

Marketing communications for professional investors in Italy.

Before making any investment decision, please read the Prospectus and related KIDs.

Plenisfer Annual Letter 2023

- **Destination Value Total Return Fund (USD) 2023 performance: +9.4%, with positive contributions from all 5 Strategies.**
- **Uranium alone contributed for a third to annual performance, in the most important bull market that only a few have heard of.**
- **In 2024 all eyes are on the Fed's policy cuts, but the secular downtrend in rates (1981-2021) has now reversed: the new trend is "higher for longer" rates.**
- **Equity and bond market valuations are near all-time highs.**
- **We are aiming for a different asset allocation, with a substantial weight (at least a quarter) in real assets: uranium, gold, and industrial commodities.**
- **In 2023 we launched Destination Dynamic Income.**

1. 2023 performance: positive contribution from all Strategies

The performance of Destination Value Total Return in 2023 was **9.4% (Class I in USD)** – +6.25% for both the Euro and Euro-hedged classes – with a volatility of 9.7%.

The average weight of the equity component in 2023 was 40%, corporate bonds 30%, and real assets 25%.

All strategies contributed positively to performance, respectively: **Income +3.4%, Macro +3%, Compounders +2.8%, Special Situations +2.5%, Alternative Risk Premia +0.9%**. The only component that contributed negatively was hedging (**Hedge -2.6%**), because in the first part of the year we maintained short positions in the stock market. We were worried about an economic slowdown and market correction that did not occur.

The **"Macro" strategy benefited most from uranium (+3.4%)** and other energy positions, while commodities and our position on the "steepening" of the yield curve contributed negatively. The *uranium bull market* is set to last for a long time. After years of market surplus, supplies have been depleted, and the market has entered a deficit. *Utilities* have been forced to enter the spot market to buy the material. The previous surplus was in fact due to the long phase of converting the material from military to civilian use.



This remains one of the strongest convictions in our portfolio, even as the price of uranium has almost tripled since our first investment. We think nuclear power is the most efficient and "cleanest" solution for the energy transition. Moreover, the rising price of uranium is forcing utilities to accelerate purchases.

In the other Strategies, the most significant performance contributors were:

- **Gold**, which contributed 85 bps to the Alternative Risk Premia Strategy.
- **Financial companies'** bonds (140 bps) and **energy companies'** bonds (50 bps) in the Income Strategy.
- Within the Compounders, the best contributors were **Advantest** and **Microsoft** (85 bps each), followed by European industrial stocks **Siemens**, **Schneider** and **Air Liquide** (160 bps total), and **Salcef** (70 bps). Negative contributions came from Xtep, YonYou, and CNH: these positions were closed during the year.
- **Distressed** Special Situations contributed 200 bps, of which 85 bps came from Ukrainian stocks, and another 50 bps from the Argentine energy company YPF.
- Equity Special Situations saw a positive contribution from **WeBuild** (85 bps), partially

2. The big picture: the secular trend reversed

The primary downward trend in interest rates over the past 40 years has been reversed. The reason? **We have entered a new macroeconomic and geopolitical regime.**

This has been our thesis for the last three years, having consequences for investors: a **different asset allocation approach to the traditional one** is needed.

The main elements of the new primary trend are as follows:

1. A super-cycle of investment in real assets (infrastructure, energy, and digital transitions), supported largely by public demand, both in the West and in Asia;
2. A greater influence of fiscal policies on economic activity, after 15 years in which ultra-expansionary monetary policy was the "only player in the field";
3. A new "multipolar" geopolitical order pushing for a reorganisation of economic activity and relations on a regional and less global basis;
4. The centrality of commodity and energy sectors, which will produce very high returns, due to large under-investments over the past 10 to 15 years;
5. A higher average level of inflation than in the previous phase;
6. "Higher for longer" interest rates, which does not mean "high" in absolute terms. Today's rate levels are not particularly high compared to those seen in the last 50 years.

We do not believe that what happened in 2023 casts any shadow of a doubt on these elements.

3. China: High growth no longer on agenda



"When facts change, I change my mind" said Keynes. We have changed ours regarding China.

The Chinese economy's performance was the disappointment of 2023: we expected a recovery in domestic consumption following the post-Covid reopening, which did not occur.

