

The stock exchange has lost 25% since the start of the year, but a group of small and medium-sized enterprises has seen robust increases. Another reason to provide a more liquid and efficient market for SMEs

Hitting above their weight in Piazza Affari

SMALL CAP/1 Fostering the creation of a bourse for small and medium-sized enterprises (SMEs), as *Milano Finanza* has proposed, could boost development and would be a good deal for investors too. At three years small businesses have beaten the FTSE MIB, where banks are exerting a drag effect. Specialist fund managers make their selections.

Hitting above their weight in the Stock Exchange

by Paola Valentini

Small and medium-sized enterprises (SMEs) are the backbone of the Italian economy and in many cases are flagship companies for the "Made in Italy" brand, recognised worldwide for their quality. But the money invested by Italian savers struggles to reach them. And yet the pool from which to draw is deep, given that managed savings in Italy total more than 1,900 billion euro. And in total, Italians' financial wealth amounts to 4,000 billion euro. However, there is no stock market dedicated to SMEs, with the exception of the AIM, the Borsa Italiana market dedicated to Italian SMEs and the first instrument providing fund managers with access to small cap firms. But that market doesn't have the same incentives for investors as envisaged by the market of the same name in the United Kingdom, where a tax incentive of 30% is envisaged. And so the Italian AIM is struggling to take off, with just 76 listed companies compared with more than 3,600 in its City counterpart.

For this reason, the 10 September edition of MF-Milano Finanza launched a proposal to the government: introduce, under the next "Stability Law", an obligation to invest a minimum of 1-2% of the assets of individual fund management firms in SMEs, and create some incentive to do so. This would create a virtuous circle that would provide fuel to energise the SME market and help boost the Italian economy and thus development. Italian investors would themselves benefit, given that investing in small caps has proved to be a rewarding choice. Evidence is provided by an analysis conducted by the French management firm La Financière de l'Echiquier in collaboration with the MiddleNext Research Institute (MiddleNext is the French association of small and mid-cap firms).

The study shows that at five years (data at end-June 2016) the MSCI Italy Small Cap index had a cumulative performance of 30%, which equates to an annualised 5.4%, thus exceeding the FTSE MIB index, which returned -8.0 and -1.7% respectively. This can be explained by the strong impact of

banks, exposed to speculative attacks, on the main index. If we reduce the time horizon to three years, Piazza Affari's small players still deliver a positive performance (+37% cumulative, +11,2% annualised).

The study also reveals that in the last three years the volatility of small and mid-caps with respect to blue chip companies has been reversed. "This switching of volatility levels between the different indexes is an unprecedented development in Europe. We don't know if it's a temporary or lasting phenomenon, but it's certainly a factor that we'll need to follow closely in coming years", comments Gaël Faijean, research coordinator. "This reversing of the situation can be explained by three main factors. One is the ECB's policy on risk-free rates, introduced in 2010. This coincided with the first signs of an alignment of risk levels in Europe".

A second factor is "small and mid-caps' very limited exposure to global economic turbulence, most notably in the emerging countries, China first and foremost. Chinese growth has been a significant stress factor for the markets, especially in 2015. This had a strong influence on the performance of the main large caps", observes Faijean.

He cites the activity of exchange-traded funds (ETFs) as the third factor. "We know for sure that ETFs are focused on ultra-liquid assets: so small and mid-caps aren't affected by these products. According to a study by Kepler Cheuvreux, on large cap indexes, it seems that increased ETF activity increases volatility and a potential downwards trend". Without forgetting that the presence of a sufficient number of micro- and small-caps is vital for the entire market. "The economic growth of micro-, small and mid-caps contributes to the revitalisation of the market as a whole", continues Faijean. Today, however, this principle is being sorely tested. For this reason, the analysis concludes with six proposals designed to create a true small cap market. All formulas that are in line with *MF-Milano Finanza's* development campaign.

