group of assessed companies into three categories, on the basis of how impactful their SRI approach is on the investment choices.

Generali Investments has been nominated in the category with the strongest impact.

"The Novethic recognition is testament to Generali Investments' continuous effort on SRI", commented **Franca Perin**, Head of SRI at Generali Investments. "Being included among the 29 most committed SRI asset managers certifies that Generali Investments is at the forefront of responsible investing thanks to a stringent, proprietary and innovative methodology and top-notch ESG analysis capabilities".

Novethic assessed 55 asset management companies operating in France and integrating Environmental, Social and Governance (ESG) criteria in their investment choices. In the 'High-impact SRI' category, Novethic included those managers applying either a best-in-class approach (i.e. excluding more than half of the investment universe, such as Generali Investments) or a best-in-universe approach (i.e. more than 25%) or offering thematic investments. The 'High-impact SRI' category accounted for €54 billion of assets in 2015, out of €746 billion of total responsible investments in France (+29% vs. 2014)¹.

Source:

¹"Les chiffres 2015 de l'Investissement Responsable en France", Novethic, May 2016