What was already clear: China needs to recover from the indigestion caused by the enormous past boom in real estate, and it will no longer be able to be the world economy's locomotive for several years.

What has become clearer over the past two years is that the goal of high economic growth is no longer on Chinese leaders' agenda 3- 4% growth is more than enough (which is probably equivalent to 1- 2% effective growth):

- China has a vast number of vacant houses, more than 100 million units, and it cannot solve the problem by resorting to demographics: it has a slow-growing population and a large part of its youth is unemployed. Therefore, it must gradually restructure the real estate sector, recapitalise local governments and the banking sector, and it will eventually be forced to monetise debt.
- Moreover, it is trying to restructure its economy one step at a time through "supply policies" (industrial policies, production incentives for electric cars, semiconductors, AI-related software), but not through "demand stimulus."

Of course, this does not preclude the possibility of a cyclical recovery in 2024, which in fact is quite likely. But from a structural point of view, growth will be lower than in the past.

During the course of 2023, we gradually reduced our direct China exposure to less than 3 percent. **Why then is the China issue relevant to the portfolio?**

Lower growth in the Chinese economy **has also weakened global demand for commodities and energy**, weighing on their performances. However, we believe that our long-term thesis on these sectors, related to structural supply shortages, remains valid.

4. Focus on 2024: US rates, watch out for lagged effects!

The U.S. economy, on the other hand, was the positive surprise: it remained strong thanks to the new fiscal stimulus that came on top of the post-Covid stimulus, bringing the budget deficit to 8 percent of GDP: a very high number considering that unemployment is still very low.

The consensus for 2024 is that the US economy may experience a kind of ideal scenario: an economic slowdown sufficient to bring inflation back to the central bank's target, but not so pronounced as to create problems in employment, in part thanks to the limited build-up



of inventories in recent years. This would allow the Fed to cut interest rates by more than 140 bps.

Optimism also prevails in the bond market. The Treasuries yield curve remained inverted throughout last year, thanks to falling inflation and expectations of lower rates. It has since begun a gradual *steepening* process, from which our portfolios have benefited, but the curve remains rather "flat."

We disagree with the consensus: we think that the delayed effects of the 2022/23 monetary tightening have not yet been fully discharged into the economic system. A system that, in recent years, has seen a sharp increase in debt – both private and public – that will have to be refinanced at much more costly terms than in the past.

Of particular concern is the *private credit* sector, which has financed the sharp expansion of *private equity* transactions in recent years. The leverage used has been such that in many cases the *coverage ratio* (ratio of operating profits to corporate interest charges) has become equal to or less than 1.

In the case of a "credit event", or even a more pronounced recession than the consensus predicted, the Fed will not only cut rates, but will return to injecting liquidity into the system (QT disruption) resulting in an inflation uptick. A position in energy and commodity stocks could also serve as a hedge in this scenario.

5. Headaches from too much concentration

The degree of risk in our portfolios from the beginning of 2024 can be considered at "medium level".

Today, equity market valuations are high in the United States, and more aligned to historical averages in Europe and emerging markets. Corporate bond spreads are historically low.

But we also need to look at technical factors, what we call "market hydraulics." The global stock market is experiencing a **concentration unlike the past, and it is very dangerous.** In fact:

- In hindsight, the stocks to hold in 2023 were the "magnificent 7" (US technology stocks), which provided almost all the growth in the S&P500 index;
- This concentration, just as it determined much of the index's performance during the upswing, may have the same effect in a downturn;
- 80% of equity investment in the world is benchmarked (indexed or "closet index"). This means that nearly two-thirds of flows are directed to the US market, of which 30% goes to just seven stocks;
- In case of redemptions, portfolio managers tend to sell the largest and most liquid positions. This has nothing to do with the stocks' valuations.



