

ITALIA unquote⁹⁹
events
PRIVATE EQUITY FORUM

Private equity in Pension Funds and Life Insurance products

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- The Italian contracted out Pension Funds
- An example: Alifond, the pension fund in the food industry
- Private equity in the contracted out Pension Funds
- The Life Insurance financial products
- Private equity in Life Insurance financial products

The Italian contracted out Pension Funds are closed contractual Pension Funds designed for particular working categories.

In Italy there are 38 contracted out Pension Funds:

Funds	38
Members	1,944,276
AUM (in million)	39,644

Source: COVIP 2014 annual report

The investments are prudential, characterized by the prevailing presence of bonds (in particular government).

Still, the investment in private equity is negligible.

Cash	Gov Bonds	Other bonds	Equity	UCIs (OICR)	Other
2.7%	59.0%	11.3%	18.5%	7.8%	0.7%

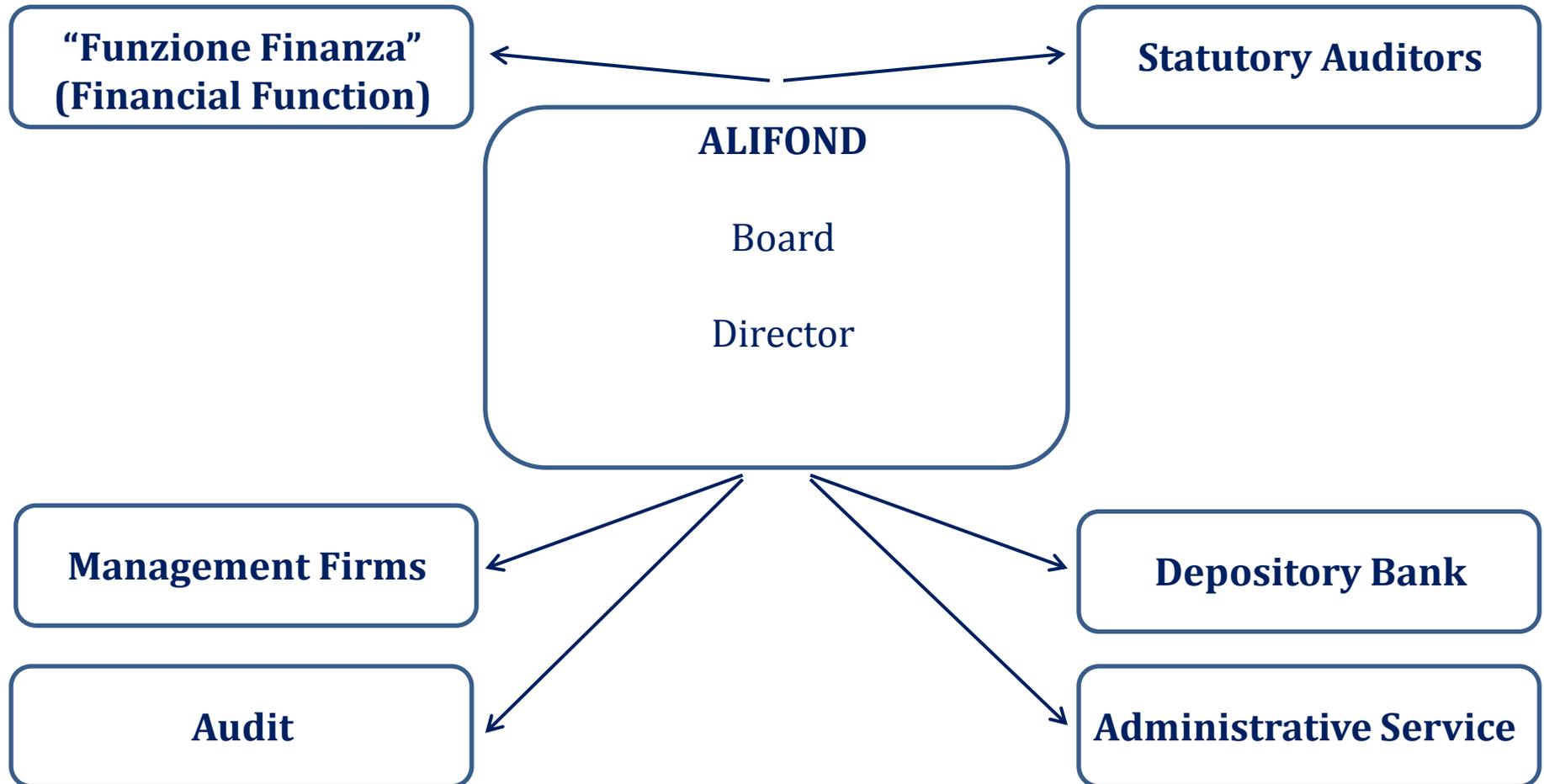
Source: COVIP 2014 annual report

DM 166/2014 (Ministerial Decree) changed the previous set of rules (DM 703/199) allowing Pension Funds to invest in a wider range of investments.