In the meantime, anyone aiming to invest in listed SMEs can choose from the AIM companies. But there's a limitation: at the IPO stage Borsa Italiana's dedicated SME market is only accessible to institutional investors (during the IPO, private investors can only invest in the event of retail offerings but to date only about 10 out of 76 companies have offered this possibility). Another road is to focus on the small caps in the main list. The FTSE Italian Small Cap list includes 119 stocks and since the start of the year has lost 12%, compared with nearly 25% in the case of the FTSE MiB, as a result of the banking crisis. But these figures are averages that conceal some brilliantly performing stocks (see table). One reason why stock-picking small caps, i.e. carefully selecting the most promising securities, is a golden rule. Leading the top ten is TAS, with a performance of 83%, followed by El.En (+80%), and Gefran (+50%).

"Italy is very fertile ground for the development of small and mid-caps, thanks to its highly developed industrial fabric and extremely interesting growth stories", observes Stéphanie Bobtcheff, Manager Small and Mid Caps at La Financière de l'Echiquier. "We invest in companies like Moncler, DiaSorin, De' Longhi and Reply: all companies showing strong growth in

profits and high-quality senior management teams, who are taking forward ambitious development projects". In Italy "we're also investing in Moleskine, which has recently been the subject of a takeover bid", continues the money manager.

Meanwhile DNCA, another French asset management firm, has just launched its Invest Archer Mid-Cap Europe fund. "European mid-caps are excellent opportunities, especially in the long term, when they tend to beat large caps structurally. It's a sector that to date has hardly been explored, but which offers excellent growth prospects: we need only consider that the valuation of listed European medium-sized companies, compared with that of large caps, is reaching its most interesting level for the last 10 years", explains fund manager Don Fitzgerald. In Italy, the medium-sized companies on DNCA's "favourites" list are Brembo and Amplifon. The problem is that foreign funds view Italian SMEs with great interest but complain of the limited size of the market.

"In Italy, we sadly don't see as many listed SMEs as we'd like", explains Gianluca Ferrari, investment manager for southern Europe at Shareholder Value Management, a Frankfurt-based firm with 2 billion euro in assets under management. The funds managed by the German firm currently include about 13% of the Mutuonline group. "Our latest investment in Italy was the purchase of a very significant holding in Be Think Solve Execute (ed.'s note: formerly Data Service), an information technology consultancy also known as Be Group.

Since the start of the year Be Group's shares have risen 15%. "Italy has very high quality companies that, unlike the case in other countries, are nearly always backed by a family holding a controlling stake that doesn't allow its attention to be distracted by the stock markets, which unfortunately tend to pursue quick returns. Instead, they work for the longer-term future, which means that their interests are in line with those of the other long-term shareholders, like ourselves. We have a lot of confidence in the Italian entrepreneurial mindset and are excited to be working alongside some big players, helping them create value for shareholders... and for themselves. In Italy you find companies selling niche products in highly specialised sectors", continues Ferrari. Who does not, to date, have investments in the Italian AIM "not so much because it doesn't have interesting stocks to offer, more because the companies there are a little too small for our assets, which amount to 2 billion".

One firm that does have a number of companies in the AIM is Mediolanum Gestione Fondi SGR p.A., part of the Mediolanum group. "We've invested about 15 million in the AIM, mainly in the Mediolanum Flessibile Sviluppo Italia fund, which was set up in 2013. The fund has approximately a 30% exposure on SME stocks, with the remainder in bonds issued by Italian SMEs", explains Stefano Colombi, investment manager with Mediolanum Gestione Fondi. The fund has assets of about 55 million. "The percentage in AIM stocks is fairly limited because of the difficulty of finding sufficiently liquid stocks with a market capitalisation in line with the size of the fund", adds Colombi. So how could the Italian SME market develop? "What's needed are tax breaks for specialist funds. That could attract investors

and encourage asset management firms to launch new funds. It's also important to select listed companies carefully in advance, to ensure the quality is high enough", comments Colombi.

The stocks held by the Mediolanum funds (see table) include Masi Agricola (a winery and the leading producer of Amarone), Axélero and Leone film group.