6. Still aiming for a "different" asset allocation

In conclusion, we remain convinced that the new scenario requires a different asset allocation, in which the weight of real assets is equivalent to that assigned to stocks and bonds:

- In our Compounders Strategy we continue to focus on a few European industrial stocks, selected small caps, and "indirect beneficiaries" of the artificial intelligence trend such as **Advantest**, one of the two world leaders in the semiconductor "testing" industry;
- In the second half of 2023 we opened two new positions among Compounders: **Interactive Brokers** and **Meta**:
 - **Meta** combines the world's largest user base among social medias with the ability to leverage Generative Artificial Intelligence to increase its competitive advantage in the advertising market. This is still not fully reflected in the stock price.
 - **Interactive Brokers** is the most efficient global brokerage platform, growing rapidly internationally, with a "shared economies of scale" model with clients, and management with "*skin in the game*."
- In the Macro Strategy we continue to focus on **energy stocks and commodity producers** in "safe" jurisdictions. In our view, the **uranium** bull market is likely to last, as mentioned above;
- **Gold** is the main hedge against the secular depreciation of "fiat" currencies because of inflation. It is also poorly held by investors. According to a Bank of America survey, 76% of US private investors have exposure to gold between 0% and 1% of their portfolio. Finally, it will continue to benefit from central bank purchases, especially from emerging markets;
- The **dollar** has entered a phase of structural weakness because of declining international demand for dollars to finance commodity purchases, while cyclically it could be affected by the expected decline in US interest rates;
- We opened a position on the **Yen**. Contrary to other central banks (Fed, ECB), the Bank of Japan should finally abandon its "yield curve control" and adopt a restrictive monetary policy. The Yen is the most used currency for financing *carry trade* strategies, precisely because it tends to be a weak and cheap currency. But when these strategies are dismantled, the strengthening movement tends to be very rapid, as was the case in the late 1990s;
- In the **Income** and **Distressed** Strategies, we continue the search for value in the financial, energy and industrial sectors, albeit in an environment of historically rather compressed spreads.



7. Plenisfer family of funds expands, and the team strengthens...

In 2023 we launched the third fund managed by Plenisfer, **Destination Dynamic Income**: an "unconstrained" flexible bond fund that benefits from the expertise of our fixed income team, led by Mauro Ratto, further strengthened with the arrival of **Khalid Atallah** as senior portfolio manager in the London office.

In addition, in 2023 we began our collaboration with the UniCredit Group.

Finally, at the beginning of 2024, we launched **Destination Capital Total Return**, the latest addition to the **Plenisfer** Sicav: a total return equity fund with a very distinctive investment philosophy, which we will return to soon with a dedicated newsletter...

A broader range of funds and a stronger team: in addition to Khalid's arrival, in 2023 we welcomed other colleagues, strengthening the company on every front:

- Carlo Gioja, Portfolio manager with extensive experience on Asian and global equities;
- Leonardo Scarponi at the trading desk;
- Alessia Ceppi and Edoardo Vitullo in the Middle Office;
- Leonardo Simonti in Accounting & Finance;
- Marco Argiolas in the Sales & Marketing team.

Finally, at the end of the year, Grazia Gilardoni moved from the Investments team to the Risk Management team. To all newcomers, a welcome to the Plenisfer family, and best of luck!



Disclaimer

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Destination Value Total Return ("DVTR") – Investment Objective and Policy: The objective of this Fund is to achieve a higher risk-adjusted total return over the market cycle. To achieve the Fund's objectives, it is essential to realize long-term capital appreciation and underlying income through a long-term orientation on valuation and market cycles. Benchmark: SOFR Index. The Fund is actively managed and uses the Benchmark to calculate the performance-related fee. The Fund does not use the Benchmark for investment purposes.

Destination Dynamic Income Total Return ("DDITR") – Investment Objective and Policy: The Fund aims to achieve attractive risk-adjusted total return through capital appreciation and income generation over the medium term. The Portfolio is actively managed and does not make investments in relation to any benchmark; this means that individual positions are actively selected based on specific research and evaluations. Although it is actively managed and does not use a benchmark for portfolio allocation, the Portfolio refers to the €STR Index for performance fee calculation purposes.

Destination Capital Total Return ("DCTR") – Investment Objective and Policy: The Portfolio aims to achieve an attractive total return in terms of risk through long-term capital appreciation with some income generation, focusing on long-term valuation and market cycles. The Fund is actively managed and does not make investments in relation to any benchmark; this means that individual positions are actively selected based on specific research and evaluations. Although it is actively managed and does not use a benchmark for portfolio allocation, the Portfolio refers to the MSCI ACWI Total Return USD Index for performance fee calculation purposes.

