

MIMS – Multi Asset Global Opportunities Fund

Portfolio Management Team

Report – April 2020

Fund description

MIMS – Multi Asset Global Opportunities Fund is an actively-managed fund by Minerva Investment Management Society, based on environmental, social, and governance (ESG) criteria.

The ultimate goal of this portfolio is to achieve long term growth whilst controlling volatility. To that end, this portfolio will be comprised of a multitude of highly diversified securities with the possibility, in exceptional cases, to take short term speculative positions. To ensure high diversification, this virtual portfolio is spread across geographies, industry and asset classes, and is built through stock picking, based on fundamental analysis and macroeconomic views. In total, the asset allocation will aim to include 30 different securities with a risky component amounting to maximum 60% of the portfolio value, compliant with ESG criteria. In order to defend against negative market impacts, 20% is to be allocated into debt securities through various bonds. The remaining 20% comprises 5% in commodities, 10% in real estate and alternative investments, and 5% cash. Derivative securities are intended to be used for hedging purposes only.



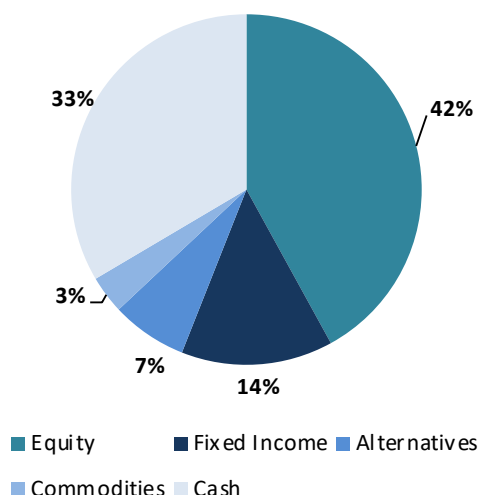
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Investment Approaches

Top-down approach

Starting from a macroeconomic outlook, the investment analysts identify a particularly appealing industry or geography of which the best operating corporations will be analyzed thoroughly. A strong growth potential combined with high ESG standards is of crucial importance.

Bottom-up approach

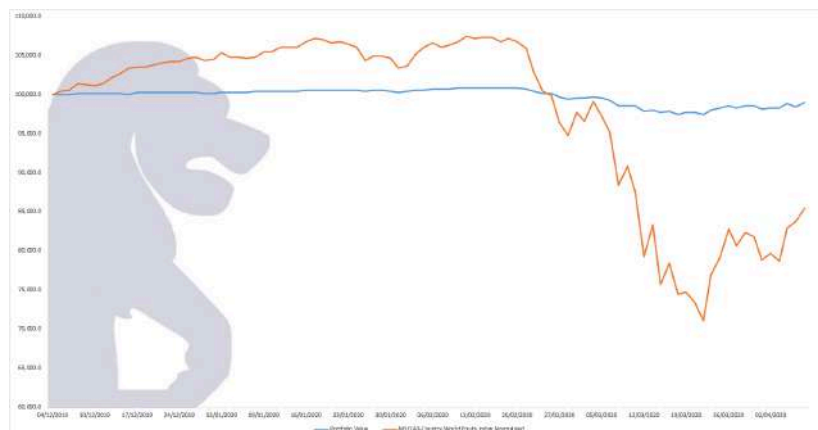
If a security stands out to one of the investment analysts, a detailed analysis is to be done with a bottom-up approach. From that point, an internal discussion follows in order not only to contemplate the validity to the suggested investment, but also to assess the fitting within the portfolio in terms of risk-return contribution as well as diversification considerations.

Equity Research Team

An equity investment can be undertaken following a suggestion by the Equity Research Team of Minerva IMS. This work is revised in the light of new events and company news which might have occurred since the release of the equity research report.

Performance

04.12.2019 - 08.04.2020



The Portfolio has been monitored since 05/12/2019 and rebalanced on 24/03/2020 and 07/04/2020.

The analysis has considered the cumulative gain over the entire period and some key metrics for the most relevant periods (Last month, Last 2 months, Last 3 months and Since inception). Considering an initial value of €100.000, the portfolio reached a final cumulative value of €99.751,20.

We are actively looking for investment opportunities, aiming to increase positions in new assets as well as increasing the current portfolio securities' weights when the conditions are favourable. The subsequent decrease in the cash account will be strictly based on the portfolio's strategies and goals.

