

# Private Equity: an opportunity for pension funds

Maurizio Paolo Atzori  
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# Agenda

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1. Private equity overview
2. Italian pension funds landscape
3. Case study: APE SGR and Solidarietà Veneto

# What is Private Equity?



Fundraising from Limited Partners



Investment in unlisted companies



Targets development and value creation



Management support

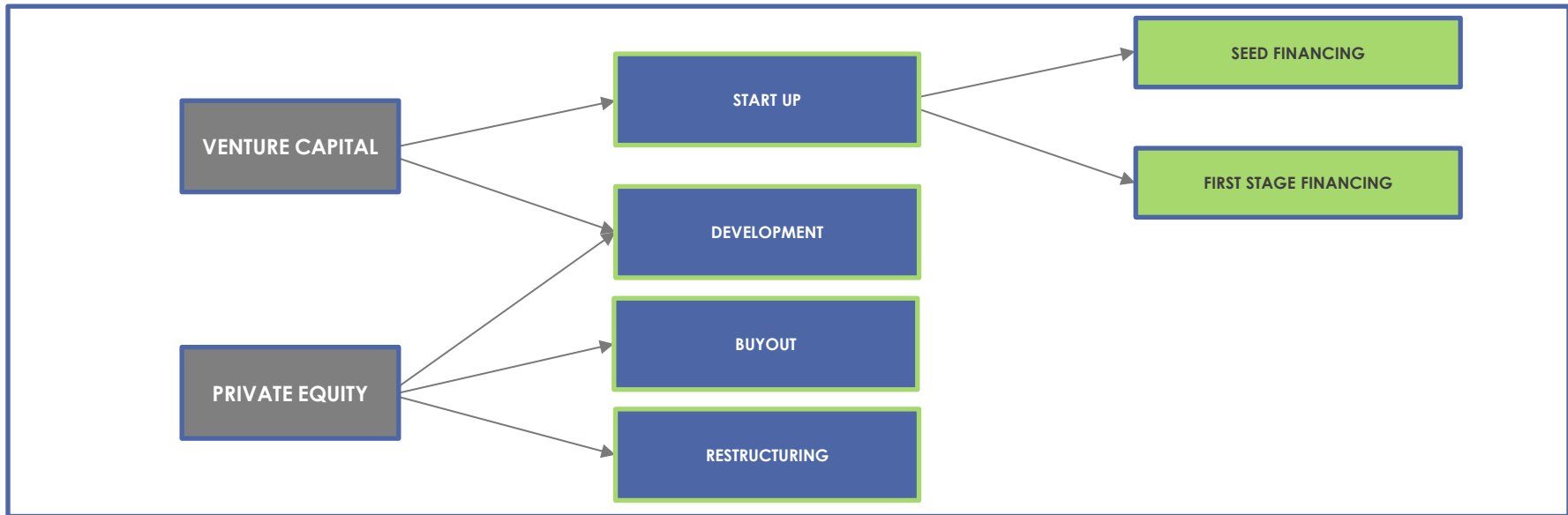


Investment horizon from 3 to 8 years



Divestment with high returns

# Large offer of operators and funds

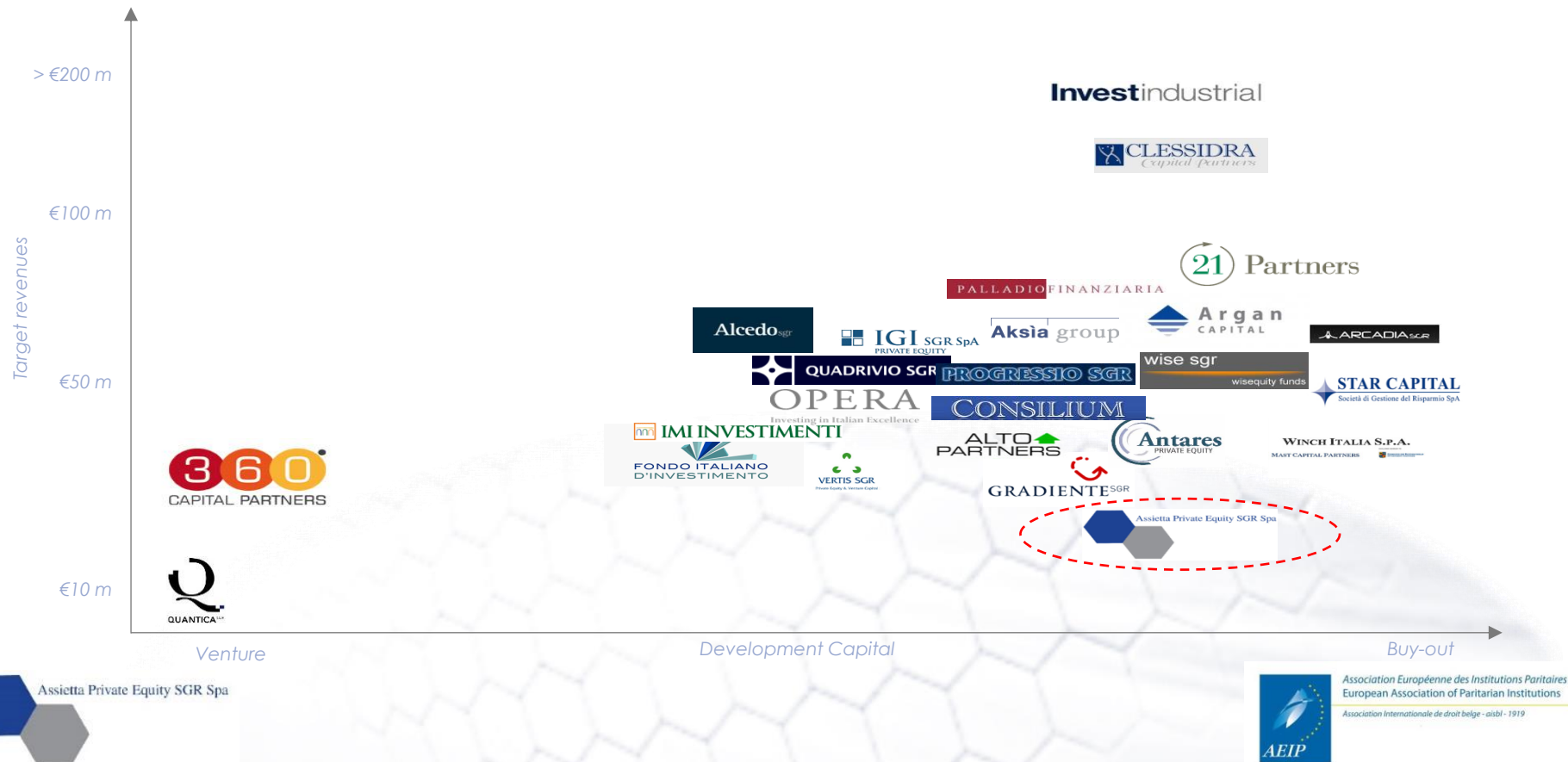


- **Life Stage of target:** start up, development, buyout, restructuring
- **Investment policy:** generic, sectorial, geographic
- **Geography:** regional, domestic, international
- **Quantum:** minorities, majorities, both
- **Size target:** small (<30m) medium (30m-50m) large companies (>150m)

# APE SGR: niche player in the Italian SME space

## APE SGR investment criteria:

- **Investment type:** buy-out/development
- **Equity ticket:** € 3-8m
- **Target features:** leader in its niche, international outlook
- **Geography:** Northern Italy
- **Quantum:** majorities
- **Target Size:** small companies (€10-30m of revenues)