There is no guarantee that an investment objective will be met or that there will be a return on capital. The sub-fund does not benefit from any guarantees to protect capital.

Synthetic Risk Indicator DVTR and DDITR (classes R EUR Acc): 3 (medium-low risk)

Synthetic Risk Indicator DCTR (Class I USD Acc): 4 (medium risk)

The Risk Indicator may vary by Fund and share class, please refer to the relevant Prospectus and PRIIP KID for more details. For SRI classification of other share classes available in your country, please get in touch with your financial advisor.

Main risks of the Funds: interest rate risk, credit risk, emerging market risk (including China). There is no predetermined limit to exposure to emerging markets. Therefore, emerging market risk could be high at times, frontier market risk, foreign exchange risk, volatility risk, liquidity risk, derivatives risk, short exposure risk, distressed debt securities risk, securitized debt risk, contingent capital securities risk ("CoCos"), Equity risk, Commodity risk, Securities under Rule 144A / Regulation S. Capital loss risks: this fund is not a guaranteed product. You may not receive part or all of the initial amount invested. Considering the investment strategies that characterize the Funds, the expected level of leverage may vary up to 350%, excluding the total net value of the portfolio. The use of leverage can increase the risk of potential losses. This is not an exhaustive list of risks. Other risks may occur. Before making any investment decision, please read the Prospectus and the Key Information Document (KID), especially the risks and costs section, available at the following web pages:

- <https://www.plenisfer.com/it/en/professional/fund-page/plenisfer-investments-sicav-destination-value-total-return-iyh-eur-or-lu2087694647-acc-LU2087694647> <https://www.plenisfer.com/it/en/professional/fund-page/plenisfer-investments-sicav-destination-value-total-return-iyh-eur-or-lu2087694647-acc-LU2087694647>



- <https://www.plenisfer.com/it/en/professional/fund-page/plenisfer-investments-sicav-destination-dynamic-income-total-return-ix-or-lu2597958938-distr-LU2597958938>

Reference currencies of the sub-funds: USD (Destination Value Total Return and Destination Capital Total Return) and EUR (Destination Dynamic Income Total Return). When the Fund/Action reference currency is different from yours, returns and costs may increase or decrease due to currency and exchange rate fluctuations.

(DVTR) Costs: Class R, Share: X EUR Accumulation (ISIN: LU2185978587, registered in Austria, Germany, Italy, Luxembourg and Portugal). One-time costs on entry or exit: Entry costs: 5% of the amount you pay when you subscribe to this investment. This is the maximum you will be charged. Exit costs: 0% we do not charge an exit fee for this product. Underwriting costs are calculated based on NAV. Ongoing costs recorded each year: Management fees and other administrative costs: 1.46% per year (including management fee: 1.25%). This is an estimate based on last year's actual costs. Transaction costs: 0.28% per year of the value of your investment. This is an estimate of the costs incurred when we buy and sell the underlying investments for the product. The actual amount will vary depending on how much we buy and sell. Incidental charges incurred under certain conditions: Performance Fee: 0.00% The redemption fee is calculated based on the mechanism of the "High Water Mark with Performance-Related Fee Benchmark," with a Performance-Related Fee Rate of 15.00% per annum of the positive return achieved above the "SOFR Index" (the Performance-Related Fee Benchmark). The current amount will vary according to the performance of your investment.

(DDITR) Costs: Class R, Share: X EUR Accumulation (ISIN: LU2597958268, registered in Austria, Switzerland, Germany, Spain, France, Ireland, Italy, Luxembourg and Portugal). One-time costs on entry or exit: Underwriting costs: 4%, of the amount you pay when you subscribe to this investment. This is the maximum you will be charged Exit costs: 0%, we do not charge any exit fees for this product. Underwriting costs are calculated based on NAV. Ongoing costs recorded each year: Management fee and other administrative or operating costs: 1.31% (including management fee: max 1.10% per year) of investment value per year. This is an estimate based on the last year's actual costs. Transaction costs: 0.15% of the value of the investment per year. This is an estimate of the costs incurred in buying and selling the underlying investments for the product. Ancillary charges incurred under certain conditions: Performance fee: 0.00%. The performance fee is calculated according to the "High Water Mark with performance fee benchmark" mechanism with a performance fee rate of 15.00% per annum of the positive return above the €STR Index (the performance fee benchmark).