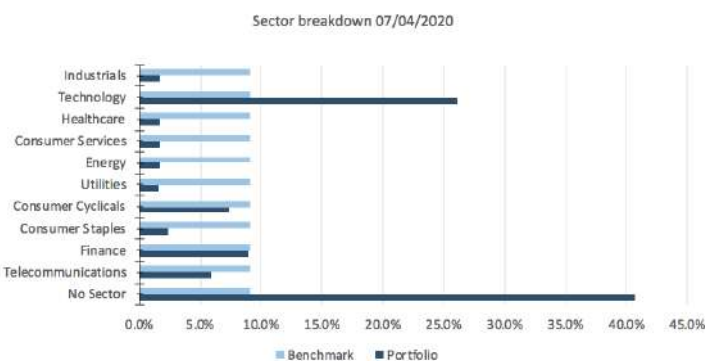
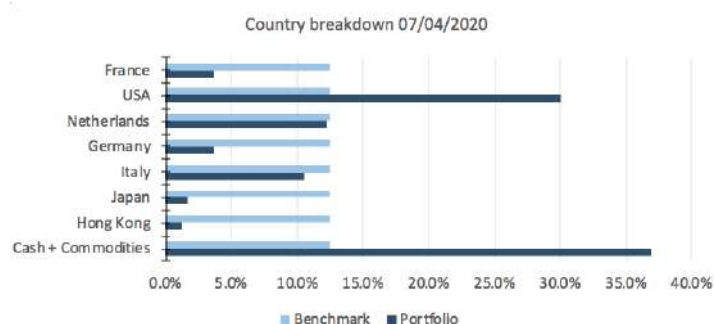
Top 5 Holdings

Security	Return
Prologis REIT	30.11%
Equinix REIT	25.20%
Campbell Soup	10.99%
Intel	10.92%
Apple	8.13%

Equity		Fixed Income	
Airbus	1.68%	Lixor Green Bond ETF	2.03%
Alphabet	3.17%	Apple Bond 13.11.2027	2.02%
ASML	12.16%	AT&T Bond 15.05.2035	5.92%
Bayer	1.68%	Volkswagen Bond 12.04.2023	2.02%
Disney	1.68%	Intesa Sanpaolo Bond 23.04.2025	2.02%
Eni	1.68%		
ETF S&P 500	1.68%		
Moncler	3.73%		
Toyota	1.68%		
Apple	0.70%		
Campbell Soup	2.42%		
Intel	1.53%		
Italgas	1.61%		
Motorola Solutions	6.60%		
Cash	33.50%		
		Alternative & RE	
		Equinix REIT	1.58%
		Link REIT	1.19%
		Prologis REIT	1.58%
		Safeguard INC	2.66%
		Commodities	
		Copper	0.81%
		Gold	1.06%
		Lithium	0.81%
		Oil	0.81%

Performance	1 month	2 months	3 months	Since inception	Volatility S.I.
Minerva IM – Discretionary Portfolio	-0.25%	-1.70%	-1.42%	-0.95%	0.22%

Portfolio breakdown



Source: Minerva Investment Management Society and Thomson Reuters Datastream. Past performance is not an indicator of future success
References of the analysis of this report are available upon request

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Macroeconomic Outlook

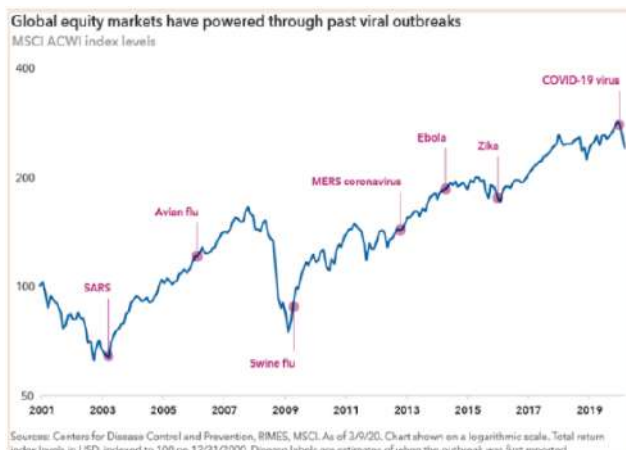
By the end of January 2020, the situation in the world economy was the following: Utilities +9%, Healthcare +2% and Consumer Staples +1%. On the other side, commodity and growth dependent sectors suffered, with Energy -7%, Materials -5% and Consumer Discretionary -4%.

However, the coronavirus threat arrived, forcing factories to close with a consecutive negative supply shock which may have future impact also on the demand side: the closure of firms and the reduction of income for families will lead them to spend less.