# Why invest in Private Equity?

**11,8%** average return over the last 10 years is a better performance than listed instruments<sup>1</sup>

**Lower volatility** vis-a-vis other alternative instruments with similar returns<sup>1</sup>

**Interesting assets** Access to markets where no listed securities exist [for example SMEs]

**Partial decorrelation** to listed securities

**Portfolio stability** No daily mark to market

**Real economy** contribution

**Tax incentives** in certain instances (Example Italy 2015)

## Cherry on the cake:

Foreign investors allocate 5%-10% of their AUM to PE

4.3%

European Investors  
average allocation<sup>2</sup>

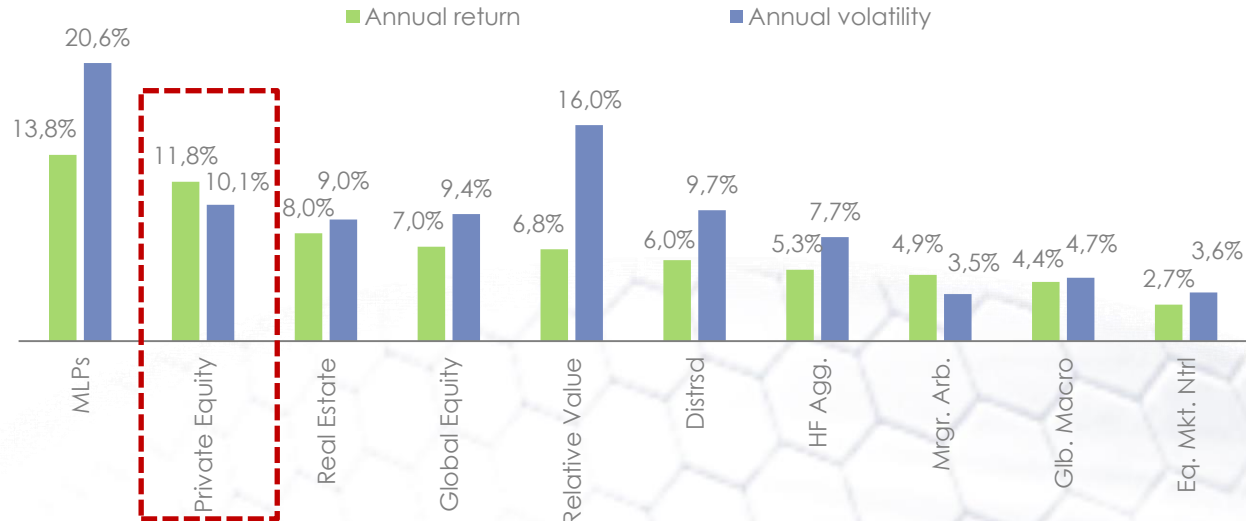
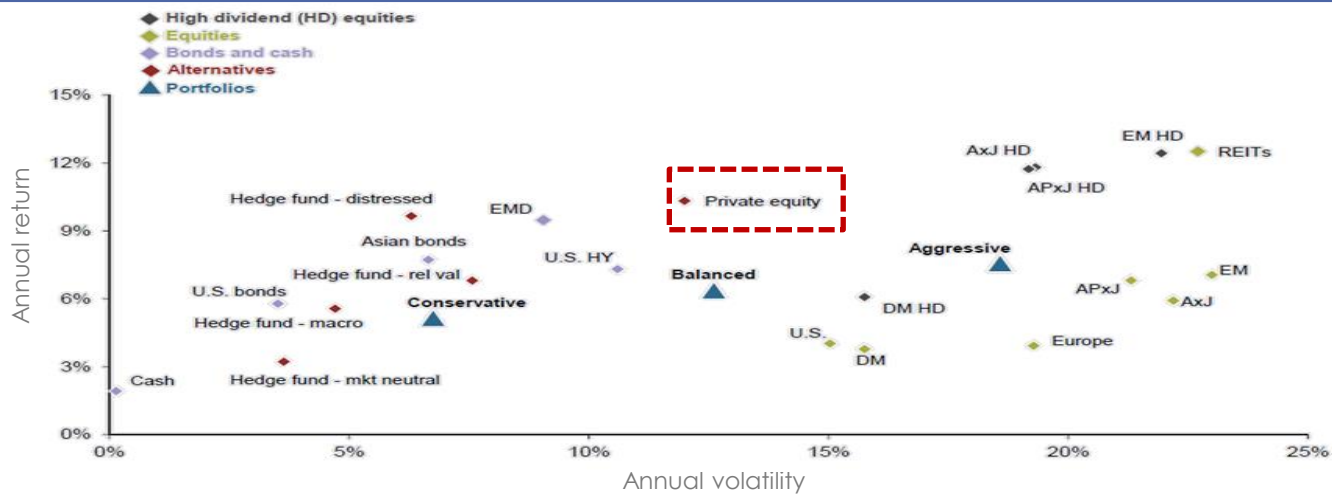
7%