(DCTR) Costs: Class I, Share: X USD Accumulation (ISIN: LU2717270206, registered in Germany, Spain, France and Italy). One-time costs on entry or exit: Underwriting costs: 0%, we do not charge any underwriting fees for this product. This is the maximum you will be charged Exit costs: 0%, we do not charge any exit fees for this product. Underwriting costs are calculated based on NAV. Ongoing costs recorded each year: Management fee and other administrative or operating costs: 0.90% (including management fee: max 0.75% per year) of investment value per year. This is an estimate based on the last year's actual costs. Transaction costs: 0.12% of the value of the investment per year. This is an estimate of the costs incurred in buying and selling the underlying investments for the product. Ancillary charges incurred under certain conditions: Performance fee: 0.00%. The performance fee is calculated according to the "High Water Mark with performance fee benchmark" mechanism with a performance fee rate of 15.00% per annum of the positive return above the MSCI ACWI Net Total Return USD Index (the performance fee benchmark). The actual amount will vary according to the performance of your investment.

Performance and management fees are calculated and, where applicable, accrued separately for each share class within a sub-fund on each valuation day.

Costs may increase or decrease depending on currency fluctuations and exchange rates.

This is not an exhaustive list of costs. Other costs apply and vary depending on the share class. Before making any investment decision, please read the Prospectus and the Key Information Document (KID), especially the sections on risks and costs. The documents are available at the following web pages:



- <https://www.plenisfer.com/it/en/professional/fund-page/plenisfer-investments-sicav-destination-value-total-return-iyh-eur-or-lu2087694647-acc-LU2087694647>

- <https://www.plenisfer.com/it/en/professional/fund-page/plenisfer-investments-sicav-destination-dynamic-income-total-return-ix-or-lu2597958938-distr-LU2597958938>.

Recommended holding period: 5 years (DVTR), 4 years (DDITR), 5 years (DCTR)

SFDR Classification: The Funds promote, among other characteristics, environmental or social characteristics according to Article 8 of Regulation (EU) 2019/2088 on Sustainability Reporting in the Financial Services Sector ("SFDR"). The Funds are not an Article 9 according to SFDR (does not have sustainable investment as an objective). For all information on SFDR (Sustainable Finance Disclosure), please refer to Annex B of the Prospectus ("pre-contract document"). Before making an investment decision, please also consider all ESG features or objectives, approach, binding elements and methodological limitations contained in the SFDR Pre-contractual Disclosure, as well as the Summary of Product Disclosure on the website, available in English or in an official language of your country of residence, in the "Sustainability Disclosure" section of the website: <https://www.generali-investments.lu/it/en/institutional/sustainability-related-disclosure>.

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Before making any investment decision, please read the Key Information Document (KID), the Prospectus and Annex B of the Prospectus ("pre-contractual document"). The KIDs are available in one of the official languages of the EU/EEA country where the funds are registered for distribution, and the Prospectus is available in English (not French), as are the annual and semi-annual reports at www.generali-investments.lu or upon request free of charge to Generali Investments Luxembourg S.A., 4 Rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg, e-mail address: GILfundInfo@generali-invest.com. The Management Company may decide to terminate the agreements entered into for the marketing of the Funds. For a summary of your rights as an investor in connection with an individual complaint or collective action for a financial product dispute at the European level and at the level of your country of residence in the EU, please refer to the following link <https://www.generali-investments.lu/lu/en/institutional/about-us-sfdr>. The summary is available in English or an authorized language in your country of residence. A summary of the SFDR information (in English or an authorized language) on the product is available on the Funds page of the website in the "Sustainability Information" section.

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Please get in touch with your tax advisor to understand the impact of taxes on your returns. The existence of a registration or approval does not imply that a regulatory authority has determined that these products are suitable for investors. It is recommended that you carefully consider the terms of your investment and obtain professional, legal, financial and tax advice where necessary before making a decision to invest in a Fund.

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