Uncertainties regarding future incomes and in general future economic stability, will also lead to a reduction of future expectations with a consequent decrease in current expenditure. If a negative demand trend continues, this may cause a negative loop. Low demand will, indeed, reduce firms' earnings expectations and this will negatively impact investments. A reduction in investments would reduce again the supply with the already discussed effects (however, on the contrary, an efficient monetary policy would have a double positive effect: pushing not only demand but also investments).

Together with this there is the increasing fear of investors related to corporate bonds: they are indeed requiring an additional spread over the "risk free" assets. This phenomenon is more evident in all those sectors which are more affected by the crisis: transports, energy and automotive sectors, where investors are worried that companies will not be able to pay back their bonds (ETFs on bond indeed lost between 5-10% in the last week).

These effects may, in part, be offset by adopting different measures in order to push the demand. One easy option could be the reduction of interest rates - in order to increase investments and borrowing - or the injection of liquidity in the market. However, central banks must respect the zero-lower bound. This implies that most pessimistic agents may expect that CB policies will not be useful - or at least not enough to invert the negative trend - and this would lead to a stagnation trap. In order to avoid this, a necessary massive uncommon intervention, with the support of strong fiscal policies, is needed.



ITALY

During the previous quarter, Italian commerce started to increase and production was expected to grow, together with companies' investments, but less than in the previous year.

Foreign investments in Italian bonds increased: 90 billion in the quarter November 2019 – January 2020, employment and inflation (+0.5%) registered an increment and stock market and national bonds' returns increased too.

Based on this information, Banca d'Italia projections for the current year were (on middle January 2020): gradually and moderate recovery of the general economy, supported by accommodative monetary conditions. GDP was expected to grow by 0.5% this year, 0.9% in 2021 and 1.1% in 2022.

These predictions are however now affected by the current spread of the coronavirus. The forced stop of a big part of the Italian economy (closure of SME, retail shops, tourism and entertainment sectors...) caused a sharp decline in FTSE MIB Index (on Thursday 12th a 17% loss was recorded and on Monday 16th another huge loss was registered). Spread increased, also driven by ECB President declaration.

EUROPE

The new year started with a slight negative performance of the European index MSCI TR (-1.3%), but the positive development of US – China deal gave a positive signal to the market. However, fears of coronavirus spread negatively impacted markets, leading ECB to intervene.

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On March 12th ECB approved the following pack of decisions:

- Additional and temporarily LTROs to ensure liquidity in the market, although there are no material signs of liquidity shortages;
- Better conditions (lower interest rates until June 2021), if possible, on long term financing for banks (TLTRO III) in order to guarantee the grant of new loans mainly to SMEs if needed. ECB is in this way “paying” (-0.75% interest rate) banks to borrow from it in order to persuade them to grant more loans and incentive firms to invest;
- Additional net asset purchases of €120 billion will be added until the end of the year.

Coronavirus threat affected also GDP growth expectations, which according to JP Morgan, are expected to decrease by 1.8% – 3.3%.

ASIA

Due to coronavirus impact China economy suffered more than expected. The industrial production decreased by 13.5% compared to the same period of the previous year. Even worse effects on the sale side, where retail sales decreased of about 20.5% (much more than the 5% forecasted).

In response to that, PBOC:

- Introduced liquidity in the market: one-year credit line of around \$30 billion
 - Reduced interest rates by 10 bps
 - On March 17th also directly injected ¥100 billion. The action was extremely well seen by the market which recovered from the losses of the previous days
 - Reduced rates on loans (LPR): on the one-year rate -10 bps, while on the 10 years rate -5 bps
- China GDP expected growth forecasts decreased from 6.1% to 2.6% due to coronavirus spread. Bank of Japan, instead, didn't touch the rates which were already lower - between 0% and -0.1% - but informed that it will do whatever is necessary, starting from the purchasing of bonds.

USA

On March 16, also the U.S. Market was impacted by coronavirus pandemic and general instability causing negative performances on main US stock market indices (S&P 500 lost almost 30% in the past month). Furthermore, restrictions on mobility have obviously impacted travelling and mobility sectors.