US Investors  
average allocation<sup>2</sup>

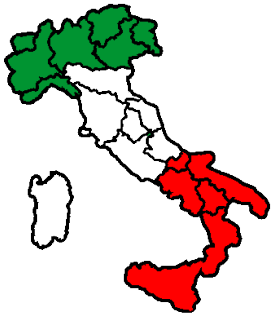
<sup>1</sup> Source: Guide to the Markets, JP Morgan Asset Management, September 2015

<sup>2</sup> Source: Preqin Investor Intelligence

# Returns and volatilities of various asset classes (2005 – 2014)



# Pension fund space in Italy very peculiar



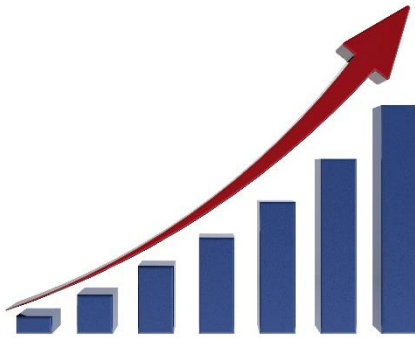
VS



Pension funds landscape in Italy differs substantially from situation in other countries

≈20 years

Most pension funds are very young



Market is expected to grow at a quick pace but still very small

Casse professionali: 66bn

Fondi preesistenti: 54bn

Fondi negoziali: 40bn

End 2014 total assets of 3 typologies of Italian pension funds<sup>1</sup>



# Examples: Italy vs Netherlands



 Total assets largest pension fund: **€9bn**

 Total assets largest bank's pension fund: **<€3bn**

 Total assets median pension fund: **€1bn**

 Many **small players**



 Total assets Largest pension fund:

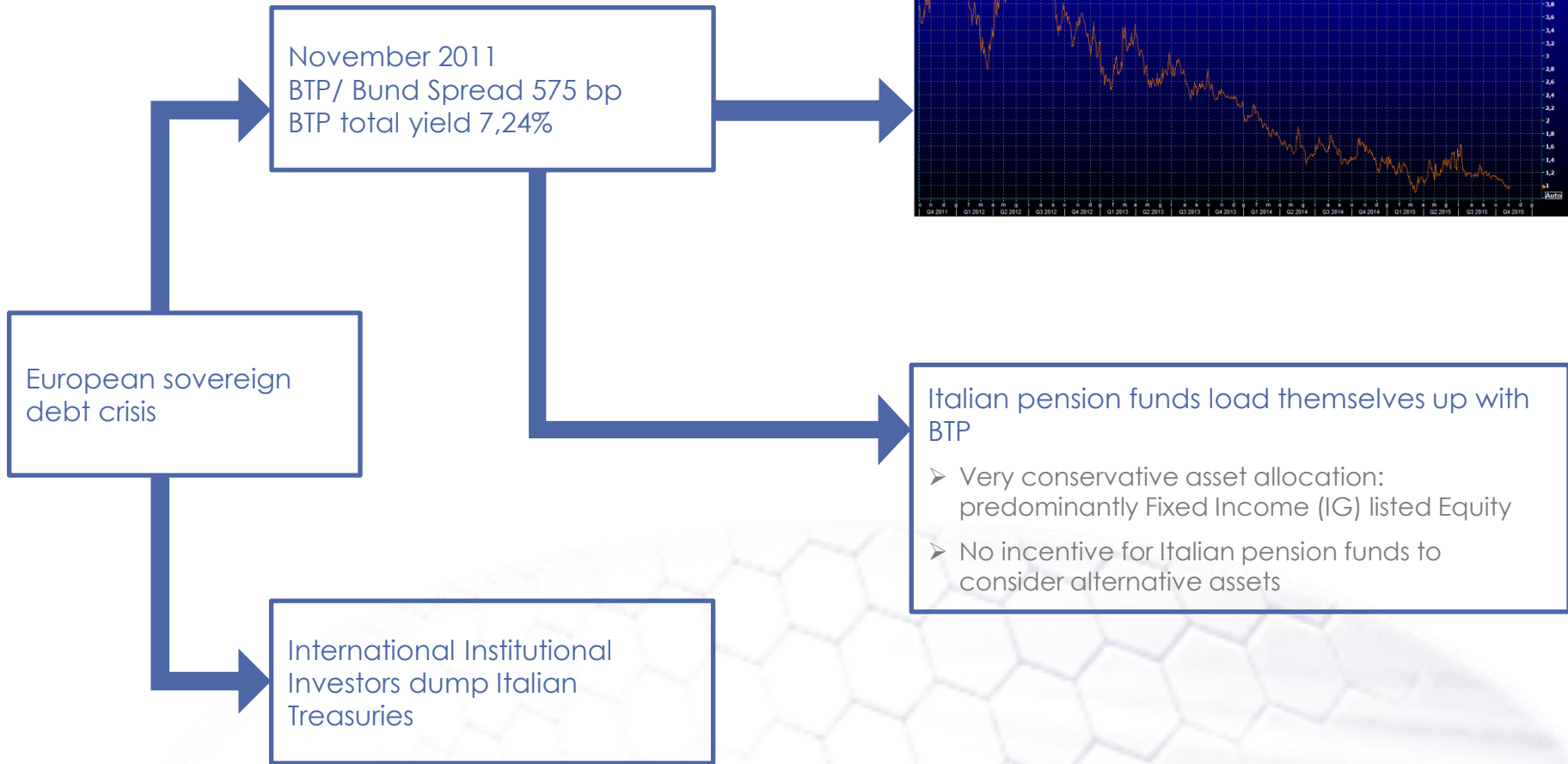
**>€400bn**

 Total assets 3 largest banks pension funds: **>€90bn**



British Telecom's Pension Fund allocation to PE Investments (August 2015): **1bn**

# Different risk perception after 2007-2008 crisis



# The current challenge

- December 2014 BOT trades at a negative yield
- Spread Bund/BTP in October 2015 below 100bp
- October 2015: CTZ 2 years issue at negative yield

## Italy

10 yr Btp yield – last 10 yrs



## Germany

10 yr Bund yield – last 10 yrs



# Other Italian issues



- **Regulatory** framework (703/166: excuse or real issue?)



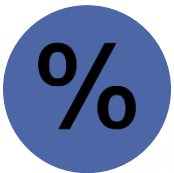
- Set up and **Governance**: very small staffs and very large paritarian boards



- In house **competencies**



- **Taxation** on going returns and ....



- ... difficulty to abandon the dream of a **risk-free** returns

# Question marks vis a vis private equity

## General aspects

- Opaque product
- Bad reputation: grasshoppers, high leverage...
- Asymmetric information
- Illiquid: buy hold
- Long Term
- Uncertain cash flows (size and timing)
- J curve

## Sensitive topics for pension funds

### ➤ J curve

- ✓ Negative impact on short term returns
- ✓ Specific issue for members retiring during investment period
- ✓ In combination with LT: The Board that will approve an investment will only see the immediate negative impact

### ➤ Cost structure

- ✓ substantially higher than for managing listed securities
- ✓ impact on Synthetic Cost Ratio