MILAN STOCK EXCHANGE INDEXES – PERFORMANCE COMPARISON

L'ANDAMENTO DEGLI INDICI DI PIAZZA AFFARI A CONFRONTO					
		Performance	Performance annualizzata	Volatilità	Perdita massima
A 5 ANNI	◆ Ftse Mib	-8%	-1,7%	21%	-35%
	◆ Msci Italy Mid Cap	-16%	-3,5%	25%	-39%
	◆ Msci Italy Small Cap	30%	5,4%	21%	-32%
A 3 ANNI	◆ Ftse Mib	14%	4,5%	18%	-29%
	◆ Msci Italy Mid Cap	6%	2,1%	23%	-34%
	◆ Msci Italy Small Cap	37%	11,2%	21%	-23%

Fonte: : Bloomberg / La Financière de l'Echiquier - Dati al 30 giugno 2016

GRAFICA MF-MILANO FINANZA

STRUCTURE OF ITALIAN STOCK EXCHANGE

LA STRUTTURA DELLA BORSA ITALIANA						
		Micro	Small	Mid	Large	Totale
2000 (1 gen)	◆ Numero di azioni	24	38	29	19	110
	◆ in %	21,8%	34,5%	26,4%	17,3%	
	◆ Capitalizz. in mln di €	1 832,3	15 945,6	72 261,5	558 453,2	648 492,6
	◆ In %	0,3%	2,5%	11,1%	86,1%	
2014 (1 gen)	◆ Numero di azioni	138	68	44	17	267
	◆ in %	51,7%	25,5%	16,5%	6,4%	
	◆ Capitalizz. in mln di €	7 242,5	31 846,8	103 831,0	300 798,3	443 718,6
	◆ In %	1,6%	7,2%	23,4%	67,8%	
2016 (30 giu)	◆ Numero di azioni	154	65	52	17	288
	◆ in %	53,5%	22,6%	18,1%	5,9%	
	◆ Capitalizz. in mln di €	7 811,1	26 248,2	119 158,7	276 456,8	429 674,8
	◆ In %	1,8%	6,1%	27,7%	64,3%	

Micro cap: aziende con capitalizzazione di mercato tra 5 milioni e 150 milioni di euro.
 Small cap: aziende con capitalizzazione di mercato tra i 150 milioni e 1 miliardo di euro.
 Mid cap: aziende con capitalizzazione di mercato tra 1 miliardo e 5 miliardi
 Large cap : aziende con capitalizzazione di mercato oltre 5 miliardi

Fonte: Capital IQ / La Financière de l'Echiquier

THE BEST SMALL CAPS OF 2016

LE MIGLIORI SMALL CAP DEL 2016

Quotazioni in euro

<i>Titolo</i>	<i>Prezzo</i>	<i>Variazione % a 1 anno</i>	<i>Variazione % da inizio 2016</i>
◆ Tas	0,78	+66,60	+83,5%
◆ El.En	18,18	+84,10	+80,9%
◆ Gefran	2,59	+8,82	+50,1%
◆ M&C	0,19	+50,19	+44,3%
◆ Molmed	0,51	+49,78	+40,3%
◆ Snai	1,19	+7,40	+33,3%
◆ Retelit	0,79	+43,90	+30,4%
◆ Digital Bros	9,48	-19,25	+27,6%
◆ Mediacontech	1,00	+21,72	+21,2%
◆ Caleffi	1,19	+24,41	+19,0%

Titoli indice Ftse Italia Small Cap composto da 119 società - Dati al 5 ott 2016

BEST-PERFORMING AIM COMPANIES - 2016**LE MIGLIORI PERFORMANCE DELL'AIM NEL 2016**

Quotazioni in euro

<i>Titolo</i>	<i>Prezzo</i>	<i>Variazione % a 1 anno</i>	<i>Variazione % da inizio 2016</i>
◆ Invest	0,56	+22,97%	+77,62%
◆ Safe Bag	1,01	+0,20%	+25,80%
◆ Mobyt	2,48	+17,90%	+22,57%
◆ Plt Energia	2,11	+14,74%	+18,74%
◆ Piteco	4,20	+23,53%	+9,15%
◆ Tbs Group	1,57	+4,87%	+4,52%
◆ Ki Group	2,70	-14,67%	+4,22%
◆ Tech-Value	3,09	+13,60%	+3,00%
◆ Neurosoft	1,51	-7,93%	+2,72%
◆ Leone Film Group	2,72	-2,72%	+1,95%