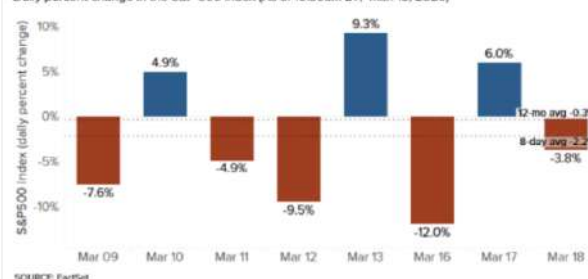
The FED:

- Cut off interest rates near zero but commented that it is not the intention to lower the rates below zero: President Powell said they still have many other tools to push the economy, including the possibility to add more liquidity.
- Purchased \$700 billion worth of Treasury bonds and mortgage-backed securities. It also struck a deal with five other foreign central banks to lower their rates on currency swaps to keep the financial markets functioning normally.

These actions had a positive impact on US markets which registered performances around 3-5%.

Stock market turmoil

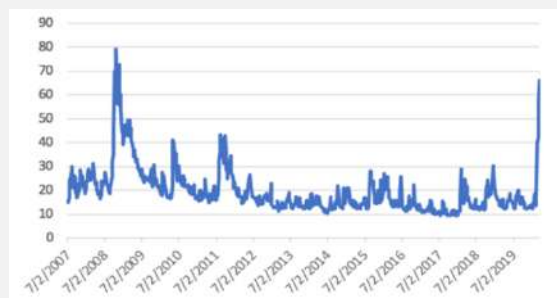
Daily percent change in the S&P 500 index (As of 10:30am ET, Mar. 18, 2020)



CNN reports: Although the underlying US economy has remained on solid ground - unemployment is at a historic low and consumer confidence has stood near all-time highs - the FED said the coronavirus outbreak has significantly hurt the global financial conditions. According to GS indeed, GDP growth is expected to be contracted by -5% in the first quarter, -2% in the third and -4% in the last one of this year.

VIX

Currently, VIX is at the highest point since the 2008 financial crash. It is evident that investors are taking the COVID-19 pandemic seriously and that its dynamics will shape further expectations. The index indicates how much the price of an asset may vary if a shock in the market occurs: so, at this moment, prices could mostly fall up to 70%.



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Apple Inc. (AAPL)

Recommendation: Buy

1yr Target : \$338.50 (Source: NASDAQ website)

Company Overview

The Company designs, manufactures and markets smartphones, personal computers, tablets, wearables and accessories, and sells a variety of related services (Market Cap: 1.003T).

Financial Analysis

During 2019, the Company had revenues for \$267,683 Mln. (31% direct and 69% indirect distribution channels). Revenues decreased by 2% from 2018 FY but in January 2020 the Company posted quarterly revenue of \$91.8 billion, an increase of 9% from the year-ago quarter and an all-time record. The company has high profitability margin (51.57% 2019 ROE), also compared to the industry. Debt remained stable over the last three years.

Liquidity is key for Apple. Current ratio is 1.12, Quick ratio (1.09) shows that a large part of current asset is made up by cash & equivalents and not inventory. During 2019, Apple had cash for \$25,913 Mln.

In 2019, cash generated by operating activities was \$69.4 billion, by investing activities; \$45.9 billion, the cash used in financing activities of \$91.0 (mainly repurchase of common stocks and dividends payment).

Price movements & recent news

From August 2019 to February 2020, Apple stock price increased reaching its maximum at about 320\$ per share. Price was driven up by news about a rebound in iPhone sales and the new iPhone 11. Around November 2019, many analysts raised Apple target price, further speeding the price up. Moreover, by the end of 2019, the Company repurchased \$67.1 billion of its common stock.

Reaction to Covid-19 outbreak

As a reaction to Covid-19 outbreak, from mid-February 2020 the stock price declined with a volatile behaviour (1.29 Beta).

In January, Apple closed 42 stores until March 13th in China, but the price of its stock never went under



\$275 per share. Moreover, on March 13th Apple decided to close all its stores outside Greater China (31% of the company's \$260 billion in sales in the year ended September 2019). As a reaction, Apple stock price went down by 12.86% until March 16th and then decreased again.

Conclusion

Apple Inc. is a leader in its sector. The company is solid from a financial standpoint and it will be able to cope with negative outcomes coming from Coronavirus spread. The company indeed, will continue selling its services and its products online, also considering the power of its brand. It must be highlighted that the stock price discounted the closing of Apple store with a decrease of 24.09% from March 4th to March 23rd. This can be considered as a fair discount, meaning that investors already considered the negative impact of the current situation. All in all, Apple is a good company to have in our portfolio with a long-term view and it is now relatively cheap. The final recommendation is "Buy".