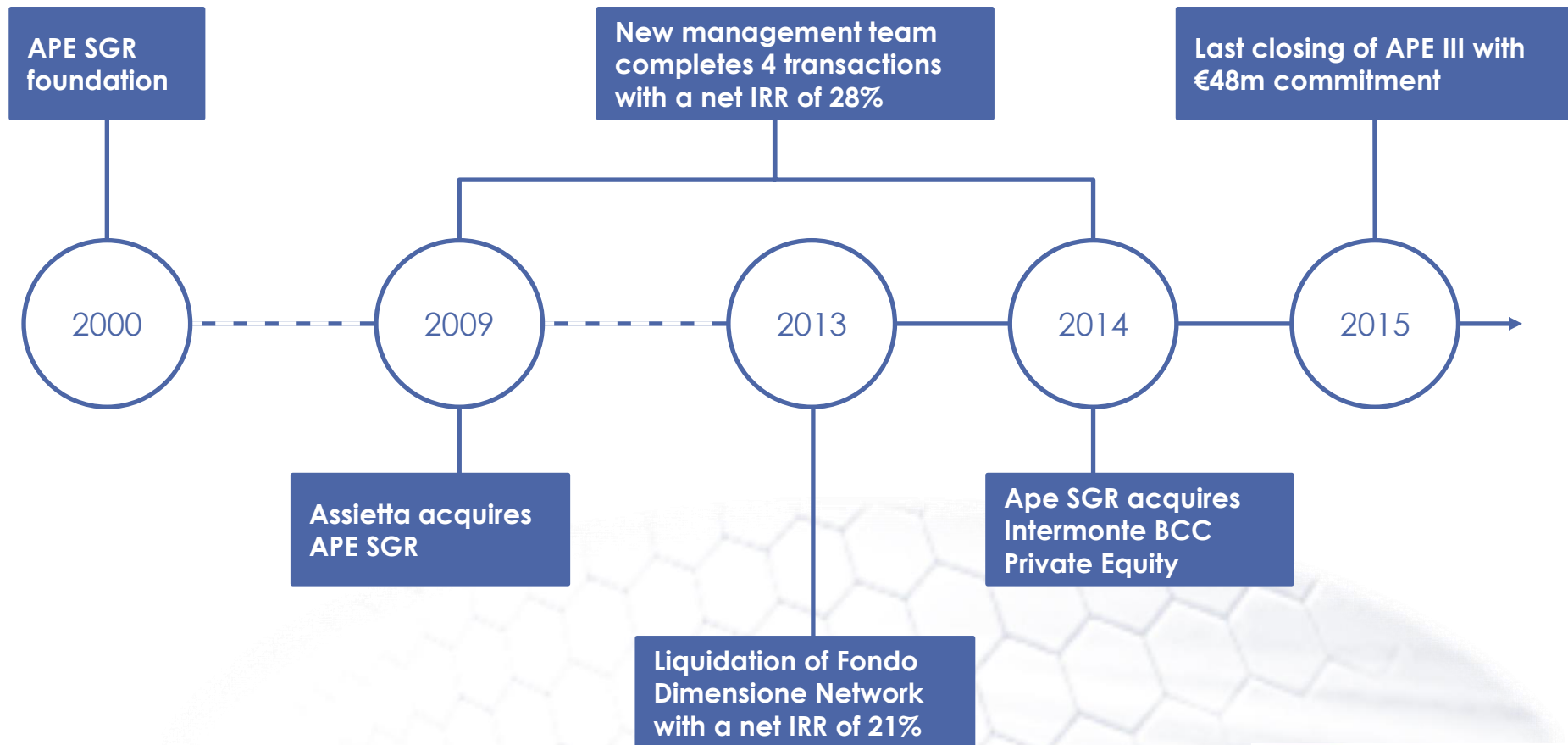
### ➤ Selection and monitoring

#### asset managers and funds

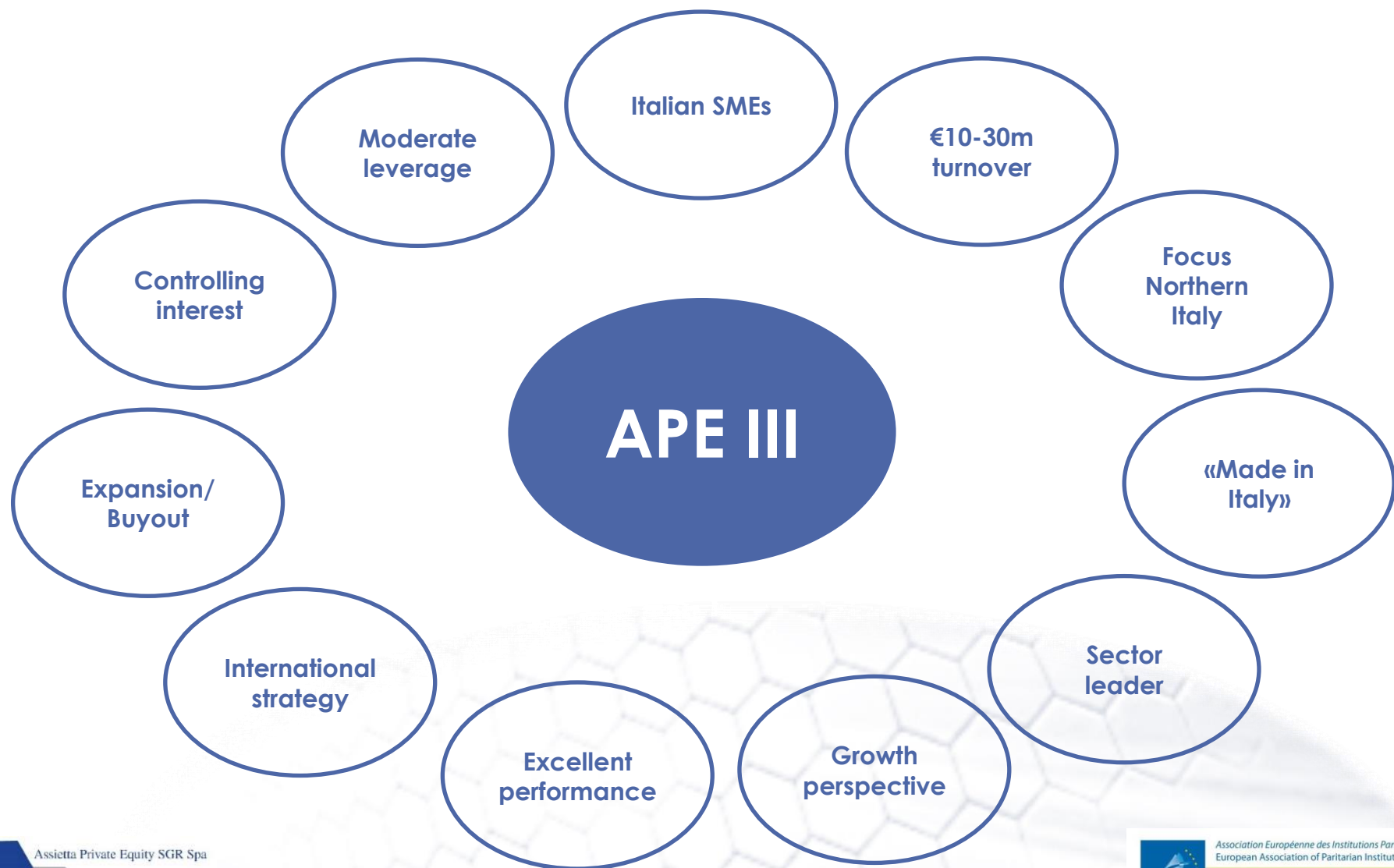
- ✓ Offer not easy to compare
- ✓ Complex due diligence: time, cost and expertise
- ✓ Monitoring investments

# Case study: Assietta Private Equity SGR

**Assietta Private Equity SGR** is a small independent Management Company of Private Equity Funds dedicated to Italian S(M)Es



# APE SGR: investment criteria





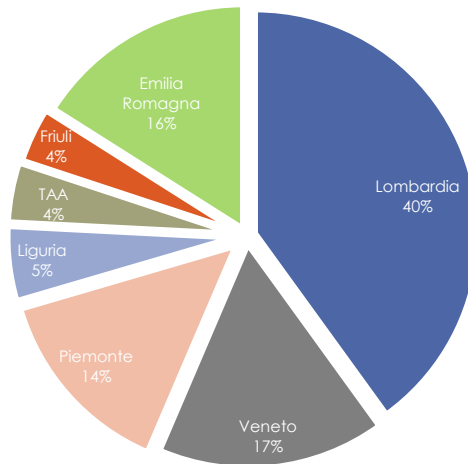
# APE SGR: why Northern Italy?

## Northern Italy GDP (€ bn)

**900**

56% of Italian GDP  
(Istat 2014)

## GDP distribution (Istat 2014)



## Northern Italy Export (€ bn)

**286**

72% of total Italian Export  
(Istat 2015)



## Northern Italy unemployment rate

**8.6%**

Italy: 12,7% (Istat 2015)

## Private Equity

(deals in Northern Italy from 2005 to 2014)

**895**

More than 75% of Italian PE deals are closed in Northern Italy (PEM 2015)

## SMEs

(companies between €10-30m)

**12,433**

More than 70% of the companies with revenues between €10-30m are based in Northern Italy (Aida 9/23/2015)

- One of the most industrialized areas in Europe
- Many manufacturing companies with a strong focus on exports
- Internationally-recognized technological hubs
- Large number of companies suitable for Private Equity transactions
- Many SMEs in need of financial and organizational support to compete globally



# APE SGR: key aspects

**AVAILABILITY OF MANAGERIAL AND  
FINANCE&CONTROL COMPETENCES**

**COMMITMENT AND LEGAL  
REPRESENTATION**

**APE'S UNIQUE SELLING  
POINTS**

**INDEPENDENT PLATFORM WITH  
INSTITUTIONAL SUPPORT**

**FOCUS ON A LOW COMPETITION  
SEGMENT**

# APE SGR: why and how

Why is the  
segment  
Eu10-30M  
attractive?