L'Aim è composto in totale da 76 società - Dati al 5 ottobre 2016

**STOCKS IN PORTFOLIO OF MOST EXPOSED INSTITUTIONAL PRODUCTS IN MILAN
STOCK EXCHANGE'S AIM**

I TITOLI NEL PORTAFOGLIO DEGLI ISTITUZIONALI PIÙ ESPOSTI SULL'AIM DI PIAZZA AFFARI

<i>investitore</i>	<i>Paese</i>	<i>Valore mln di €</i>	<i>Numero partecipazioni</i>	<i>Società</i>
ARCA SGR	ITALIA	15,14	20	axélero, BioDus, Bio-on, BOMI Italia, Capital For Progress 1, Cover 50, Energica Motor Company, Gambero Rosso, Glenalta Food, GO internet, Iniziative Bresciane, Italia Independent Group, Italian Wine Brands, KI Group, Lucisano Media Group, Lu-Ve, Masi Agricola, Piteco, Siti-B&T Group, Triboo Media.
MEDIOLANUM GESTIONE FONDI SGR	ITALIA	15,01	18	Capital For Progress 1, Glenalta Food, Industrial Stars of Italy 2, axélero, Cover 50, Digital Magics, DigiTouch, Elettra Investimenti, Go Internet, H-Farm, Iniziative Bresciane, Italia Independent Group, Leone Film Group, Masi Agricola, Tecnoinvestimenti, Triboo Media, Zephyro, Agronomia.
MOMENTUM ALTERNATIVE INVESTMENTS	SVIZZERA	14,1	12	BOMI Italia, Capital For Progress 1, Digital Magics, Glenalta Food, Iniziative Bresciane, Italian Wine Brands, Le-Ve, Masi Agricola, Piteco, Triboo Media, Tecnoinvestimenti, TBS Group.
KAIROS PARTNERS SGR	ITALIA	13,5	13	Clabo, DigiTouch, Cover 50, Glenalta Food, Elettra Investimenti, Italia Independent Group, Italian Wine Brands, Lu-Ve, Masi Agricola, MP7, Piteco, PLT energia, Tecnoinvestimenti.
PATRIMONY 1873 - WHITE FLEET III GLOBES ITALY EQUITY STAR	SVIZZERA	13,3	22	Assiteca, Blue Financial Communication, Biodue, Bio-on, Blue Note, Bomi Italia, Caleido Group, Cover 50, Digital Magics, DigiTouch, Energica Motor Company, Energy Lab, Expert System, Gambero Rosso, Giglio Group, Glenalta Food, H-Farm, MobyT, Modelleria Brambilla, Mp7 Italia, PLT Energia, Siti B&T Group.
AZ FUND MANAGEMENT	LUSSEMBURGO	10,4	9	Assiteca, Capital 4 Progress 1, Digital Magics, Glenalta Food, H-Farm, Lu-Ve, Masi Agricola, Piteco, Zephyro
SYCOMORE ASSET MANAGEMENT	FRANCIA	10,1	9	axélero, Clabo, DigiTouch, H-Farm, Italia Independent Group, Iniziative Bresciane, Leone Film Group, Masi Agricola, Tecnoinvestimenti, Triboo Media.
ANIMA SGR	ITALIA	9,3	11	axélero, Clabo, Capital For Progress 1, DigiTouch, H-Farm, Italia Independent Group, Iniziative Bresciane, Leone Film Group, Lu-Ve, Tecnoinvestimenti, Triboo Media.
INTESA SAN PAOLO	ITALIA	7,3	7	axélero, H-Farm, Italia Independent Group, Iniziative Bresciane, Leone Film Group, Masi Agricola, Notorious Pictures.
BANOR CAPITAL	UK	7,2	6	axelero, Digital Magics, Lu-Ve, Masi Agricola, Industrial Stars of Italy1, Triboo Media.

Fonte: dati Factset, società e Borsa Italiana. Dati a luglio 2016