Campbell Soup Company (CPB)

Recommendation: Buy

1yr Target : \$50.50 (Source: NASDAQ website)

Company Overview

The company produces and distributes a range of high-quality soups and simple meals, beverages, snacks and packaged fresh foods (Market Cap: \$113.669B).

In August 2018, the company announced its new strategy for the period 2018-2020 and three critical actions to be taken:

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- Become a more focused company in its core North American market;
- Divest certain non-core businesses and use the proceeds to significantly pay down debt and strengthen its balance sheet;
- Reduce costs and increase its asset efficiency, to reflect the leaner, more focused and agile enterprise the company is building.

As a consequence, the company acquired Snyder's-Lance (snack producer), financing this operation with debt.

Financial Analysis

Net sales increased 23% in 2019 to \$8.107 billion, primarily due to a 23-point benefit from the acquisitions of Snyder's-Lance and Pacific Foods of Oregon, LLC (Pacific Foods).

Interest expense increased to \$356 million in 2019 from \$183 million, primarily due to higher levels of debt associated with funding the acquisitions discussed above, higher average interest rates on the debt portfolio.

Current assets are less than current liabilities as a result of the level of current maturities of long-term debt and short-term borrowings and the company's focus to lower core working capital requirements.

Gross profit, as a percentage of sales, decreased to 33.2% from 35.9% a year ago, primarily due to cost inflation and higher supply chain costs.

Liquidity ratio: Current ratio: 0.58, Quick ratio: 0.305 (including current asset from discontinued operations). Liquidity ratio are not extremely reassuring but Campbell's business is not affected by cyclicity, it is able to generate stable cash-flows and it has direct access to short-term borrowings.

Price movements & recent news

As of today, March 22nd, 2020, price is 45.30\$ per share. From March 2nd to March 22nd price experienced high fluctuations, linked to the Coronavirus outbreak.

Comparing CPB and S&P500, the index suffered from a sharp decrease from the first days of March. CPB followed the trend up to March 16th but always outperforming the index, then the gap between the two widened starting from March 4th. On March 16th onward, the stock return rose sharply, also after the FED announcement, then decreased again to more stable levels.



Conclusion

Considering the nature of the emergency, CPB can be seen as a safe asset. Even if it experienced ups and downs, we expect the business will not be seriously affected by the consequences of this pandemic but instead, it can be speeded by it, due to an expected growth in sales. Since the beta of the stock is lower than 1, CPB qualifies itself as a defensive asset. It could lower the exposure of our portfolio, especially if other breakdowns are expected to be experienced in the market. Hence, the final recommendation is "Buy".

Italgas (IG.MI)

Recommendation: Buy

1yr Target : €6.20

Company Overview

Italgas is the Italian market leader in the regulated gas distribution business; it manages a distribution network that extends for a total of approximately 71,000 kilometres.

Financial Analysis

In 2019, for the third consecutive year from the return to the Stock Market, Italgas presents growing results which confirm the goodness of the choices made during the year in line with the Industrial Plan and focused on digitization, growth and operational efficiency.

During the last year, according to the 2019-2025 business plan, the company implemented 740 million capital expenditure (+41.6% with respect to 2018 and +100% with respect to 2016) to develop its network in the territory of Sardinia and to digitalize its internal processes.

- The requirements related to net investments for 2019 were fully covered by the net positive

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cash flow from operating activities, equal to € 697.2 million, with a Free Cash Flow (before M&A) of € 106.5 million.

- The adjusted EBIT in 2019 amounted to € 516.0 million (+13.2% with respect to 2018) and adjusted net profit was € 345.2 million (+9.4% compared to the previous year).
- The development and growth confirmed by the economic and financial results are also due to the commitment and the awareness of the sustainability issues (FTSE4Good Index and the Dow Jones Sustainability Index World).
- Dividend per share equals to €0.256 (60% pay-out ratio) for the year 2019 (+9.4% with respect to 2018).

Conclusion

We think that Italgas could be a very good long-term investment as a result of three main elements:

- The announcement in the 2019-2025 business plan of future higher capex and of a massive digitalization process will increase revenues/reduce costs mitigating the negative effects of future regulatory changes;
- The increasing revenues and dividend yield / pay-out ratio;
- The recent fall in the stock price due to the Covid-19 Emergency and the consequent speculative wave. Italgas, with a huge market share in a strategic business, a solid financial position and particularly focused on the digitalization of its processes will face a potential 25-30% upside in the next months.