Low competition

Proprietary deal flow

Generational change and entrepreneur's complacency hampers the growth of many small companies

APE SGR competences

Build-up strategy

Corporate governance

Organizational improvements

Large network of managers with specific industries knowledge

First management line reinforcement for international expansion

Monitoring of market trends to identify potential adds-on and to prepare the exit

Long-term incentives for management

How  
APE SGR  
creates  
value

# Case study: Solidarietà Veneto

**Solidarietà Veneto** is a regional paritarian Pension Fund dedicated to people employed in the region of Veneto

**25**  
years of history

**48,000**  
Number of members



**Solidarietà Veneto**  
Il tuo futuro al sicuro

**≈1bn**  
€ of total assets

**1<sup>o</sup>**  
Italian paritarian  
Pension Fund to invest in  
Private Equity

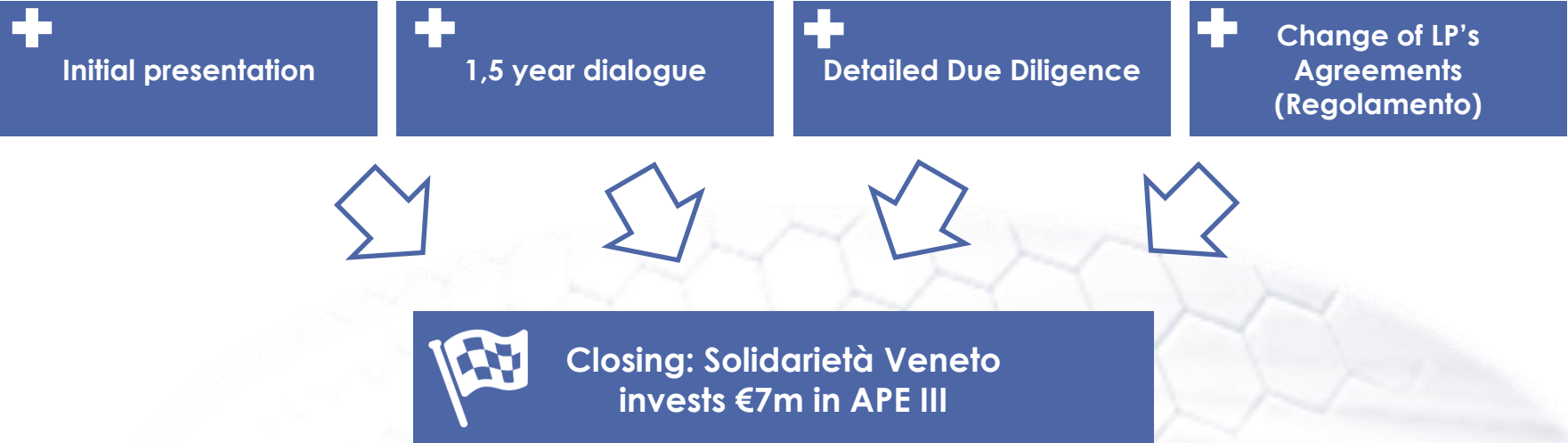
# Process



## ➤ Behind the curtain:

- ✓ Acquisition of competence
- ✓ Hire of dedicated staff
- ✓ Selection Process
- ✓ Comfort from advisers
- ✓ Specific internal approvals
- ✓ Asset Allocation: in principle approval for €30m in Private Equity

## ➤ Direct involvement



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Thank you for your attention!

# Q&A

**Maurizio Paolo Atzori**

Assietta Private Equity SGR Spa  
Via Cesare Cantù, 1  
20123 MILANO  
[maurizio.p.atzori@apesgr.it](mailto:maurizio.p.atzori@apesgr.it)

Tel. +39-02-89096595  
Fax +39-02-89093704  
Mob. +31-653854490