Pension Funds are now looking for an higher diversification.



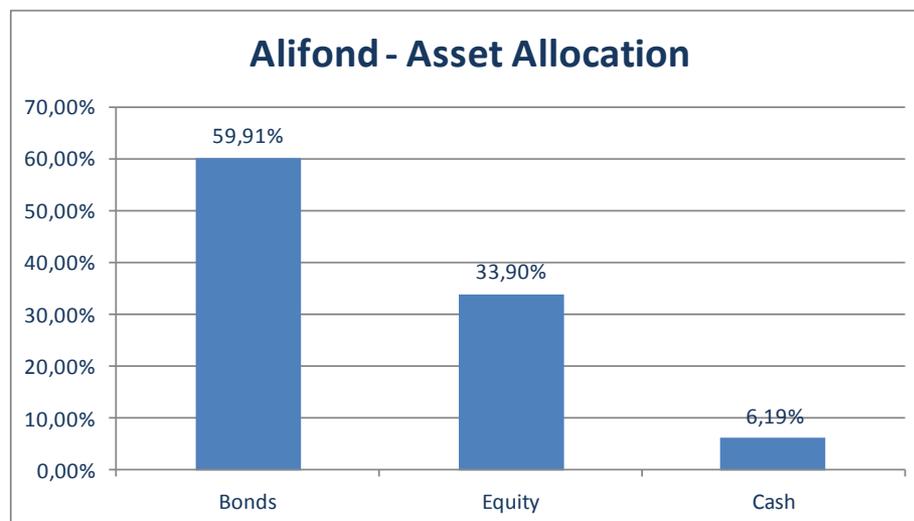
Alifond is a contracted out pension fund for the workers of the food industry, working since 2003.



Alifond has three compartments with different asset allocation and risk profiles:

	Garantito (with guarantee)	Bilanciato (balanced)	Dinamico (dynamic - high equity content)
A.U.M. (million)	150	1,000	12
Asset Allocation (bonds-equity)	95%-5%	65%-35%	40%-60%
Risk	Low	Medium	Medium-High
Management Firms	2 Benchmark	5 Benchmark 2 Total return	1 Benchmark

The investments in Alifond are in bonds and equities, with a residual investment in derivatives (mainly for hedging).



Probably alternative investments, also private equity, will be considered in the next future for a better diversification.

Private equity in contracted out Pension Funds:

- still negligible
- high interest from Pension Funds
- an opportunity to diversify
- few investible resources for direct investment
- maybe Pension Funds should invest in private equity funds
- new set of rules and interest in all the alternative investments

The contracted out Pension Funds are now considering whether to make the leap.

The contracts of the main financial products of the Life Insurance provides payments of a single premium or a payment plan, constant or increasing.



The duration is chosen by the customer, with a minimum and a maximum usually predetermined by the Insurance Company.

The lifetime contracts continue throughout the life of the customer.

Index Linked

- Performance linked to indexes (bond, equity, inflation...)
- Customization is not provided: duration and indexes are defined by the Insurance Company
- Usually a guarantee (minimum return) is provided

Unit Linked

- Performance linked to investment funds
- Customization of the weight of each fund in order to define the own risk profile
- The customer is not covered against Financial risks
- Sometimes a guarantee is provided

Index Linked

- Performance linked to financial markets indexes
- Higher risk (credit risk) for Life Insurance Companies
- So, trading of index linked is in decrease

VS

Unit Linked

- Performance linked to investment funds (usually owned by the Insurance Company)
- Lower risk for Life Insurance Companies
- So, trading of unit linked is in increase

In Italy, private equity is not widespread in Life Insurance financial products.

Until a few years ago, classic investments assured adequate performances related to the goal of these Insurance products.

Now, the financial world, including Insurance Companies, is looking for returns and diversification.

So, in the next years, also Life Insurance financial products probably will include private equity and other alternative investments, because the problem of profit for the Life Insurance Companies will be always more relevant, also looking at the client's benefits.

- Private equity (and other alternative investments) may be in the next months an important investment for Pension Funds and Insurance Companies
- Private equity is also a way to fund real economy; private equity has now a less financial approach, much related to the economy.
- Many Private equity funds are now rising because investors (in particular institutional investor) have shown high interest
- A better economic framework (in Italy and also in Europe) probably will contribute to develop the private equity world.

Alternative investments probably will become ordinary and common investments for Pension Funds and Insurance Companies.

Hedge
Funds

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PRIVATE EQUITY

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Buyout Capital...**

Wine
Art
...

Thank you very much for your attention!

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