Intel Corp. (INTC)

Recommendation: Buy

1yr Target : \$64.50 (Median of 32 analysts – CNN)

Company Overview

Intel Corporation is the world's largest semiconductor company and primary supplier of microprocessors and chipsets. Intel's business is divided in two main categories:

1. **PC-Centric Business:** includes platforms for end-users (2-in-1, thin-and-light, commercial and gaming) and growing adjacencies such as graphics and memory;
2. **Data-Centric Businesses:** these are the Data Center Group (DCG), Internet of Things (IoT),

Mobileye (autonomous driving), and few others.

The company's strategy is to gradually reduce its dependence on the PC-centric business by moving into Data-centric businesses. This move is explained by the fact that the Data-centric businesses offer more opportunities of growth with respect to the already mature PC-centric business. Intel has thus increased its product offering in areas such as cloud computing, 5G network, AI and analytics, and autonomous driving.

Financial Analysis

Income Statement: Intel's 2019 revenue amounts to \$72B, while net income is at \$21B, with a profit margin of 29%. Even if net income is flat compared to the previous year, it nearly doubled from 2015, when it was \$11.4B;

Balance Sheet: the company's book value per share is 17.8, and it has been growing continuously for decades at a CAGR of 9%. Intel's financial position is very strong, and it carries relatively little debt, with long-term debt to equity at 37.3%. The current ratio is 1.4, and the cost of borrowing is approximately 3.3%.

Cash Flow Statement: the cash flow from operations stands at \$33B, and cash and short-term investments sit at \$13B. Over the past 5 years, Intel has returned 90% of free cash flow to shareholders, through buybacks and dividends. The current dividend is \$1.32, with a 10-year CAGR of 8.45%.

Risks and Strengths

Strengths: the management strategy has evolved with changing times, shifting the focus on data centers and cloud providers. In addition, Intel's growing clout in many forefront segments (see AI, big data optimization) is a positive indicator of future growth prospects.

Risks: Intel faces many different risk factors, but the main ones are growing competition and manufacturing-related risks:

- The industry in which the company operates is highly competitive and subject to rapid developments.
- The main competitors are AMD, Qualcomm and Nvidia, EMC Corporation, Oracle and IBM; also, many competitors rely on third party foundries, such as TSMC or Samsung Electronics.

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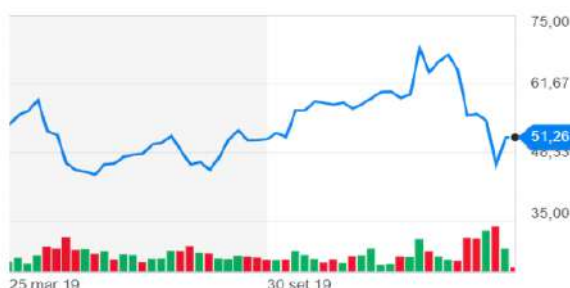
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- Intel is subject to risks associated with developing and implementing new manufacturing process technology. Also, the company faces supply chain risks, so disruptions due to trade wars and due to the current spread of COVID-19 can have a significant impact on the production.

Conclusion

The company has a proven history of being a market leader, and it is perfectly well positioned to continue leading in the coming years. We believe Intel to be competitively priced given the current market price of approx. \$51 and a P/E ratio of 10.36, and the stock looks like a great buy for the long term in a high conviction portfolio. My final recommendation is "Buy".



Alternative Investments & Real Estate (23/03/2020)

We decided to devote part of the asset allocation to Alternative Investments, including non-stock, non-fixed-income and non-money-market investments that provide diversification opportunities for investors, in order to decrease the exposure to market volatility and create long-term value. This allows us to have a source of income which exhibits low correlation with other assets while still offering attractive returns. We researched a few areas:

Market-neutral strategies, providing returns by maintaining market neutrality, i.e. near-zero beta. We looked for ETFs that passively replicate a specific strategy of this kind. The most interesting ones are IQ Merger Arbitrage ETF, which uses a long-short strategy that aims to profit from the price gap resulting from a takeover announcement, and Reality Shares DIVS ETF, which seeks to capture the growth of dividends from the S&P 500 and NASDAQ-100 indexes without exposure to the volatility of underlying stock prices.

Private Equity, a sector that offers, at the price of high volatility and uncertainty, very high expected returns. In particular we highlight a fund by iShares (BlackRock) named iShares Listed Private Equity UCITS ETF, which invests in a basket of publicly listed PE firms with diversified investments across sectors and geographies.

Real Estate, the main asset class in the alternatives component of the portfolio. We decided to gain exposure to the real estate market through REITs, companies that manage, develop, buy and sell real estate property. Combining a thorough research on the companies' business plan with a comparable analysis using sector specific multiples (such as price-to-FFO, price-to-NAV and dividend yield), we selected five REITs. The first is **Link REIT**, founded in Hong Kong and the largest in Asia in terms of market capitalization. This is a retail REIT, with investments in malls and big commercial activities which are likely to pick up once the coronavirus crisis is over.

Second, **Prologis, Inc.**, the third largest REIT in the US, is an industrial REIT, leader in the logistics real estate department, with significant holdings in Europe and in Asia. It is characterized by an impressive CAGR over the last three years, remarkable FFO, a well-established position and leadership in terms of ESG initiatives.

Equinix, Inc., the fourth largest American REIT, is one of the leading providers of data centers across the globe, covering the Americas, EMEA and Asia-Pacific regions. While multiples are above the sector average, we do not believe that they indicate overvaluation in this instance, as the growth prospects and the cash generation history are very promising.

Equity Residential is a major player in the residential sector, focusing on the management of rental properties in high-density urban and suburban communities. A slightly higher dividend yield than the industry average, good multiples and strong FFO make investing in this company an excellent opportunity to diversify further and gain exposure to the residential sector.

Lastly, **Safehold, Inc.** is a small REIT (market cap of about \$2.5B) which provides an innovative formula for investors, the ground lease, creating higher returns with lower risk. The growth prospects are very promising, making it a worthwhile addition to our portfolio.

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Debt Investments (07/04/2020)

Investments in the following corporate bonds and commodities have been taken:

Apple, 3% 13 Nov 2027, USD (US037833DK32)

The issue volume of this debt tranche is \$1.5 billion which represents around 1.6% of the overall long-term debt. Apple net income significantly increased in 2019, moving from \$13 billion in 2018 to more than \$22 billion, which leads to a high profitability margin (51.57% 2019 ROE). However, it is important to point out that the trade war US – China did not give the hoped results and analysts believe Apple will suffer from increasing competition from Asian Colossuses. On the other hand, Apple is always more services oriented and this is bursting its profitability. Overall, it seems Apple income are only partially volatile and Apple debt repayment capacity doesn't seem to be threatened. Apple owns a high amount of cash which guarantees the company to easily cover the cost of debt, and eventually repay it, even if income shrinks. This justifies the high rating and the safeness of the bond, however also the yield is lower. This may be a concern if the owner of the bond doesn't hold it till maturity and the current low rates policy will disappear. However, as it is included in a long-term portfolio – and as maturity is in 7 years – this is no concern for our fund.

AT&T, 4.5% 15 May 2035, USD (US00206RCP55)

Analyzing the financial ratios:

- The Interest Coverage Ratio tells us how much cash flow the company has available relative to interest expenses, and thus coupon payments as well. As a rule of thumb, the higher the ratio, the lower the default risk of the company. This ratio usually hovers around 10x for investment grade companies. AT&T's ratio is 6.975x, which is reasonable given its Investment grade rating is in the low-end region.
- The Leverage Ratio tells us how many years it would take for the company to repay all its debts by using the EBITDA generated. As a rule of thumb, the lower the ratio, the lower the risk of default of the company. AT&T presents a leverage ratio of 2.577x, which is coherent with its rating. Keep in mind that a high-yield issuer has a ratio which is in the region of 5x. Furthermore, AT&T presents solid cash flows which allow the company to face interest expenses

and debt repayments, with an extra \$12bn in cash and cash equivalents that could be eventually used as well, if needed.

However, we also need to consider how the COVID-19 might impact the industry. It is worth noticing that, with the virus outbreak, working from home has become the norm, and with the situation as it is people are relying on internet more than ever, which benefits companies providing telephone and internet services. Another aspect to keep in mind is the massive investments in 5G technology. In this regard, Google Cloud and AT&T announced a collaboration to help enterprises take advantage of Google Cloud's technologies and capabilities using AT&T network connectivity at the edge, including 5G. These edge computing solutions will be powered by AT&T's network and will utilize Google Cloud's core capabilities in Kubernetes, artificial intelligence (AI) and machine learning (ML), data and analytics, and other leading technologies delivered across a global footprint. Taking financials and the current state of play into consideration, the AT&T bond is added.

Intesa Sanpaolo, 2.855% 23 Apr 2025, EUR

Intesa Sanpaolo is the main banking group in Italy and one of the main groups in Europe, with a market capitalization of €26.1bn (as of March 31, 2020). Intesa offers an interesting yield as well as a good coupon rate. The rating of BB+, places the group in the high-yield class. The credit risk is thus high, but being Intesa the main group in Italy, any default scenario appears to be unlikely. With maturity in 5 years, the bond could be a good addition to the portfolio as it would allow for diversification, introducing a high-yield bond among the investment grades and diversifying industries more.

Volkswagen, 0.875% 12 Apr 2023, EUR

Volkswagen Financial Services registered two losses in the last two years (absorbed under a profit and loss transfer agreement); considering the specificity of the sector as much as its business sector it's reliable that the current criticisms in the markets would affect its performance also for this year (at least the first half). The company presents an equity ratio of 10.6 % so it has a lot of debt to refund, specifically an amount of bonds of 8,350,000 (€ thousands) which is the 46% of the overall liabilities. In general it's a situation that should be monitored to

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be sure of seeing the bond repaid, though Volkswagen should still manage to pay the coupon for the next year, after which it will have to face a € 6,580,000 redemption for other bonds previously issued. Analysing the characteristics of the bond: the rating is set in a medium investment grade level (A3), but the interest rate paid is still maybe not high enough to compensate the risk. The bond has also been sold at discount, at a price of 99.51, meaning it's offering a lower coupon (0.875%) than the prevailing one in the market, so there could be more interesting positions to investigate in. In the end we can also see that the YTM is quite low too, but this is not a concern if we forecast to hold it to maturity notwithstanding what discussed above about the chances of repayment.



Commodities Investments (07/04/2020)

Copper (May 20)

Copper is currently trading at a 4-year low and is down 20% from the start of the year. This substantial drop is reflecting the unprecedented global economic halt that the spread of COVID-19 has caused. In fact, this commodity, differently from gold, is heavily linked to economic expansion, as it is the third most used metal globally after aluminium and iron. It is estimated that nearly half of all copper is used by the construction industry. To illustrate, a home can contain up to 200 kg of copper in wiring, pipes and appliances and the second largest market is the electrical and electronics space, which now includes electric vehicles. Given the relative cheapness of this metal (the price has been this low only twice since 2006, one time being during the 2008 financial crisis) and its unstoppable demand, adding copper to our portfolio now is perceived as a great opportunity.

Global X Lithium & Battery Tech ETF (LIT)

This metal is at the heart of today's energy storage solutions (lithium-ion batteries) and is omnipresent from the consumer electronics batteries to electric vehicles. Other industrial applications include the manufacturing of heat-resistant glass and ceramics and lubricating greases. This metal has seen consistent price increase up to late 2017 but has been dropping ever since because of fears of oversupply, even though there is widespread consensus of steady growth in demand (led by an expanding EV industry). These concerns are valid if

the amount of reserves present in Earth's crust (up to 40 million tons) is compared to the amount produced (80 thousand tons in 2020). However, the picture changes if the mining methods are taken into account: currently the most common one is extraction from brine reservoirs, mainly located in South America, and needs peculiar conditions to be extracted efficiently; the second method is processing from minerals, but the amount of energy consumption and materials required make it much more expensive than the former method. Since most of the reserves, if mined, would need the adoption of the second method, the price at which the metal is traded would need to be higher.

Crude Oil (May 20)

Since January 2020 price of crude oil experienced a huge decrease caused by two combined effects both from the demand and supply side. The spread of Covid-19 around the world forced many governments to take action, shutting down production and hugely decreasing transports, cancelling flights and reducing vehicle activity as never seen before. This brought the price down further and forced OPEC, Russia and Saudi Arabia to work in order to find an agreement to be able to control the price of the commodity. From our perspective, the situation appears to be more stable from the supply side since an agreement on cuts production has been found. This should partially offset the decline in the demand. As soon as the economies around the world will recover and transports and production will restart, many will use oil as a resource given its low price, and the demand will increase again. Therefore, we expect to benefit from the current price level.

Gold (June 20)

Gold is generally considered a quite safe investment, many investors consider it a "store of value" to put their money in. However, as its price is simply led by the demand/offer laws, it tends to be very volatile in the short-term. Gold is particularly attractive during periods of uncertainty like the current ones. During the previous weeks, though, situation got so critical that neither gold could withstand: people preferred liquidity to any kind of investments and that's why the trade price plunged to 1,467 on the 19th March. However, it gradually recovered and it's now set on the highest level since the beginning of the diffusion of COVID-19.

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